

# **Kalamazoo Valley Community College**

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**Financial Report  
with Supplemental Information  
June 30, 2014**

# Kalamazoo Valley Community College

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## Independent Auditor's Report

To the Board of Trustees  
Kalamazoo Valley Community College

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kalamazoo Valley Community College (the "College"), and its discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Kalamazoo Valley Community College's basic financial statements as listed in the table of contents.

### ***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 audit. We conducted our audit 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. The financial statements of the discretely presented component unit were not audited under *Government Auditing Standards*.

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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kalamazoo Valley Community College and its discretely presented component unit as of June 30, 2014 and 2013, and the respective changes in its financial position and, where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Kalamazoo Valley Community College

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kalamazoo Valley Community College's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of Kalamazoo Valley Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Kalamazoo Valley Community College's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 27, 2014

# **Kalamazoo Valley Community College**

## **Management's Discussion and Analysis - Unaudited**

The discussion and analysis of Kalamazoo Valley Community College's (the "College") financial statements provides an overview of the College's financial activities for the years ended June 30, 2014, 2013, and 2012. Management has prepared the financial statements and the related note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

### **Using this Report**

The College's financial report includes three financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The College's foundation has also been discretely presented within these financial statements in accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

The annual financial report includes the independent auditor's report, the management's discussion and analysis, the basic financial statements, notes to the financial statements, and supplemental information.

Activities of the College are reported as either operating or nonoperating in accordance with Governmental Accounting Standards Board Statement No. 35. Charges for services are recorded as operating revenues. Essentially all other types of revenue, including state appropriations, property tax levies, and Pell federal grant revenue, are nonoperating. The College's reliance on state funding, local property taxes, and Pell federal grant assistance to students results in reporting an operating deficit.

Increases or decreases in net position provide one indication of the financial health of an organization. To assess the overall health of the College, many other non-financial factors need to also be considered, such as trends in enrollment, condition of facilities, success of graduates, and the strength of the faculty and staff.

### **Financial Highlights**

The statement of net position and the statement of revenue, expenses, and changes in net position report information on the College as a whole. These statements report the College's financial position as of June 30, 2014 and 2013 and the change in net position for the years then ended. The College's financial position remained strong at June 30, 2014, with assets of \$129.4 million and liabilities of \$10.7 million. Net position, which represents the residual interest in the College's assets after liabilities are deducted, decreased by \$2.5 million, or 2.1 percent.

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

The College's financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year's revenue and expenses are recorded as incurred regardless of when cash is received or paid. Revenue and expenses are separated into the categories of operating and nonoperating.

<b>Statement of Net Position at June 30</b>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Current assets	\$ 51,292,861	\$ 40,914,986	\$ 41,854,267
Long-term investments	5,371,837	15,583,089	16,108,353
Capital assets - Net	<u>72,766,633</u>	<u>73,064,281</u>	<u>75,073,538</u>
Total assets	129,431,331	129,562,356	133,036,158
<b>Liabilities - Current liabilities</b>	<u>10,695,360</u>	<u>8,322,352</u>	<u>10,143,969</u>
<b>Net Position</b>			
Net investment in capital assets	72,766,633	73,064,281	75,073,538
Restricted - Expendable	187,670	210,752	350,155
Unrestricted	<u>45,781,668</u>	<u>47,964,971</u>	<u>47,468,496</u>
Total net position	<u>\$ 118,735,971</u>	<u>\$ 121,240,004</u>	<u>\$ 122,892,189</u>

The preliminary changes in assets, liabilities, and net position of the College for fiscal year 2014 were the result of the following:

- Current assets increased by \$10.4 million, or 25.4 percent. This was due to an increase in cash and cash equivalents (\$10.7 million) and accounts receivable (\$.7 million) related to student financial aid receivables.
- Noncurrent assets decreased by approximately \$10.5 million, or 11.9 percent. This was due to a decrease in long-term investments (\$10.2 million) to provide liquidity for the new campus project and a decrease in net capital assets (\$.3 million).
- Current liabilities increased by approximately \$2.4 million, or 28.5 percent. This was due to liabilities related to the new campus project (\$2.2 million).
- Total net position decreased by approximately \$2.5 million, or 2.1 percent. This was due to a decrease in revenue related to a drop in enrollment (\$1.7 million), and a decrease in operating expenses (\$3.0 million).

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

The preliminary changes in assets, liabilities, and net position of the College for fiscal year 2013 were the result of the following:

- Current assets decreased by approximately \$.9 million, or 2.2 percent. This was due to a decrease in cash, cash equivalents, and short-term investments (\$.3 million) and accounts receivable (\$.6 million) related to student financial aid receivables.
- Noncurrent assets decreased by approximately \$2.5 million, or 2.8 percent, due to a decrease in long-term investments. Net capital assets decreased (\$2.0 million) due to higher depreciation expenses associated with capital assets lowering the overall value.
- Current liabilities decreased by approximately \$1.8 million, or 18.0 percent. This was due to a decrease in accrued student financial aid related to loans payable (\$1.5 million) and less unearned revenue (\$.2 million) related to fall 2013 tuition paid prior to June 30.
- Total net position decreased by approximately \$1.7 million, or 1.4 percent due to investment in capital assets.

### Operating Revenue

Operating revenue includes charges for all exchange transactions such as tuition and fees, the sale of books and supplies, and revenue from the Kalamazoo Valley Museum. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

<b>Operating Revenue for the Years Ended June 30</b>			
<b>Operating Revenue</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Tuition and fees	\$ 16,943,919	\$ 17,741,493	\$ 17,147,316
Federal grants	994,540	1,199,653	1,330,655
State and other grants	721,375	552,108	651,658
Sales and service revenue	4,375,065	5,193,819	5,163,702
Other	598,813	593,107	506,303
Total operating revenue	<b><u>\$ 23,633,712</u></b>	<b><u>\$ 25,280,180</u></b>	<b><u>\$ 24,799,634</u></b>

Operating revenue changes for fiscal year 2014 were the result of the following:

- Tuition and fee revenue decreased by \$.8 million, or 4.5 percent. This was due to a decrease in total unadjusted tuition and fee revenue (\$.8 million) related to a drop in enrollment.
- Sales and service revenue decreased by \$.8 million, or 15.8 percent. This was due to a decrease in total unadjusted bookstore sales revenue (\$1.0 million) associated with the drop in enrollment.

# Kalamazoo Valley Community College

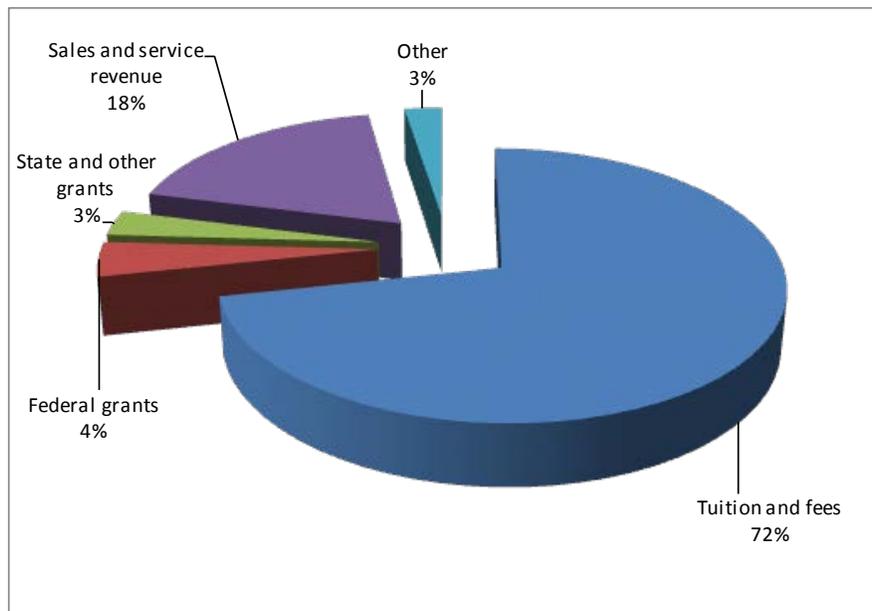
## Management's Discussion and Analysis - Unaudited (Continued)

- Write-offs related to financial aid lost by students not maintaining their eligibility requirements through the semester resulted in a loss of tuition and fee revenue; bookstore sales and services revenue; and other General Fund revenue of approximately \$.4 million. Lost aid must be returned to the federal government within established time lines and any recovery from the student is at the expense of the College. Although decreasing, this continues to be a major draw on College resources.

Operating revenue changes for fiscal year 2013 were the result of the following:

- Tuition and fee revenue increased by approximately \$.6 million, or 3.5 percent. This was due to a 7.4 percent decrease (\$.4 million) in the scholarship allowance (deduction) related to student federal financial aid and an increase in total unadjusted tuition and fee revenue (\$.2 million).
- Federal, state, and other grants decreased by \$.2 million, or 11.6 percent, reflecting the end of the ARRA grant for the Utility Line Worker Academy training.
- Write-offs related to financial aid lost by students not maintaining their eligibility requirements throughout the semester resulted in a loss of tuition and fee revenue; bookstore sales and service revenue; and other General Fund revenue of approximately \$.7 million.

The following is a graphic illustration of operating revenues by source for fiscal year 2014:



# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

### Operating Expenses

Operating expenses are all the costs necessary to provide services and conduct the programs of the College.

<b>Operating Expenses for the Years Ended June 30</b>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Instruction	\$ 28,174,449	\$ 27,860,341	\$ 27,874,297
Public service	3,967,597	4,360,602	4,221,971
Instructional support	5,623,544	5,827,437	5,893,724
Student services - Scholarships/Grants	13,374,537	16,323,045	16,157,679
Student services - Auxiliaries	2,937,599	3,440,374	3,362,113
Student services - Other	6,457,484	6,060,353	6,483,444
Institutional administration	6,002,013	5,912,664	5,892,080
Physical plant	7,663,333	7,423,023	7,479,130
Depreciation	4,318,612	4,252,242	4,097,355
Total operating expenses	<u><b>\$ 78,519,168</b></u>	<u><b>\$ 81,460,081</b></u>	<u><b>\$ 81,461,793</b></u>

Operating expense changes for fiscal year 2014 were the result of the following:

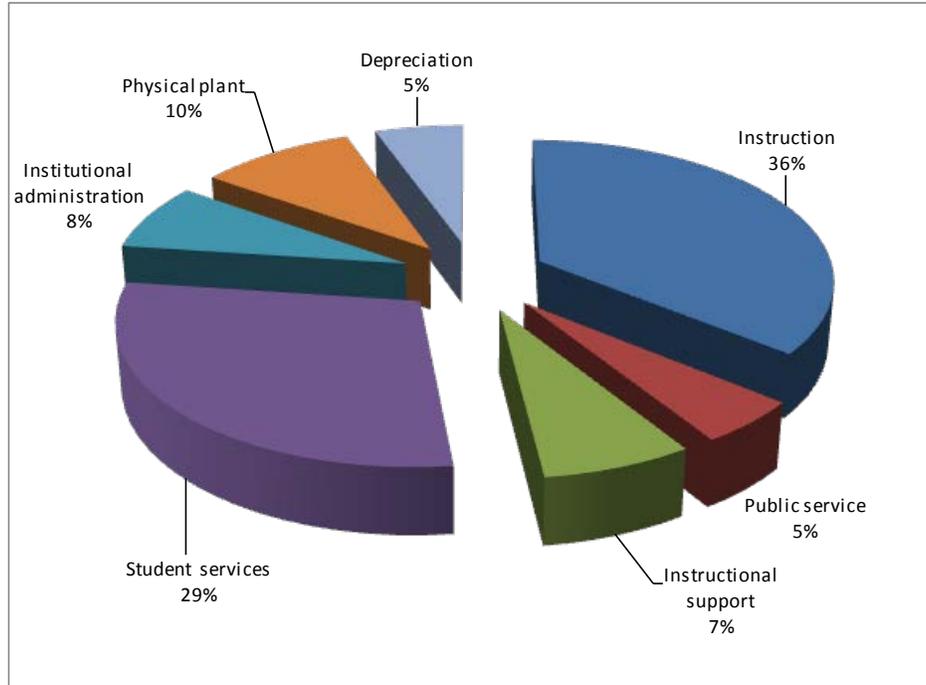
- Student services - scholarships/grants expenses decreased by \$2.9 million, or 18.1 percent. This was due to the drop in Pell grant recipients and awards.
- Student services - auxiliaries expenses decreased by \$.5 million, or 14.6 percent, due to the drop in enrollment.
- Student services - other expenses increased \$.4 million, 6.6 percent. This was primarily due to the Strategic Enrollment Management initiative underway to improve retention and recruitment of students.

Operating expense changes for fiscal year 2013 were not significant in amount nor were they individually identifiable as separate items.

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

The following is a graphic illustration of operating expenses by source for fiscal year 2014:



### Nonoperating Revenue (Expenses)

Nonoperating revenue represents all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and gifts and grants, including Pell federal grants to students.

Nonoperating revenue (expenses) were comprised of the following:

<b>Nonoperating Revenues (Expenses) for the Years Ended June 30</b>			
	2014	2013	2012
State appropriations	\$ 13,188,886	\$ 12,338,723	\$ 11,522,700
Property taxes	22,133,676	22,181,064	22,413,515
Federal grants	16,664,636	19,529,731	20,368,225
State grants	-	264,135	-
Investment income	135,604	170,550	185,255
Net realized and unrealized gain (loss) on investments	40,014	(40,225)	(66,135)
Net loss on sale of assets	-	-	(23,245)
Gifts and contributions	218,607	83,738	44,688
<b>Net nonoperating revenue</b>	<b>\$ 52,381,423</b>	<b>\$ 54,527,716</b>	<b>\$ 54,445,003</b>

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

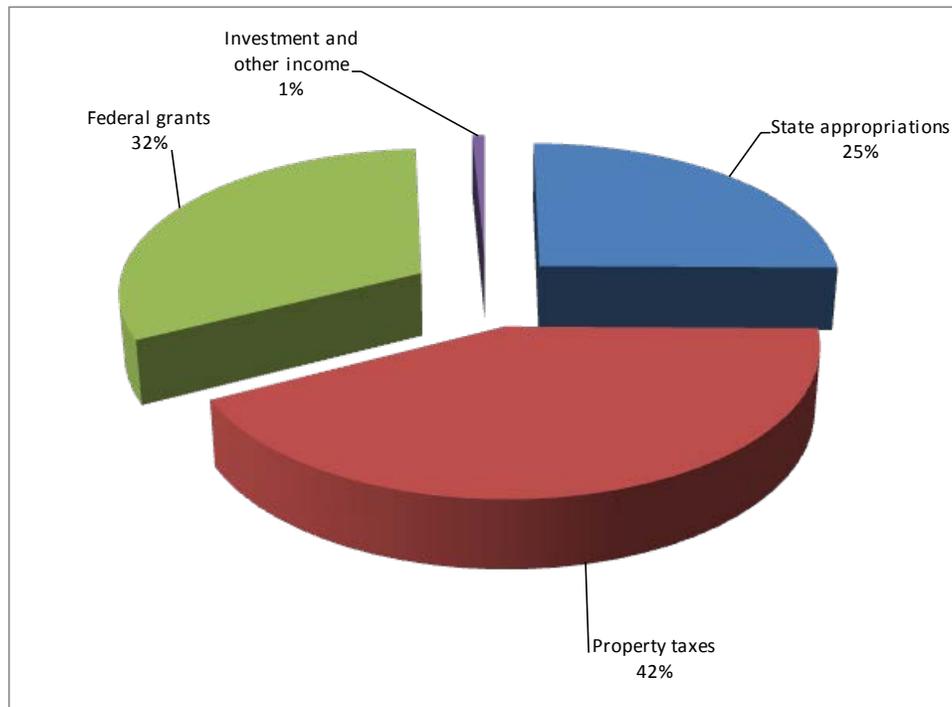
Nonoperating revenue (expense) changes for fiscal year 2014 were the result of the following factors:

- State appropriations increased \$.9 million, or 6.9 percent. Of that amount, approximately \$227,800 was appropriated for operations and \$622,400 was provided to reduce the unfunded actuarial accrued liability associated with the Michigan Public School Employees Retirement System (MPSERS).
- Federal and state grants decreased approximately \$3.1 million, or 15.7 percent, due to the decrease in Pell awards (\$2.8 million) and the completion of the Michigan Department of Environmental Quality grant in 2013 (\$.3 million).

Nonoperating revenue (expense) changes for fiscal year 2013 were the result of the following factors:

- State appropriations increased \$.8 million, or 7.1 percent. Of that increase, approximately \$427,850 was provided for operations and \$388,169 was provided to reduce the unfunded actuarial accrued liability associated with the MPSERS.
- Property taxes decreased approximately \$.2 million, or 1.0 percent, due to a decrease in taxable value within the district.
- Federal and state grants decreased approximately \$.6 million, or 2.8 percent, due to the net effect of a decrease in Pell awards (\$.8 million) and an award of a Michigan Department of Environmental Quality grant for storm water management (\$.2 million).

The following is a graphic illustration of nonoperating revenues by source for fiscal year 2014:



# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

### Statement of Cash Flows

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also may help users assess the following:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its need for external financing

Cash flows for the year consist of the following:

	2014	2013	2012
<b>Cash Flows for the Years Ended June 30</b>			
<b>Cash (Used in) Provided by</b>			
Operating activities	\$ (49,031,717)	\$ (52,352,850)	\$ (44,906,940)
Noncapital financing activities	52,381,423	53,681,181	55,494,960
Capital and related financing activities	(4,020,964)	(2,242,985)	(1,720,519)
Investing activities	<u>11,450,244</u>	<u>397,431</u>	<u>(7,203,695)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	10,778,986	(517,223)	1,663,806
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>8,363,901</u>	<u>8,881,124</u>	<u>7,217,318</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 19,142,887</b></u>	<u><b>\$ 8,363,901</b></u>	<u><b>\$ 8,881,124</b></u>

Net cash used for operating activities in 2014 totaled \$49.0 million. This was financed by \$52.4 million of net cash flows from noncapital financing activities such as property taxes and state appropriations. Net cash used for capital and related financing activities totaled \$4.0 million during 2014. Net cash provided from investing activities totaled \$11.5 million. This includes interest received during 2014 of \$135,600, the sale and maturity of investments totaling \$54.0 million, and the purchase of investments totaling \$41.7 million. The net result of all cash flows is an increase in cash of \$10.8 million for 2014.

# **Kalamazoo Valley Community College**

## **Management's Discussion and Analysis - Unaudited (Continued)**

### **Statement of Cash Flows (Continued)**

Net cash used for operating activities in 2013 totaled \$52.4 million. This was financed by \$53.7 million of net cash flows from noncapital financing activities such as property taxes and state appropriations. Net cash used for capital and related financing activities totaled \$2.2 million during 2013. Net cash provided from investing activities totaled \$.4 million. This includes interest received during 2013 of \$170,550, the sale and maturity of investments totaling \$45.0 million, and the purchase of investments totaling \$44.7 million. The net result of all cash flows is a decrease in cash of \$.5 million for 2013.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At June 30, 2014, the College had approximately \$72.8 million invested in capital assets, net of accumulated depreciation of \$71.8 million. Depreciation charges totaled \$4.3 million for the current fiscal year.

The College has planned capital expenditures for the fiscal year ending June 30, 2015 of approximately \$2.0 million. This includes completion of the welding lab ventilation system and replacement or upgrades of other mechanical systems.

In addition to the above renewals and modifications, the College was awarded planning dollars from the State of Michigan in PA 102 of 2013 for its healthy living campus. Construction of a \$46 million campus is being planned for downtown Kalamazoo in conjunction with Kalamazoo County Mental Health and Substance Abuse Services and Bronson Hospital initiatives. It is estimated that Kalamazoo Valley Community College's portion of the project will be approximately \$38.5 million.

The Kalamazoo Valley Museum has planned capital expenditures for the fiscal year ending June 30, 2015 of approximately \$142,000. This will be used for exhibit planning.

More detailed information about the College's capital assets is presented in the notes to the financial statements.

#### **Debt**

At year end, the College has no outstanding debt.

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

### Economic Factors That Will Affect the Future

Kalamazoo Valley Community College receives funding from three major sources - property taxes, tuition and fees, and state appropriations.

Property taxes provide the largest proportion of revenues for operations and are split between support for the College and support for the Kalamazoo Valley Museum.

Fiscal Year	Property Taxes	Percent Change by Year	Support to College	Support to KVM
2014	\$ 21,779,645	(0.88%)	\$ 18,646,981	\$ 3,132,664
2013	\$ 21,973,780	(0.88%)	\$ 18,813,435	\$ 3,160,345
2012	\$ 22,167,750	(2.70%)	\$ 18,977,093	\$ 3,190,657
2011	\$ 22,787,878	(3.02%)	\$ 19,524,583	\$ 3,263,295
2010	\$ 23,497,498	1.10%	\$ 20,127,802	\$ 3,369,696
2009	\$ 23,241,495	2.48%	\$ 19,908,057	\$ 3,333,438

Property taxes have declined over the past four years as taxable values on properties have fallen. The decreases for 2014 and 2013 were both under one percent, indicating that taxable values have started to stabilize.

Personal property taxes collected for Kalamazoo Valley Community College represent approximately 10 percent of its tax revenue. Legislation has been passed phasing out personal property taxes over the next several years with replacement revenues to be provided by use tax. It is unclear at this time if all revenues lost under the phase out will be recovered.

Although the state of Michigan's economic condition has improved, recent revenue estimates are not as optimistic as previously stated. In 2014 revenues from the State provided additional funding for operations and the unfunded actuarial accrued liability for MPSERS.

Fiscal Year	State Appropriations		MPSERS UAAL
	Operations	Percent Change by Year	
2014	\$ 12,178,330	1.9%	\$ 1,010,556
2013	\$ 11,950,554	3.7%	\$ 388,169
2012	\$ 11,522,700	(3.1%)	\$ -
2011	\$ 11,888,600	- %	\$ -
2010	\$ 11,888,600	- %	\$ -

# Kalamazoo Valley Community College

## Management's Discussion and Analysis - Unaudited (Continued)

Although additional funds have been provided for the unfunded actuarial accrued liability, long-term viability of the MPSERS plan remains a concern. Actuarial assumptions made to reduce the unfunded liability have not been realized. Currently the portion community colleges contribute to the unfunded liability is 20.96 percent of their covered MPSERS payroll. It is likely that the contribution rate will need to be increased if conditions do not improve, creating an even heavier burden for colleges to pay out of operating funds. Implementation of GASB Statement No. 68 for the financial statements for the fiscal year ending June 30, 2015 requires recognition of the College's portion of the unfunded accrued actuarial liability. The Office of Retirement Services has estimated Kalamazoo Valley Community College's portion of the liability at \$57.3 million. Recording the liability on the books of the College could eliminate most, if not all, of the unrestricted net position of the College.

With limited growth in revenue, tuition and fees have been increased to maintain programs and services.

<u>Fiscal Year</u>	<u>In-district Tuition Rate</u>	<u>Percent Change by Year</u>
2014	\$ 88.00	5.4%
2013	\$ 83.50	5.0%
2012	\$ 79.50	3.9%
2011	\$ 76.50	7.2%
2010	\$ 71.00	4.4%

Since 2010, in-district tuition rates have increased \$17.00 per credit hour, or 23.9 percent. Although tuition increases implemented since 2010 have exceeded inflation, tuition charged to Kalamazoo Valley Community College students was still below the state average.

Institutional efforts to reduce operating costs through attrition and cost-cutting initiatives have been made and are an ongoing priority. Through these efforts, it has been possible to maintain affordable tuition for our community while providing outstanding educational programs and services in an inviting learning environment with qualified instructional and support faculty and staff.

# Kalamazoo Valley Community College

## Statement of Net Position

	June 30	
	2014	2013
<b>Assets</b>		
Current:		
Cash and cash equivalents (Note 2)	\$ 19,142,887	\$ 8,363,901
Short-term investments (Note 2)	21,310,937	22,549,929
Accounts receivable - Net (Note 3)	9,049,138	8,343,418
Inventories	1,325,469	1,342,384
Prepaid expenses and other assets	464,430	315,354
Total current assets	51,292,861	40,914,986
Noncurrent:		
Long-term investments (Note 2)	5,371,837	15,583,089
Capital assets (Note 4)	72,766,633	73,064,281
Total noncurrent assets	78,138,470	88,647,370
Total assets	129,431,331	129,562,356
<b>Liabilities - Current</b>		
Accounts payable	753,203	573,934
Accrued payroll, vacation, and other compensation	5,061,444	4,825,967
Other accrued liabilities	1,464,848	1,299,703
Deposits	2,046,515	19,565
Unearned revenue	1,369,350	1,603,183
Total current liabilities	10,695,360	8,322,352
<b>Net Position</b>		
Net investment in capital assets	72,766,633	73,064,281
Restricted for expendable scholarships and grants	187,670	210,752
Unrestricted (Note 1)	45,781,668	47,964,971
Total net position	<u>\$ 118,735,971</u>	<u>\$ 121,240,004</u>

# Kalamazoo Valley Community College

## Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2014	2013
<b>Operating Revenue</b>		
Tuition and fees - Net of scholarship allowance of \$4,764,575 and \$4,745,910 for 2014 and 2013, respectively	\$ 16,943,919	\$ 17,741,493
Federal grants	994,540	1,199,653
State grants	88,225	7,249
Foundation grants	606,150	519,504
Other grants	27,000	25,355
Sales and services revenue - Net of scholarship allowance of \$942,299 and \$1,092,853 for 2014 and 2013, respectively	4,375,065	5,193,819
Other income	598,813	593,107
Total operating revenue	23,633,712	25,280,180
<b>Operating Expenses</b>		
Instruction	28,174,449	27,860,341
Public services	3,967,597	4,360,602
Instructional support	5,623,544	5,827,437
Student services	22,769,620	25,823,772
Institutional administration	6,002,013	5,912,664
Physical plant	7,663,333	7,423,023
Depreciation	4,318,612	4,252,242
Total operating expenses	78,519,168	81,460,081
<b>Operating Loss</b>	(54,885,456)	(56,179,901)
<b>Nonoperating Revenue (Expenses)</b>		
State appropriations	13,188,886	12,338,723
Property tax levy	21,779,645	21,973,780
Other taxes and interest	354,031	207,284
Federal grants	16,664,636	19,529,731
State grants	-	264,135
Investment income	135,604	170,550
Net gain (loss) from investments	40,014	(40,225)
Gifts and contributions	218,607	83,738
Net nonoperating revenue	52,381,423	54,527,716
<b>Change in Net Position</b>	(2,504,033)	(1,652,185)
<b>Net Position - Beginning of year</b>	121,240,004	122,892,189
<b>Net Position - End of year</b>	<b>\$ 118,735,971</b>	<b>\$ 121,240,004</b>

# Kalamazoo Valley Community College

## Statement of Cash Flows

	Year Ended June 30	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 15,943,158	\$ 18,591,048
Grants and contracts	1,895,298	2,180,707
Payments to suppliers	(23,879,691)	(30,559,866)
Payments to employees	(48,102,986)	(48,258,914)
Sales and services revenue	4,375,065	5,193,819
Other	737,439	500,356
Net cash used in operating activities	(49,031,717)	(52,352,850)
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal grant	16,425,948	19,312,136
State grant	-	264,135
Local property taxes	22,036,537	21,918,898
Federal direct lending receipts	16,528,154	27,882,099
Federal direct lending disbursements	(16,528,154)	(27,882,099)
Other taxes and interest	354,031	207,284
State appropriations	13,346,300	11,894,990
Gifts and contributions	218,607	83,738
Net cash provided by noncapital financing activities	52,381,423	53,681,181
<b>Cash Flows from Capital and Related Financing Activities -</b>		
Purchase of capital assets	(4,020,964)	(2,242,985)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	53,025,345	44,972,177
Interest income	135,604	170,550
Purchase of investments	(41,710,705)	(44,745,296)
Net cash provided by investing activities	11,450,244	397,431
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	10,778,986	(517,223)
<b>Cash and Cash Equivalents - Beginning of year</b>	8,363,901	8,881,124
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 19,142,887</b>	<b>\$ 8,363,901</b>

# Kalamazoo Valley Community College

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2014	2013
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (54,885,456)	\$ (56,179,901)
Adjustments to reconcile operating loss to net cash from operating activities:		
Bad debt expense	903,281	1,007,192
Depreciation	4,318,612	4,252,242
(Increase) decrease in assets:		
Accounts receivable	(1,609,001)	414,596
Inventories	16,915	(49,314)
Prepaid assets and other current assets	(149,076)	23,952
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	2,371,364	(1,618,802)
Accrued payroll, vacation, and other compensation	235,477	29,132
Unearned revenue	(233,833)	(231,947)
Net cash used in operating activities	<u>\$ (49,031,717)</u>	<u>\$ (52,352,850)</u>

There were no noncash activities during 2014 or 2013.

# Kalamazoo Valley Community College

## Discretely Presented Component Unit - Foundation

### Balance Sheet

	June 30	
	2014	2013
<b>Assets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 388,296	\$ 538,857
Marketable securities (Note 2)	14,577,438	12,204,369
Contributions receivable	35,967	43,623
Total current assets	<u>\$ 15,001,701</u>	<u>\$ 12,786,849</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b> - Payable to Kalamazoo Valley Community College	\$ 61,821	\$ 40,499
<b>Net Assets</b>		
Unrestricted	5,494,757	4,711,627
Temporarily restricted	8,277,794	6,895,549
Permanently restricted	1,167,329	1,139,174
Total net assets	<u>14,939,880</u>	<u>12,746,350</u>
Total liabilities and net assets	<u>\$ 15,001,701</u>	<u>\$ 12,786,849</u>

### Statement of Activities

	June 30	
	2014	2013
<b>Revenue</b>		
Contributions	\$ 250,366	\$ 255,877
Income from investments	345,700	226,606
Net gain from investments (Note 2)	2,242,175	1,591,230
Other income	149	-
Total revenue	2,838,390	2,073,713
<b>Expenditures</b>		
Program expenditures:		
Grants to Kalamazoo Valley Community College	428,795	412,652
Grants to Kalamazoo Valley Museum	177,354	109,945
Fundraising and other	38,711	41,729
Total expenditures	<u>644,860</u>	<u>564,326</u>
Change in net assets	2,193,530	1,509,387
Net assets at beginning of year	<u>12,746,350</u>	<u>11,236,963</u>
Net assets at end of year	<u>\$ 14,939,880</u>	<u>\$ 12,746,350</u>

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### Note I - Basis of Presentation and Significant Accounting Policies

**Reporting Entity** - Kalamazoo Valley Community College (the "College") is a Michigan community college whose financial statements have been prepared in accordance with generally accepted accounting principles as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

The College reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the individual component units discussed in Note 9 are included in the College's reporting entity.

Kalamazoo Valley Community College Foundation (the "Foundation") is discretely reported in accordance with GASB Statement No. 61 as a separate component unit of the College's reporting entity (although it is legally separate and governed by its own board of trustees) because its sole purpose is to provide support for the College. Separate financial statements of the Foundation may be obtained by contacting Kalamazoo Valley Community College Foundation, P.O. Box 4070, Kalamazoo, Michigan 49003-4070.

The Foundation is a private organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation's financial information included in the College's financial report to account for these differences.

**Basis of Presentation** - These statements have also been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships with the College. The adoption of GASB No. 61 did not have any impact on the College's financial statements.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note I - Basis of Presentation and Significant Accounting Policies (Continued)

Significant accounting policies followed by Kalamazoo Valley Community College are described below to enhance the usefulness of the financial statements to the reader:

**Accrual Basis** - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on historical loss experience.

**Inventories** - Inventories, including books and miscellaneous supplies, are stated at the lower of cost or market using the first-in, first-out method.

**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. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Building improvements	10 years
Furniture and equipment	5 years
Library materials	5 years
Site improvements	10 years
Museum exhibits	10 years
Museum assets	5 years

**Unearned Revenue** - Revenue received prior to year end that relates to the next fiscal period is recorded as unearned revenue. Unearned revenue consists of approximately \$1,135,500 and \$1,261,000 for the 2014 and 2013 summer semesters, and approximately \$184,400 and \$308,100 for the 2014 and 2013 fall semesters, respectively. Other small amounts are due to student payments for a future term (not specifically identified) and gift certificates in the bookstore.

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### **Note I - Basis of Presentation and Significant Accounting Policies (Continued)**

**Scholarship Discounts and Allowances** - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**Operating Revenue and Expenses** - Revenue and expense transactions are normally classified as operating revenue and expenses when such transactions are generated by the College's principal ongoing operations. However, most revenue that is considered to be nonexchange, such as tax revenue, federal Pell grant revenue, and state appropriations, is nonoperating revenue.

**Gifts and Pledges** - Gifts are recorded at estimated fair value when received. Pledges are recorded as contributions in the year received, if there is sufficient evidence that a promise to contribute cash or other assets in the future has been made and collection is reasonably assured.

**Compensated Absences** - Compensated absences represent the accumulated liability to be paid under the College's policy; employees earn vacation time based on time of service with the College.

**Net Position** - When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the College's policy is to first apply restricted resources.

**Net Investment in Capital Assets** - Net investment in capital assets consists of capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Position** - Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the board.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note I - Basis of Presentation and Significant Accounting Policies (Continued)

**Unrestricted Net Position** - The College has designated the use of unrestricted net position as follows:

	<u>2014</u>	<u>2013</u>
Designated for future capital outlay and major maintenance:		
Future capital development	\$ 13,266,515	\$ 6,785,507
Plant equipment replacement	3,129,524	4,727,124
Plant major maintenance	3,189,756	3,677,929
Designated for capital receivables	1,726,141	1,726,141
Designated for technology	1,144,130	2,506,759
Designated for program development	1,507,881	2,869,803
Designated for trustee scholarships	55,000	55,000
Designated per board policy	5,840,779	5,648,022
Designated for auxiliary activities	1,063,706	3,162,269
Designated for auxiliary activities - Kalamazoo Valley Museum	659,797	641,932
Designated for auxiliary activities - Kalamazoo Valley Museum - Per board policy	287,186	289,143
Designated for future capital outlay and major maintenance of Kalamazoo Valley Museum:		
Future capital development	951,960	949,748
Plant equipment replacement	3,260,178	3,094,846
Exhibit major maintenance	3,696,097	3,511,764
Plant major maintenance	2,789,737	3,129,637
Designated for KVCC Holding Company purposes	25,016	390,352
Unrestricted and unallocated	<u>3,188,265</u>	<u>4,798,995</u>
 Total unrestricted net position	 <u>\$ 45,781,668</u>	 <u>\$ 47,964,971</u>

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### **Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)**

**Property Taxes** - Property tax revenue is recognized in the year for which taxes have been levied.

Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships and cities within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to the county in which the district is located for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the county's tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the years ended June 30, 2014 and 2013, 2.8135 mills of tax per \$1,000 of taxable property value in the community college taxing district were levied for general operating purposes on all property. Total operating property tax revenue was \$21,779,645 and \$21,973,780 for the years ended June 30, 2014 and 2013, respectively.

**Use of Estimates** - The preparation of 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 financial statements. Actual results could differ from those estimates.

### **Note 2 - Cash and Investments**

**Cash and Short-term Investments** - Investment policies for cash and short-term investments authorize the College to invest in negotiable certificates of deposit, savings accounts, or other interest-bearing deposit accounts of a financial institution.

**Investments** - Investment policies also authorize the College to invest in bonds, bills, or notes of the United States, or of an agency or instrumentality of the United States, or obligations of the State of Michigan. Funds may also be invested in commercial paper of corporations rated prime by at least one of the standard rating services and in bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

**Interest Rate Risk** - The College's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College does, however, manage its exposure to interest rate risk by generally limiting investment maturities to less than three years.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 2 - Cash and Investments (Continued)

As of June 30, 2014, the College had the following investments and maturities:

	Fair Market Value	Less Than 1 Year	1-3 Years	More Than 3 Years
Certificates of deposit	\$ 18,312,825	\$ 18,312,825	\$ -	\$ -
Commercial paper	2,998,112	2,998,112	-	-
U.S. agency securities*	5,371,837	-	5,371,837	-
Total investments	<u>\$ 26,682,774</u>	<u>\$ 21,310,937</u>	<u>\$ 5,371,837</u>	<u>\$ -</u>

\* Some of the investments in U.S. agency securities are callable.

As of June 30, 2013, the College had the following investments and maturities:

	Fair Market Value	Less Than 1 Year	1-3 Years	More Than 3 Years
Certificates of deposit	\$ 20,048,869	\$ 19,048,869	\$ 1,000,000	\$ -
Commercial paper	498,804	498,804	-	-
U.S. agency securities*	17,585,345	3,002,256	14,583,089	-
Total investments	<u>\$ 38,133,018</u>	<u>\$ 22,549,929</u>	<u>\$ 15,583,089</u>	<u>\$ -</u>

\* Some of the investments in U.S. agency securities are callable.

**Credit Risk** - According to Michigan Public Act 331 of 1966, as amended through 2014, the College may invest in bonds, bills, or notes of the United States or its agencies; obligations of the State of Michigan; corporate commercial paper rated prime by at least one of the standard rating services; bankers' acceptances issued by and certificates of deposit of financial institutions that are members of the Federal Deposit Insurance Corporation; mutual funds and investment pools that are composed of authorized investment instruments; and certain repurchase agreements.

Certificates of deposit at any one financial institution may not exceed 25 percent of the total investable balance or more than 15 percent of the net worth of the financial institution. Commercial paper may not exceed 30 percent of the total investable balance or \$1,000,000 per corporation. The College's investment policy does not limit investments in U.S. agencies or treasuries.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 2 - Cash and Investments (Continued)

More than 5 percent of the College's investments at June 30, 2014 and 2013 were invested as follows:

Issuer	2014	2013
Federal Farm Credit Banks	7%	20%
Flagstar Bank	6%	1%
Bank of America Certificates of Deposit	5%	11%
Huntington National Bank Certificates of Deposit	5%	10%
Federal National Mortgage Association	- %	16%
1st Source Bank Certificates of Deposit	- %	8%
Fifth Third Bank Certificates of Deposit	- %	8%
Comerica Certificates of Deposit	- %	6%
Federal Home Loan Bank	- %	5%

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of bank failure, the College's deposits may not be returned to it. As of June 30, 2014, the College's deposit balances of \$37,854,609 had \$34,354,609 of bank deposits (money markets, certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. For June 30, 2013, the College's deposit balances of \$29,133,151 had \$25,859,037 of bank deposits that were uninsured and uncollateralized.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments are, however, in the name of the College, and the investments are held in trust accounts with each financial institution from which they were purchased.

**Foundation Investments** - Investments at Kalamazoo Valley Community College Foundation at June 30, 2014 and 2013 are as follows:

Description	Cost	Market Value	Unrealized Appreciation
Mutual funds - June 30, 2014	\$ 9,975,006	\$ 14,577,438	\$ 4,602,432
Mutual funds - June 30, 2013	\$ 9,699,558	\$ 12,204,369	\$ 2,504,811

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 2 - Cash and Investments (Continued)

Net gains from security transactions for the years ended June 30, 2014 and 2013 include net unrealized gains of \$2,097,622 and \$1,478,726, respectively, and net realized gains of \$144,553 and \$112,504, respectively.

### Note 3 - Accounts Receivable

Accounts receivable held at the College consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Appropriations from the State of Michigan for operations	\$ 2,381,357	\$ 2,538,771
Property taxes receivable	1,218,924	1,415,022
Federal and state grants receivable	3,757,005	3,709,058
Student receivables	1,228,316	285,395
Capital project receivables	1,726,141	1,726,141
Other receivables	<u>392,379</u>	<u>519,647</u>
Total	10,704,122	10,194,034
Less allowances for doubtful accounts	<u>(1,654,984)</u>	<u>(1,850,616)</u>
Net accounts receivable	<u>\$ 9,049,138</u>	<u>\$ 8,343,418</u>

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 4 - Capital Assets

The following table presents the changes in the various fixed asset class categories for the years ended June 30, 2014 and 2013:

	June 30, 2013		Transfer/ Deletions	June 30, 2014
	Balance	Additions		Balance
Nondepreciable capital assets:				
Land	\$ 5,310,545	\$ 345,152	\$ -	5,655,697
Easements	5,115	-	-	5,115
Construction in progress	29,980	1,673,182	-	1,703,162
Museum collection	50,306	383	-	50,689
Depreciable capital assets:				
Site improvements	2,674,698	236,090	-	2,910,788
Buildings	105,462,498	-	-	105,462,498
Building improvements	2,804,376	864,020	-	3,668,396
Furniture and equipment	15,253,106	797,199	(36,119)	16,014,186
Museum assets	546,553	36,564	-	583,117
Library books	1,452,260	68,374	(59,325)	1,461,309
Museum exhibits	7,002,933	-	-	7,002,933
Total capital assets	140,592,370	4,020,964	(95,444)	144,517,890
Less accumulated depreciation:				
Site improvements	(1,650,279)	(148,304)	-	(1,798,583)
Buildings	(45,242,129)	(2,407,059)	-	(47,649,188)
Building improvements	(1,494,303)	(219,632)	-	(1,713,935)
Furniture and equipment	(12,427,108)	(1,120,968)	36,119	(13,511,957)
Museum assets	(396,142)	(44,336)	-	(440,478)
Library books	(1,274,784)	(71,438)	59,325	(1,286,897)
Museum exhibits	(5,043,344)	(306,875)	-	(5,350,219)
Total accumulated depreciation	(67,528,089)	\$ (4,318,612)	\$ 95,444	(71,751,257)
Total capital assets - Net	\$ 73,064,281			\$ 72,766,633

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 4 - Capital Assets (Continued)

The following table presents the changes in the various fixed asset class categories for the years ended June 30, 2013 and 2012:

	June 30, 2012		Transfer/ Deletions	June 30, 2013
	Balance	Additions		Balance
Nondepreciable capital assets:				
Land	\$ 5,310,545	\$ -	\$ -	\$ 5,310,545
Easements	5,115	-	-	5,115
Construction in progress	39,659	29,980	(39,659)	29,980
Museum collection	37,331	12,975	-	50,306
Depreciable capital assets:				
Site improvements	2,103,404	531,635	39,659	2,674,698
Buildings	105,462,498	-	-	105,462,498
Building improvements	2,477,880	326,496	-	2,804,376
Furniture and equipment	14,062,022	1,205,755	(14,671)	15,253,106
Museum assets	475,223	71,330	-	546,553
Library books	1,478,588	64,813	(91,141)	1,452,260
Museum exhibits	7,002,933	-	-	7,002,933
Total capital assets	138,455,198	2,242,984	(105,812)	140,592,370
Less accumulated depreciation:				
Site improvements	(1,542,345)	(107,934)	-	(1,650,279)
Buildings	(42,835,071)	(2,407,058)	-	(45,242,129)
Building improvements	(1,285,674)	(208,629)	-	(1,494,303)
Furniture and equipment	(11,329,151)	(1,112,628)	14,671	(12,427,108)
Museum assets	(359,126)	(37,016)	-	(396,142)
Library books	(1,294,214)	(71,711)	91,141	(1,274,784)
Museum exhibits	(4,736,079)	(307,265)	-	(5,043,344)
Total accumulated depreciation	(63,381,660)	\$ (4,252,241)	\$ 105,812	(67,528,089)
Total capital assets - Net	\$ 75,073,538			\$ 73,064,281

The estimated cost to complete major construction projects is approximately \$38.5 million for the College, of which approximately \$1.2 million has been spent as of June 30, 2014.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 4 - Capital Assets (Continued)

The Arcadia Commons Campus Phase II (Commons and Allied Health) is recorded in the Plant Fund for \$22,400,000, of which \$11,200,000 was paid by the College and \$11,200,000 was financed by a State Building Authority (SBA) bond issue. The Texas Township Campus Expansion (Student Success Center) is recorded in the Plant Fund for \$11,988,000, of which \$5,944,000 was paid by the College and \$5,944,000 was financed by an SBA bond issue. Both bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to the lease agreements between the SBA, the State of Michigan, and the College. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the College will pay all operating and maintenance costs. At the expiration of the leases, the SBA has agreed to sell its interest in the buildings to the College for one dollar. The lease terms and payments due to the SBA by the State of Michigan for these buildings are as follows:

	Year in Service	Original Lease Principal	Approximate Annual Payment	Lease Term Expires
Kalamazoo Valley Community College/ Arcadia Commons Phase II (Commons and Allied Health)	2001	\$ 22,400,000	\$ 993,000	2036
Kalamazoo Valley Community College/ Texas Township Campus Expansion (Student Success Center)	2011	\$ 11,988,000	\$ 474,000	2046

### Note 5 - Recognition of State Appropriations

The College records revenue from state operating appropriations in accordance with the accounting method described in the annual funding bill passed by the State of Michigan (the "State") legislation, which provides that state appropriations are recorded as revenue in the period for which they were appropriated. Accordingly, the College recognizes 100 percent of the State's fiscal year appropriations as revenue during the College's fiscal year. Also, since state appropriations are distributed over an 11-month period, October through August, the College records a receivable at June 30 each year for the subsequent payments received in July and August. In addition to regular operating appropriations, in 2014 and 2013 the State appropriated \$1,010,556 and \$388,169, respectively, for reduction of the College's portion of the unfunded actuarial accrued liability for the MPERS. These amounts are included in the accrual.

The accrued state appropriation receivable as of June 30, 2014 and 2013 was \$2,381,357 and \$2,538,771, respectively.

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### Note 6 - Retirement Plans

#### Defined Benefit Pension Plan

**Plan Description** - The College participates in the Michigan Public School Employees Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers most employees of the College. The MPSERS provides retirement, survivor, and disability benefits to the plan members and their beneficiaries. The Michigan Public School Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each College is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rates for plan members for the period from July 1, 2013 through June 30, 2014 are based on the option selected. The plan options include Basic Member Investment Plan (MIP), MIP Fixed, MIP Graded, MIP Plus, Pension Plus, and a defined contribution plan (DC). Effective February 1, 2013 members could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Depending on the plan selected, plan member contributions range from 0 percent up to 7 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The College's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were approximately \$3,587,000, \$3,359,000, and \$2,973,000, respectively.

### Note 6 - Retirement Plans (Continued)

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate for the period July 1, 2013 through September 30, 2013 ranged from 8.18 percent to 9.11 percent. For the period from October 1, 2013 through June 30, 2014, the employer contribution rate ranged from 5.52 percent to 6.45 percent depending upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, members could choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they could elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which could be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The College's required and actual contributions to the plan for retiree healthcare benefits for the years ended July 30, 2014, 2013, and 2012 were approximately \$1,097,700, \$1,616,000, and \$1,777,000, respectively.

#### **Defined Contribution Plan**

In January 1997, the College began providing a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt status employees can elect either the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) or the Variable Annuity Life Insurance Company (VALIC).

The TIAA-CREF and VALIC plans are defined contribution retirement plans whereby benefits vest immediately. The College contributes a specified percentage of employee wages and has no liability beyond its own contribution. For the years ended June 30, 2014, 2013, and 2012, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing approximately \$1,863,000, \$1,496,000, and \$1,491,000 to the retirement plans for 2014, 2013, and 2012, respectively.

# Kalamazoo Valley Community College

## Notes to Financial Statements June 30, 2014 and 2013

### Note 7 - Risk Management

The College is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to auto, property, and liability; the College is self-insured for medical benefits provided to employees.

The Michigan Community College Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, which the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the College. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The College estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2014	2013	2012
Estimated liability - Beginning of year	\$ 900,000	\$ 900,000	\$ 900,000
Estimated claims incurred, including changes in estimates	5,706,788	5,454,090	5,250,229
Less claim payments	(5,706,788)	(5,454,090)	(5,250,229)
Estimated liability - End of year	<u>\$ 900,000</u>	<u>\$ 900,000</u>	<u>\$ 900,000</u>

### Note 8 - Federal Direct Lending Program

The College distributed \$16,528,154 and \$27,882,099 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2014 and 2013, respectively. These distributions and related funding source are not included as expenses or revenue in the accompanying financial statements.

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### Note 9 - Related Parties

The Kalamazoo Valley Community College Foundation is a separate not-for-profit corporation, with its own independent board, established to accept, collect, hold, and invest donations made for the promotion of educational and cultural activities at and on behalf of the College. Each year, applications for grant funds are submitted to the Foundation Board where they are considered for funding. In the past, funding has been used to support student scholarships, capital initiatives, and Kalamazoo Valley Museum programming. The College provides personnel support, supplies, and equipment to the Foundation.

The Kalamazoo Valley Community College Holding Company (the "Holding Company") is a separate not-for-profit corporation established 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. At June 30, 2014 and 2013, the stated value of the net assets of the Holding Company totaled \$1,092,816 and \$1,113,000, respectively. These assets, liabilities and all activity of the Holding Company are included in the financial statements of the College as a blended component unit.

The Emerging Technology Center of Kalamazoo Valley Community College Holding Company is a separate not-for-profit corporation established to promote entrepreneurial and associated educational opportunities on behalf of the College. At June 30, 2014 and 2013, the stated value of the net assets of the Emerging Technology Center totaled (\$3,973,665) and (\$3,786,331), respectively. The assets and activities of the Emerging Technology Center are included in the financial statements of the College as a blended component unit.

# Kalamazoo Valley Community College

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## Notes to Financial Statements June 30, 2014 and 2013

### Note 10 - Upcoming Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governmental units providing defined benefit pensions, such as the College's participation in the MPSERS plan, to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The College continues to evaluate the impact this standard will have on the financial statements when adopted. Under GASB Statement No. 68, the College's pension liability will be computed on a different basis than the current actuarial accrued liability. The Office of Retirement Services will annually determine each reporting unit's proportionate share of the liability and expense by measuring their proportionate share of the prior year's liability contributions. The College's liability, based on this formula, has been estimated at \$57.3 million. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

## **Supplemental Information**

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# Kalamazoo Valley Community College

## Combining Statement of Net Position Year Ended June 30, 2014

	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	ETC	Holding Company	Combined Total
<b>Assets</b>									
Current:									
Cash and cash equivalents	\$ 7,596,972	\$ 1,500,000	\$ 366,993	\$ -	\$ 7,596,973	\$ 2,037,897	\$ -	\$ 44,052	\$ 19,142,887
Short-term investments	2,643,264	1,153,097	-	-	17,514,576	-	-	-	21,310,937
Accounts receivable - Net	3,035,199	1,795	395,351	3,810,593	1,726,141	10,051	70,008	-	9,049,138
Inventories	60,896	-	1,264,573	-	-	-	-	-	1,325,469
Prepaid expenses and other assets	310,267	97,880	16,498	-	39,785	-	-	-	464,430
Due from (to) other funds	6,894,707	-	-	(2,951,407)	-	-	(3,943,300)	-	-
Total current assets	20,541,305	2,752,772	2,043,415	859,186	26,877,475	2,047,948	(3,873,292)	44,052	51,292,861
Long-term investments	-	-	-	-	5,371,837	-	-	-	5,371,837
Capital assets:									
Land and improvements	-	-	-	-	7,503,800	-	-	1,067,800	8,571,600
Buildings and improvements	-	-	-	-	109,130,894	-	-	-	109,130,894
Construction in progress	-	-	-	-	1,703,162	-	-	-	1,703,162
Equipment	-	-	-	-	16,597,303	-	-	-	16,597,303
Library and educational materials	-	-	-	-	1,461,309	-	-	-	1,461,309
Exhibits	-	-	-	-	7,002,933	-	-	-	7,002,933
Collections	-	-	-	-	50,689	-	-	-	50,689
Accumulated depreciation	-	-	-	-	(71,751,257)	-	-	-	(71,751,257)
Total capital assets	-	-	-	-	71,698,833	-	-	1,067,800	72,766,633
Total assets	20,541,305	2,752,772	2,043,415	859,186	103,948,145	2,047,948	(3,873,292)	1,111,852	129,431,331
<b>Liabilities - Current</b>									
Accounts payable	327,118	45,761	31,924	86,934	239,404	1,433	1,593	19,036	753,203
Accrued payroll, vacation, and other compensation	5,061,444	-	-	-	-	-	-	-	5,061,444
Other accrued liabilities	831,508	-	445	534,115	-	-	98,780	-	1,464,848
Deposits	-	-	-	-	-	2,046,515	-	-	2,046,515
Unearned revenue	1,318,526	-	357	50,467	-	-	-	-	1,369,350
Total liabilities	7,538,596	45,761	32,726	671,516	239,404	2,047,948	100,373	19,036	10,695,360
<b>Net Position</b>									
Net investment in capital assets	-	-	-	-	71,698,833	-	-	1,067,800	72,766,633
Restricted for expendable scholarships and grants	-	-	-	187,670	-	-	-	-	187,670
Unrestricted	13,002,709	2,707,011	2,010,689	-	32,009,908	-	(3,973,665)	25,016	45,781,668
Total net position	\$ 13,002,709	\$ 2,707,011	\$ 2,010,689	\$ 187,670	\$ 103,708,741	\$ -	\$ (3,973,665)	\$ 1,092,816	\$ 118,735,971

# Kalamazoo Valley Community College

## Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	ETC	Holding Company	Combined Total
<b>Operating Revenue</b>									
Tuition and fees - Net of scholarship allowance (\$4,764,575)	\$ (4,764,575)	\$ 21,665,994	\$ 42,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,943,919
Federal grants	-	-	-	-	994,540	-	-	-	994,540
State grants	-	-	-	-	88,225	-	-	-	88,225
Gifts and grants from Kalamazoo Valley Community College Foundation	-	-	-	-	606,150	-	-	-	606,150
Other grants	-	-	-	-	27,000	-	-	-	27,000
Sales and services revenue - Net of scholarship allowance (\$942,299)	(942,299)	578,340	-	4,485,516	-	-	253,508	-	4,375,065
Other income	-	490,418	1,117	107,194	-	-	84	-	598,813
Current funds capital expenditures	(3,675,811)	-	-	-	-	3,675,811	-	-	-
Total operating revenue	(9,382,685)	22,734,752	43,617	4,592,710	1,715,915	3,675,811	253,592	-	23,633,712
<b>Operating Expenses</b>									
Instruction	(850,152)	27,308,010	1,039,140	-	493,851	183,600	-	-	28,174,449
Public services	(123,376)	1,323,667	-	2,079,537	192,354	69,846	425,569	-	3,967,597
Instructional support	(80,498)	5,178,480	196,524	-	179,527	149,511	-	-	5,623,544
Student services	(5,706,874)	6,030,815	729,616	3,879,898	17,804,382	31,783	-	-	22,769,620
Institutional administration	(6,310)	5,539,662	308,788	-	35,356	103,917	-	20,600	6,002,013
Physical plant	(2,615,475)	6,355,724	2,824	575,955	1,049	3,343,256	-	-	7,663,333
Depreciation expense	-	-	-	-	-	4,318,612	-	-	4,318,612
Total operating expenses	(9,382,685)	51,736,358	2,276,892	6,535,390	18,706,519	8,200,525	425,569	20,600	78,519,168
<b>Operating Loss</b>	-	(29,001,606)	(2,233,275)	(1,942,680)	(16,990,604)	(4,524,714)	(171,977)	(20,600)	(54,885,456)
<b>Nonoperating Revenue</b>									
State appropriations	-	13,188,886	-	-	-	-	-	-	13,188,886
Property tax levy	-	18,646,981	-	3,132,664	-	-	-	-	21,779,645
Other taxes and interest	-	327,649	-	26,382	-	-	-	-	354,031
Federal grants	-	-	-	-	16,664,636	-	-	-	16,664,636
Investment income	-	59,557	4,057	2,905	-	68,669	-	416	135,604
Net gain from investments	-	40,014	-	-	-	-	-	-	40,014
Gifts and contributions	-	37,320	168,500	2,330	-	10,457	-	-	218,607
Net nonoperating revenue	-	32,300,407	172,557	3,164,281	16,664,636	79,126	-	416	52,381,423
<b>Increase (Decrease) in Net Position - Before transfers</b>	-	3,298,801	(2,060,718)	1,221,601	(325,968)	(4,445,588)	(171,977)	(20,184)	(2,504,033)
<b>Transfers</b>	-	(4,529,440)	(663,833)	(3,304,256)	302,886	8,210,000	(15,357)	-	-
<b>(Decrease) Increase in Net Position</b>	-	(1,230,639)	(2,724,551)	(2,082,655)	(23,082)	3,764,412	(187,334)	(20,184)	(2,504,033)
<b>Net Position - Beginning of year</b>	-	14,233,348	5,431,562	4,093,344	210,752	99,944,329	(3,786,331)	1,113,000	121,240,004
<b>Net Position - End of year</b>	\$ -	\$ 13,002,709	\$ 2,707,011	\$ 2,010,689	\$ 187,670	\$ 103,708,741	\$ (3,973,665)	\$ 1,092,816	\$ 118,735,971