

Kalamazoo Valley Community College Foundation

Consolidated Financial Statements and Other Financial Information

Year Ended June 30, 2018

Kalamazoo Valley Community College Foundation

Audited Financial Statements and Other Financial Information

Year Ended June 30, 2018

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Independent Auditor's Report

To the Board of Trustees
Kalamazoo Valley Community
College Foundation

We have audited the accompanying consolidated financial statements of Kalamazoo Valley Community College Foundation and its Subsidiary (the "Foundation"), which comprise the consolidated balance sheet as of June 30, 2018 and 2017 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kalamazoo Valley Community College Foundation and its subsidiary as of June 30, 2018 and 2017 and the changes in their net assets and their 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".

October 25, 2018

Kalamazoo Valley Community College Foundation

Consolidated Balance Sheet

	June 30	
	2018	2017
Assets		
Cash (Note 1)	\$ 480,779	\$ 639,044
Marketable securities (Note 2)	17,599,160	17,066,319
Prepaid expenses	10,000	-
Contributions receivable (Note 3)	-	20,812
Accrued rent receivables	628,667	377,200
Capital assets (Note 4)	9,821,614	10,279,114
Total assets	\$ 28,540,220	\$ 28,382,489
Liabilities and Net Assets		
Liabilities		
Payable to Kalamazoo Valley Community College (Note 6)	\$ 151,386	\$ 1,054,170
Other short-term liabilities	-	79
Notes payable (Note 5)	7,720,000	7,720,000
Total liabilities	7,871,386	8,774,249
Net Assets		
Unrestricted	9,204,210	9,159,127
Temporarily restricted (Note 1)	10,028,084	9,087,672
Permanently restricted (Note 1)	1,436,540	1,361,441
Total net assets	20,668,834	19,608,240
Total liabilities and net assets	\$ 28,540,220	\$ 28,382,489

See accompanying notes to consolidated financial statements.

Kalamazoo Valley Community College Foundation

Consolidated Statement of Activities

	Year Ended June 30, 2018				Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Contributions	\$ 152,911	\$ 59,826	\$ 64,695	\$ 277,432	\$ 156,787	\$ 34,065	\$ 69,653	\$ 260,505
Income from investments	287,548	447,478	-	735,026	172,345	263,554	-	435,899
Contributed services (Note 6)	181,364	-	-	181,364	178,617	-	-	178,617
Rental income (Note 6)	313,467	-	-	313,467	313,467	-	-	313,467
Other income	10,100	-	-	10,100	21,300	-	-	21,300
Net gain from investments (Note 2)	402,777	657,294	-	1,060,071	898,715	1,327,980	-	2,226,695
Net assets released from restrictions:								
College scholarships and grants	113,018	(113,018)	-	-	122,179	(122,179)	-	-
Museum grants	100,764	(100,764)	-	-	742,791	(742,791)	-	-
Total revenues	1,561,949	950,816	64,695	2,577,460	2,606,201	760,629	69,653	3,436,483
Expenditures								
Program expenditures:								
Grants to Kalamazoo Valley Community College (Note 6)	605,386	-	-	605,386	485,086	-	-	485,086
Grants to Kalamazoo Valley Community College - Bronson Healthy Living Campus (Note 6)	50,000	-	-	50,000	50,000	-	-	50,000
Grants to Kalamazoo Valley Museum (Note 6)	78,505	-	-	78,505	742,791	-	-	742,791
Property management and rentals (Note 6)	568,707	-	-	568,707	566,960	-	-	566,960
Management and general	9,340	-	-	9,340	11,214	-	-	11,214
Fundraising	204,928	-	-	204,928	211,062	-	-	211,062
Total expenditures	1,516,866	-	-	1,516,866	2,067,113	-	-	2,067,113
Change in Net Assets before Transfers	45,083	950,816	64,695	1,060,594	539,088	760,629	69,653	1,369,370
Transfers (Note 7)	-	(10,404)	10,404	-	-	(12,550)	12,550	-
Change in Net Assets	45,083	940,412	75,099	1,060,594	539,088	748,079	82,203	1,369,370
Net Assets at Beginning of Year	9,159,127	9,087,672	1,361,441	19,608,240	8,620,039	8,339,593	1,279,238	18,238,870
Net Assets at End of Year	\$ 9,204,210	\$ 10,028,084	\$1,436,540	\$ 20,668,834	\$9,159,127	\$9,087,672	\$1,361,441	\$ 19,608,240

See accompanying notes to consolidated financial statements.

Kalamazoo Valley Community College Foundation

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,060,594	\$ 1,369,370
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net gain from security transactions	(1,060,071)	(2,226,695)
Noncash gift of stock	(12,404)	(1,000,999)
Contributions restricted for long-term investment	(64,695)	(69,653)
Bad debt expense	20,562	-
Depreciation expense	457,500	457,502
Changes in assets and liabilities:		
Accrued rent receivable	(251,467)	(249,216)
Prepaid expenses	(10,000)	-
Contributions receivable	250	(251)
Accounts payable to Kalamazoo Valley Community College	(902,784)	(178,609)
Other short-term payables	(79)	(7,055,443)
Net cash used in operating activities	(762,594)	(8,953,994)
Cash Flows from Investing Activities		
Purchases of investments	(961,324)	(2,568,976)
Proceeds from sale of investments	1,500,958	3,383,026
Net cash provided by investing activities	539,634	814,050
Cash Flows from Financing Activities		
Contributions restricted for long-term investment	64,695	69,653
Net cash provided by financing activities	64,695	69,653
Net Decrease in Cash	(158,265)	(8,070,291)
Cash at Beginning of Year	639,044	8,709,335
Cash at End of Year	\$ 480,779	\$ 639,044

See accompanying notes to consolidated financial statements.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Kalamazoo Valley Community College Foundation (the "Foundation") was formed in 1980 to solicit, collect, and invest donations made for the promotion of educational activities at and on behalf of Kalamazoo Valley Community College (the "College").

In December 2015, FSIC, LLC ("FSIC") was formed and is wholly owned by the Foundation. FSIC was organized exclusively to acquire, own, and construct a 16,130 gross square foot food production and distribution building and a 9,504 gross square foot greenhouse (the "Project"). FSIC is leasing the Project to the College (see Note 6). The Project was initiated with \$3,639,883 of land, improvements, and building capital contributions from Kalamazoo Valley Community College and its component unit, the Kalamazoo Valley Community College Holding Company (the "Holding Company"). The Holding Company is a separate not-for-profit corporation established by the College to purchase, acquire title to, lease, develop, maintain, rent, and sell real estate and personal property within the College district, exclusively for the purpose of benefiting the College.

The Project is located in a census tract that makes a taxpayer eligible to receive new markets tax credits (NMTC) for making a qualified equity investment into a community development entity (CDE), if the CDE then makes an equity investment or a loan to a qualified active low-income community business and all other criteria of the NMTC are met. During 2016, New Markets Investment 94, LLC (the "Sub CDE") received a qualified equity investment of \$8,000,000, which they used to make a loan to the FSIC (See Note 5). Wells Fargo Community Investment Holdings, LLC New Markets Tax Credit Investor, as the single member of the investment fund that owns 99.99 percent of the Sub CDE, is projected to receive new markets tax credits totaling \$3,120,000 through 2021 in connection with qualified equity investments made to the Sub CDE. Under the new markets tax credit regulations, the owners of the Sub CDE will be required to recapture the new markets tax credits if, during the seven-year period after the qualified equity investment is made, (i) the Sub CDE fails to qualify as a CDE, (ii) the Sub CDE fails to maintain substantially all of the qualified equity investment invested, or (iii) the Sub CDE makes a distribution that is treated as a redemption.

Operations of FSIC are limited to the sublease of the Project to the College.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and FSIC. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash

Cash at June 30, 2018 consists of \$480,779 cash on hand. Included in cash is \$279,750 of restricted cash, which represents unspent note proceeds which are restricted by agreement with the lenders to be used only for subsequent management expenses. At June 30, 2017, cash consisted of \$639,044 cash on hand which included \$324,500 of restricted cash, which represented unspent note proceeds, which were restricted by agreement with the lenders to be used only for subsequent management expenses.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Contributions Received Presentation

The Foundation 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 consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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 the long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Type of Restrictions

For financial statement purposes, the Foundation distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Unrestricted net assets are those net assets of the Foundation that are not restricted by donor-imposed stipulations.

Temporarily restricted net assets are held for a specific purpose designated by donors. At June 30, temporarily restricted net assets were available for the following purposes:

	2018	2017
Scholarships and grants	\$ 1,894,194	\$ 1,712,805
Museum support	8,133,890	7,374,867
Total temporarily restricted net assets	<u>\$ 10,028,084</u>	<u>\$ 9,087,672</u>

Permanently restricted net assets are donor designated and consist of the original donor gifts. Permanently restricted net assets are to be held in perpetuity and the investment interest and dividends are restricted to scholarships and grants. At June 30, permanently restricted net assets were held for the following purposes:

	2018	2017
Scholarships and grants	\$ 1,410,477	\$ 1,335,378
Museum support	26,063	26,063
Total permanently restricted net assets	<u>\$ 1,436,540</u>	<u>\$ 1,361,441</u>

Risks and Uncertainties

The Foundation 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 consolidated balance sheet.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Foundation maintains balances at three banks. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Marketable Securities

Marketable securities are recorded at fair value based on quoted market price on the last day of the fiscal year. Realized gains and losses are determined using the specific identification method. Unrealized gains and losses are included in earnings. Donated marketable securities are recorded at fair value at the date of donation.

Capital Assets

Property and equipment are recorded at cost. However, gifts of property are recorded at fair market value at the time gifts are received. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized.

Use of Estimates

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

Rental Income

Rental income is recognized on a straight-line basis over the term of the operating lease with the College.

Federal Income Taxes

The Foundation qualifies for exempt status for federal tax purposes under Section 501(c)(3) of the Internal Revenue Code. Therefore, it is not subject to tax under present federal and state tax laws. FSIC, LLC is a single-member limited liability company with the Foundation as the sole member. As a result, it is disregarded for tax purposes.

Functional Expenses

The Foundation is required to provide information about expenses by their functional classification. Functional classifications most likely to be used by the Foundation include grants to Kalamazoo Valley Community College, grants to Kalamazoo Valley Museum, fundraising, property management and rental, and other.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Grants to Kalamazoo Valley Community College result from distributions in support of student scholarships and grants and for grants made to the college in support of targeted initiatives, in congruence with the Foundation's mission. Grants to Kalamazoo Valley Museum result from distributions for museum programming and initiatives on behalf of donors. Fundraising and other expenses result from the costs of fundraising activities involved in soliciting gifts from donors and investment of Foundation funds. FSIC expenses result from its property management and rental activities.

Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Subsequent Event

The consolidated financial statements and related disclosures include evaluation of events up through and including October 25, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

Historical cost, market values, and unrealized appreciation of marketable securities as of June 30, 2018 are summarized as follows:

Description	Cost	Market Value	Unrealized Appreciation
Mutual funds	\$ 11,760,142	\$ 17,587,731	\$ 5,827,589
Corporate stock	11,410	11,429	19
Total	<u>\$ 11,771,552</u>	<u>\$ 17,599,160</u>	<u>\$ 5,827,608</u>

Historical cost, market values, and unrealized appreciation of marketable securities as of June 30, 2017 are summarized as follows:

Description	Cost	Market Value	Unrealized Appreciation
Mutual funds	\$ 11,030,112	\$ 16,066,409	\$ 5,036,297
Corporate stock	999,910	999,910	-
Total	<u>\$ 12,030,022</u>	<u>\$ 17,066,319</u>	<u>\$ 5,036,297</u>

Net gains from security transactions for the years ended June 30, 2018 and 2017 include net unrealized gains of \$791,311 and \$1,391,148, respectively, and net realized gains of \$268,760 and \$835,547, respectively.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 3 - Contributions Receivable

Contributions receivable at June 30, 2017 consist of the following unconditional promises to give:

Museum capital campaign	\$	32,023
Scholarships and grants		250
Gross unconditional promises to give		32,273
Less allowance for uncollectibles		3,500
Present value discount		7,961
New unconditional promises to give	\$	20,812
Amounts due in:		
Less than one year	\$	250
One to five years		-
Five to ten years		32,023
Total	\$	32,273

Imputed interest rates of 6 percent for the museum campaign were used to calculate the net realizable values for 2017. During the year ended June 30, 2018, the Foundation wrote off the unconditional promise to give related to the Museum capital campaign and the related allowance and present value discount.

Note 4 - Capital Assets

The following table presents the capital assets summarized by various categories as of June 30, 2018 and 2017:

	2018	2017	Depreciable Life - Years
Land	\$ 529,894	\$ 529,894	-
Site improvements	4,718,730	4,718,730	10 years
Buildings	5,716,742	5,716,742	40 years
Total	10,965,366	10,965,366	
Less accumulated depreciation	(1,143,752)	(686,252)	
Net carrying amount	\$ 9,821,614	\$ 10,279,114	

Depreciation expense for the years ended June 30, 2018 and 2017 was \$457,500 and \$457,502, respectively.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 5 - Notes Payable

	2018	2017
<p>FSIC has a note payable to New Markets Investment 94, LLC in the amount of \$7,720,000 as of June 30, 2016. The note is evidenced by a note document and an agreement and bears an annual interest rate of 1.2109 percent. The note is collateralized by the real property assets of the Project. Interest-only payments totaling \$23,371 commenced on March 10, 2016 and are due quarterly through and including December 10, 2022. On December 10, 2022, a residual repayment in the amount of \$20,000 is due. On March 10, 2023, and quarterly thereafter, accrued interest and principal in the amount of \$96,017 are due. The note matures in December 2045, at which time all unpaid principal and interest are due.</p>	<p><u>\$ 7,720,000</u></p>	<p><u>\$ 7,720,000</u></p>

Minimum principal payments on the long-term debt to maturity as of June 30, 2018 are as follows:

Years Ending June 30	Amount
2019	\$ -
2020	-
2021	-
2022	-
2023	165,634
Thereafter	<u>7,554,366</u>
Total	<u>\$ 7,720,000</u>

Interest expense is \$93, 484 for the years ended June 30, 2018 and 2017.

Note 6 - Related Party

Kalamazoo Valley Community College (KVCC or the “College”) is a public two-year institution offering a broad array of prebaccalaureate programs as well as noncollegiate programs and services. Some of these services include general education, employment skills training, student and community services, and economic development activities. During the years ended June 30, 2018 and 2017, the Foundation made grants and distributions to and on behalf of the College totaling \$605,386 and \$485,086, respectively.

In addition, the College provides certain limited services to the Foundation. The value of the provided services was \$181,364 and \$178,617 for the years ended June 30, 2018 and 2017, respectively, and is included on the consolidated statement of activities as contributed services revenue and the corresponding management and general expense of \$9,340 and \$11,214 and fundraising expense of \$173,120 and \$167,403 as of June 30, 2018 and 2017, respectively.

The College has governance of the Kalamazoo Valley Museum (the “Museum”). During the years ended June 30, 2018 and 2017, the Foundation made grants and distributions to and on behalf of the Museum totaling \$78,505 and \$742,791, respectively.

For the years ended June 30, 2018 and 2017, the Foundation also made a grant and distribution to the Bronson Healthy Living Campus for the benefit of Kalamazoo Valley Community College in the amount of \$50,000. The new campus is located in downtown Kalamazoo where the College houses its culinary, allied health, and food production facilities.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 6 - Related Party (Continued)

The Foundation receives gifts and grants for the College as a "Recipient Agent" when the donor requires a 501(c)(3) organization as the recipient. Gifts and grants received by the Foundation as Recipient Agent are recorded as a liability to the College until the funds may be transferred. During the years ended June 30, 2018 and 2017, the Foundation received \$1,440,511 and \$1,337,540, respectively, as Recipient Agent for the College.

As of June 30, 2018 and 2017, the Foundation had program and fundraising payables due to KVCC \$151,386 and \$1,054,170, respectively.

During 2016, the FSIC entered into a 30-year operating lease with the College for exclusive use of the Project. The operating lease commenced on December 30, 2015. Rental payments are due quarterly, payable on the first day of each calendar quarter beginning on January 1, 2016. The payments are \$15,500 per quarter through the end of 2020 at which time they change to \$97,500 per quarter. The FSIC recognizes rental income on a straight line basis over the life of the lease which is \$313,467 annually for the years ended June 30, 2018 and 2017.

Minimum future lease payments to be received on the noncancelable lease for the next five years and in aggregate are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2019	\$ 62,000
2020	62,000
2021	62,000
2022	62,000
2023	226,000
Thereafter	8,775,000
Total	<u>\$ 9,249,000</u>

Note 7 - Transfers

During the years ended June 30, 2018 and 2017, net assets were transferred between net asset classifications based on documentation between the Foundation and various donors.

Note 8 - Donor-restricted and Board-designated Endowments

Endowments include both donor-restricted endowment funds and funds designated by the Foundation Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Those funds listed as board-designated endowments represent funds designated by the Foundation Board to function as endowments. Those funds that were originally unrestricted by the donor are classified as unrestricted; those funds originally restricted by the donor for a specific purpose are temporarily restricted. Temporarily restricted assets that the Foundation Board has designated to be spent over time and function as an endowment while meeting the donor's original intent are classified as quasi endowments.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

The Foundation Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The long-term and short-term needs of the Foundation in carrying out its charitable purpose
- (2) The present and anticipated financial requirements of the Foundation
- (3) The expected total return on investments
- (4) Price level trends
- (5) General economic conditions

Endowment Net Asset Composition by Type of Fund as of June 30, 2018

Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endow ment	\$ -	\$ 1,543,352	\$ 1,436,540	\$ 2,979,892
Quasi endow ment	-	8,088,867	-	8,088,867
Board-designated endow ment	687,488	-	-	687,488
Total	<u>\$ 687,488</u>	<u>\$ 9,632,219</u>	<u>\$ 1,436,540</u>	<u>\$ 11,756,247</u>

Changes in Endowment Net Assets for Fiscal Year ended June 30, 2018

Type of Fund	Unrestricted (Rex Hall)	Temporarily Restricted	Permanently Restricted	Total
Endow ment net assets - Beginning of year	\$ 713,124	\$ 8,685,754	\$ 1,361,441	\$ 10,760,319
Investment income	42,528	653,440	-	695,968
Net appreciation in market value	33,293	490,200	-	523,493
Appropriation of endow ment net assets for expenditures	(101,457)	(199,270)	-	(300,727)
Contributions	-	-	64,695	64,695
Net asset transfer	-	2,095	10,404	12,499
Endow ment net assets - End of year	<u>\$ 687,488</u>	<u>\$ 9,632,219</u>	<u>\$ 1,436,540</u>	<u>\$ 11,756,247</u>

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endow ment	\$ -	\$ 1,345,124	\$ 1,361,441	\$ 2,706,565
Quasi endow ment	-	7,340,630	-	7,340,630
Board-designated endow ment	713,124	-	-	713,124
Total	<u>\$ 713,124</u>	<u>\$ 8,685,754</u>	<u>\$ 1,361,441</u>	<u>\$ 10,760,319</u>

Changes in Endowment Net Assets for Fiscal Year ended June 30, 2017

Type of Fund	Unrestricted (Rex Hall)	Temporarily Restricted	Permanently Restricted	Total
Endow ment net assets - Beginning of year	\$ 634,182	\$ 7,931,136	\$ 1,279,238	\$ 9,844,556
Investment income	48,677	721,021	-	769,698
Net appreciation in market value	60,626	825,301	-	885,927
Appropriation of endow ment net assets for expenditures	(30,361)	(791,704)	-	(822,065)
Contributions	-	-	69,653	69,653
Net asset transfer	-	-	12,550	12,550
Endow ment net assets - End of year	<u>\$ 713,124</u>	<u>\$ 8,685,754</u>	<u>\$ 1,361,441</u>	<u>\$ 10,760,319</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds.

Under this policy, as approved by the Foundation Board, the endowment assets are invested in a manner that is intended to produce the following results:

1. Capital growth over the long term consistent with the preservation of capital;
2. To achieve the highest possible total return commensurate with the moderate level of risk assumed, over a three- to five-year cycle; and,
3. To accommodate a planned distribution according to the spending rule.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation appropriates for distribution each year endowment funds pursuant to donor agreements. In establishing donor agreements, the Foundation considers the long-term expected return on its investments. Accordingly, over the long term, the Foundation expects donor-restricted funds to maintain their purchasing power as well as to provide additional real growth through new gifts and investment return.

The Foundation utilizes a total return method distribution policy for unrestricted funds. The total return method allows for a long-term investment approach in order to achieve an expected rate of return greater than the total of the distribution rate, inflation rate, and custodian fees and which will maintain the purchasing power of the unrestricted balance.

Under the total return concept, the Foundation utilized a 4.7 and 4.8 percent distribution rate based on a rolling average of the unrestricted balance for 2018 and 2017, respectively. This distributable amount is made available for grants and foundation operations. If the traditional yield (interest and dividend income) is not sufficient to support the distribution rate, the difference is made up from the accumulated unrestricted balance. If the traditional yield exceeds the distribution rate, the excess is reinvested in the unrestricted balance.

Note 9 - Fair Value Measurements

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities the Foundation has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

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 Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Foundation's policy is to recognize transfers in and transfers out of the Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer.

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 9 - Fair Value Measurements (Continued)

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

Fair Value Measurements at June 30, 2018

Assets	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
International Mutual Funds	\$ 2,437,550	\$ -	\$ -	\$ 2,437,550
Small Cap Growth Mutual Fund	1,007,101	-	-	1,007,101
Small Cap Value Mutual Fund	1,051,189	-	-	1,051,189
Intermediate-Term Bond Fund	3,155,656	-	-	3,155,656
Mid Cap Growth Mutual Fund	1,057,186	-	-	1,057,186
Large Cap Value Mutual Fund	2,131,245	-	-	2,131,245
Large Cap Growth Mutual Fund	2,383,789	-	-	2,383,789
Large Cap Blend Mutual Fund	4,364,014	-	-	4,364,014
Corporate Stock	11,429	-	-	11,429
Total	<u>\$ 17,599,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,599,159</u>

Fair Value Measurements at June 30, 2017

Assets	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
International Mutual Funds	\$ 2,342,358	\$ -	\$ -	\$ 2,342,358
Small Cap Growth Mutual Fund	880,680	-	-	880,680
Small Cap Value Mutual Fund	931,613	-	-	931,613
Intermediate-Term Bond Fund	2,734,223	-	-	2,734,223
Mid Cap Growth Mutual Fund	956,868	-	-	956,868
Large Cap Value Mutual Fund	2,032,649	-	-	2,032,649
Large Cap Growth Mutual Fund	2,297,476	-	-	2,297,476
Large Cap Blend Mutual Fund	3,890,542	-	-	3,890,542
Corporate Stock	999,910	-	-	999,910
Total	<u>\$ 17,066,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,066,319</u>

Kalamazoo Valley Community College Foundation

Notes to Consolidated Financial Statements Years Ended June 30, 2018 and 2017

Note 10 - Upcoming Accounting Pronouncements

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 Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact this standard will have on the consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Foundation's consolidated financial statements as a result of the lease between Kalamazoo Valley Community College and FSIC that is currently classified as an operating lease.

Other Financial Information

Report of Independent Auditors on Other Financial Information

To the Board of Trustees
Kalamazoo Valley Community
College Foundation

We have audited the consolidated financial statements of Kalamazoo Valley Community College Foundation and its subsidiary (the "Foundation") as of and for the years ended June 30, 2018 and 2017 and have issued our report thereon dated October 25, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinions on the consolidated financial statements that comprise the Foundation's consolidated financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements.

The other financial information, as identified in the table of contents, is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information, as identified in the table of contents, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

October 25, 2018

Kalamazoo Valley Community College Foundation

Schedule of Grants to Kalamazoo Valley Community College

	June 30			
	2018		2017	
	College	Museum	College	Museum
Kalamazoo Valley Community College Foundation Grants:				
College scholarships and awards:				
Student assistance fund	\$ 395,893	\$ -	\$ 346,761	\$ -
Other grants	17,631	-	6,041	-
Bronson Healthy Living Campus - KVCC	50,000	-	50,000	-
Kalamazoo Valley Museum mini grants and awards	-	-	-	2,724
Endowed grants:				
College-endowed grants	98,552	-	57,222	-
Named grants:				
College-named grants	93,310	-	75,062	-
Kalamazoo Valley Museum named grants	-	78,505	-	740,067
	\$ 655,386	\$ 78,505	\$ 535,086	\$ 742,791

Kalamazoo Valley Community College Foundation

Consolidating Balance Sheet

	KVCC Foundation	FSIC, LLC	Total
Assets			
Cash (Note 1)	\$ 189,929	\$ 290,850	\$ 480,779
Marketable securities (Note 2)	17,599,160	-	17,599,160
Prepaid expenses	-	10,000	10,000
Rent receivable	-	628,667	628,667
Capital assets (Note 4)	-	9,821,614	9,821,614
	\$ 17,789,089	\$ 10,751,131	\$ 28,540,220
Liabilities and Net Assets			
Liabilities			
Payable to Kalamazoo Valley Community College	\$ 127,843	\$ 23,543	\$ 151,386
Notes payable (Note 5)	-	7,720,000	7,720,000
	127,843	7,743,543	7,871,386
Net Assets			
Unrestricted	6,196,622	3,007,588	9,204,210
Temporarily restricted (Note 1)	10,028,084	-	10,028,084
Permanently restricted (Note 1)	1,436,540	-	1,436,540
	17,661,246	3,007,588	20,668,834
Total net assets	17,661,246	3,007,588	20,668,834
Total liabilities and net assets	\$ 17,789,089	\$ 10,751,131	\$ 28,540,220

See accompanying notes to financial statements.

**Kalamazoo Valley Community College Foundation
Consolidating Statement of Activities
For Year Ended June 30, 2018**

	KVCC Foundation				FSIC, LLC				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues									
Contributions	\$ 152,911	\$ 59,826	\$ 64,695	\$ 277,432	\$ -	\$ -	\$ -	\$ -	\$ 277,432
Income from investments	287,548	447,478	-	735,026	-	-	-	-	735,026
Contributed services	181,364	-	-	181,364	-	-	-	-	181,364
Rental income	-	-	-	-	313,467	-	-	313,467	313,467
Other income	10,100	-	-	10,100	-	-	-	-	10,100
Net gain from investments	402,777	657,294	-	1,060,071	-	-	-	-	1,060,071
Net assets released from restrictions:									
College scholarships and grants	113,018	(113,018)	-	-	-	-	-	-	-
Museum grants	100,764	(100,764)	-	-	-	-	-	-	-
	<u>1,248,482</u>	<u>950,816</u>	<u>64,695</u>	<u>2,263,993</u>	<u>313,467</u>	<u>-</u>	<u>-</u>	<u>313,467</u>	<u>2,577,460</u>
Expenditures									
Program expenditures:									
Grants to Kalamazoo Valley Community College	605,386	-	-	605,386	-	-	-	-	605,386
Grants to Kalamazoo Valley Community College-Bronson Healthy Living Campus	50,000	-	-	50,000	-	-	-	-	50,000
Grants to Kalamazoo Valley Museum	78,505	-	-	78,505	-	-	-	-	78,505
Property management and rental	-	-	-	-	568,707	-	-	568,707	568,707
Management and general	9,340	-	-	9,340	-	-	-	-	9,340
Fundraising	<u>204,928</u>	<u>-</u>	<u>-</u>	<u>204,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>204,928</u>
Total expenditures	<u>948,159</u>	<u>-</u>	<u>-</u>	<u>948,159</u>	<u>568,707</u>	<u>-</u>	<u>-</u>	<u>568,707</u>	<u>1,516,866</u>
Change in Net Assets Before Transfers	300,323	950,816	64,695	1,315,834	(255,240)	-	-	(255,240)	1,060,594
Transfers	<u>-</u>	<u>(10,404)</u>	<u>10,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	300,323	940,412	75,099	1,315,834	(255,240)	-	-	(255,240)	1,060,594
Net Assets at Beginning of Year	5,896,299	9,087,672	1,361,441	16,345,412	3,262,828	-	-	3,262,828	19,608,240
Net Assets at End of Year	<u><u>\$ 6,196,622</u></u>	<u><u>\$ 10,028,084</u></u>	<u><u>\$ 1,436,540</u></u>	<u><u>\$ 17,661,246</u></u>	<u><u>\$ 3,007,588</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,007,588</u></u>	<u><u>\$ 20,668,834</u></u>

See accompanying notes to financial statements.

Kalamazoo Valley Community College Foundation
Consolidating Statement of Cash Flows
For Year Ended June 30, 2018

	<u>KVCC Foundation</u>	<u>FSIC, LLC</u>	<u>Total</u>
Cash Flows from Operating Activities			
Change in net assets	\$ 1,315,834	\$ (255,240)	\$ 1,060,594
Adjustments to reconcile change in net assets to net cash from operating activities:			
Net gain from security transactions	(1,060,071)	-	(1,060,071)
Noncash gift of stock	(12,404)	-	(12,404)
Contributions restricted for long-term investment	(64,695)	-	(64,695)
Bad debt expense	20,562	-	20,562
Depreciation expense	-	457,500	457,500
Changes in assets and liabilities:			
Accrued rent receivable	-	(251,467)	(251,467)
Prepaid expenses	-	(10,000)	(10,000)
Contributions receivable	250	-	250
Accounts payable to Kalamazoo Valley Community College	(915,290)	12,506	(902,784)
Other short-term payables	(79)	-	(79)
Net cash used in operating activities	(715,893)	(46,701)	(762,594)
Cash Flows from Investing Activities			
Purchase of investments	(961,324)	-	(961,324)
Proceeds from sale of investments	1,500,958	-	1,500,958
Net cash provided by investing activities	539,634	-	539,634
Cash Flows from Financing Activities			
Contributions restricted for long-term investment	64,695	-	64,695
Net cash provided by financing activities	64,695	-	64,695
Net Decrease in Cash	(111,564)	(46,701)	(158,265)
Cash at Beginning of Year	301,493	337,551	639,044
Cash at End of Year	<u>\$ 189,929</u>	<u>\$ 290,850</u>	<u>\$ 480,779</u>

See accompanying notes to financial statements.