Kalamazoo Valley Community College

Financial Report
with Supplemental Information
June 30, 2013

Kalamazoo Valley Community College

Contents

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

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, 2013 and 2012 and the related notes to the financial statements, which collectively comprise 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, 2013 and the respective changes in its financial position and, where applicable, its 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

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2012, the College adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified with respect to these matters.

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, 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 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.

To the Board of Trustees
Kalamazoo Valley Community College

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013 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

November 4, 2013

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, 2013, 2012, and 2011. Management has prepared the financial statements and the related footnote 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 financial 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 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 (GASB) 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 report of independent auditors, 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, 2013 and 2012 and the change in net position for the years then ended. The College's financial position remained strong at June 30, 2013, with assets of $129.6 million and liabilities of $8.3 million. Net position, which represents the residual interest in the College's assets after liabilities are deducted, decreased by $1.7 million, or 1.3 percent.

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 categories of operating and non-operating.

Statement of Net Position at June 30

	2013	2012	2011
Assets			
Current assets	$ 40,914,986	$ 41,854,267	$ 48,776,021
Long-term investments	15,583,089	16,108,353	7,266,672
Capital assets - Net	73,064,281	75,073,538	77,447,756
Total assets	129,562,356	133,036,158	133,490,449
Liabilities			
Current liabilities	8,322,352	10,143,969	8,391,509
Net Position			
Invested in capital assets	73,064,281	75,073,538	77,447,756
Restricted - Expendable	210,752	350,155	401,613
Unrestricted	47,964,971	47,468,496	47,249,571
Total net position	**$ 121,240,004**	**$ 122,892,189**	**$ 125,098,940**

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 $.5 million, or 3.3 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.

The primary changes in assets, liabilities, and net position of the College for fiscal year 2012 were the result of the following:

- Current assets decreased by approximately $6.9 million, or 14.2 percent. This was due to a decrease in accounts receivable ($7.1 million) related to student financial aid. In fiscal year 2012, drawdowns of federal funds were made closer to their disbursement date.

- Noncurrent assets increased by approximately $6.5 million, or 7.6 percent due to an increase in long-term investments ($8.8 million). Net capital assets decreased ($2.4 million) due to fewer additions and higher depreciation expense associated with capital assets lowering the overall value.
- Current liabilities increased by approximately $1.8 million, or 20.9 percent. This was due to an increase in accrued payroll and associated payroll costs ($1.0 million) and an increase in accrued student financial aid payable ($.8 million).
- Total net position decreased by approximately $2.2 million, or 1.8 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.

Operating Revenue	2013	2012	2011
Tuition and fees	$ 17,741,493	$ 17,147,316	$ 14,919,712
Federal grants	1,199,653	1,330,655	1,622,002
State and other grants	552,108	651,658	864,290
Sales and service revenue	5,193,819	5,163,702	4,813,800
Other	593,107	506,303	536,194
Total operating revenue	**$ 25,280,180**	**$ 24,799,634**	**$ 22,755,998**

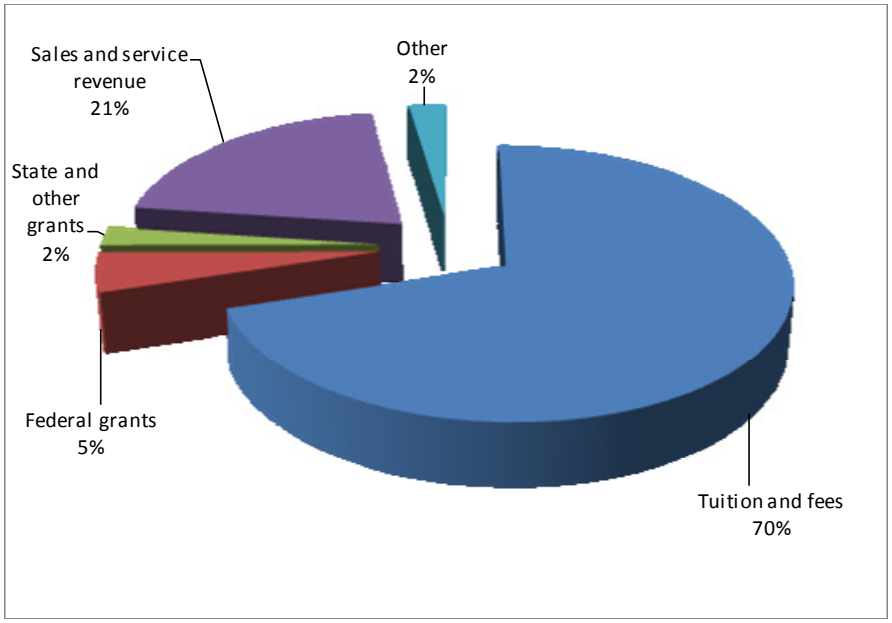
Operating revenue changes for fiscal year 2013 were the result of the following:

- 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. 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 2012 were the result of the following:

- Tuition and fee revenue increased by approximately $2.2 million, or 14.9 percent. This was due to a 16.9 percent decrease ($1.0 million) in the scholarship allowance (deduction) related to student federal financial aid and an increase in total unadjusted tuition and fee revenue ($1.2 million).
- Federal, State, and other grants reverted back to prior levels after adjusting for fiscal year 2011 grant activity.
- Sales and service revenue increased by approximately $.3 million, or 7.3 percent. This was due to the decrease in scholarship allowance (deduction) related to student financial aid ($.2 million) and an overall decrease in rental and training revenue ($.2 million).
- 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 $1.1 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.

The following is a graphic illustration of operating revenues by source for fiscal year 2013:



Operating Expenses

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

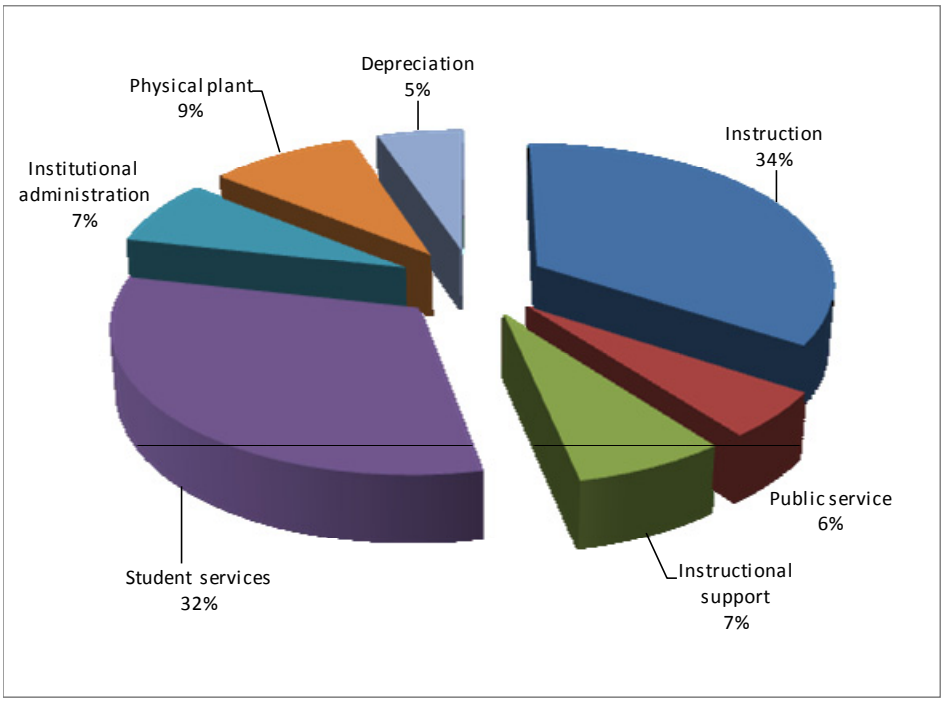
Operating Expenses for the Years Ended June 30			
	2013	2012	2011
Instruction	$ 27,860,341	$ 27,874,297	$ 27,712,766
Public service	4,360,602	4,221,971	4,561,216
Instructional support	5,827,437	5,893,724	5,547,391
Student services - Scholarships/Grants	16,323,045	16,157,679	16,214,723
Student services - Auxiliaries	3,440,374	3,362,113	2,745,091
Student services - Other	6,060,353	6,483,444	6,684,661
Institutional administration	5,912,664	5,892,080	6,113,023
Physical plant	7,423,023	7,479,130	8,270,379
Depreciation	4,252,242	4,097,355	3,975,931
Total operating expenses	**$ 81,460,081**	**$ 81,461,793**	**$ 81,825,181**

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

Operating expense changes for fiscal year 2012 were the result of the following:

- Public service expense decreased approximately $339,200, or 7.4 percent due to the completion of Kalamazoo Valley Museum's exhibit renewals in fiscal year 2011.
- Student services expense increased approximately $358,800, or 1.4 percent. This was due to an increase in auxiliary services from the reduction in scholarship allowance associated with book sales.
- Physical plant expense decreased approximately $791,200, or 9.7 percent. This was due to utility savings ($330,000) and lower internal allocations of expense.

The following is a graphic illustration of operating expenses by source for fiscal year 2013:



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:

Nonoperating Revenues (Expenses) for the Years Ended June 30			
	2013	2012	2011
State appropriations	$ 12,338,723	$ 11,522,700	$ 11,888,600
Property taxes	22,181,064	22,413,515	22,787,878
Federal grants	19,529,731	20,368,225	21,582,364
State grants	264,135	-	-
Investment income	170,550	185,255	223,231
Net realized and unrealized loss on investments	(40,225)	(66,135)	(48,270)
Net loss on sale of assets	-	(23,245)	-
Gifts and contributions	83,738	44,688	45,388
Net nonoperating revenue	**$ 54,527,716**	**$ 54,445,003**	**$ 56,479,191**

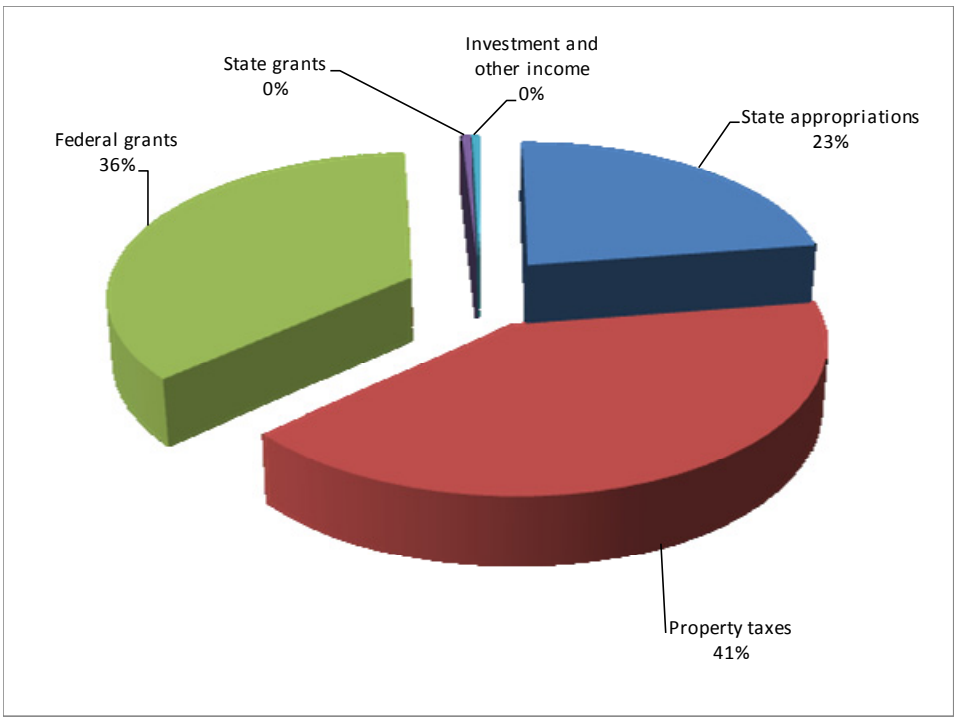
Nonoperating revenue (expense) changes for fiscal year 2013 were the result of the following factors:

- State appropriations increased $.8 million, or 7.1 percent. Of that amount, $357,454, or 3.1 percent, was appropriated for operations; an additional $458,569, or 4.0 percent, was appropriated for current year Michigan Public School Employees' Retirement System (MPSERS) contributions ($70,400) and to provide funding to reduce the unfunded actuarial accrued liability associated with MPSERS ($388,169).
- 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 stormwater management ($.2 million).

Nonoperating revenue (expense) changes for fiscal year 2012 were the result of the following factors:

- State appropriations decreased $365,900, or 3.1 percent.
- Property taxes decreased approximately $374,400, or 1.6 percent due to a decrease in taxable values within the district.
- Federal grants decreased approximately $1.2 million, or 5.6 percent due to a decrease in the number of Pell awards.

The following is a graphic illustration of nonoperating revenues by source for fiscal year 2013:



Other Revenue/Expense

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College.

Other revenue changes for fiscal years 2012 and 2011 were the result of state appropriations for the construction of the Student Service Center addition and renovation of the Texas Township Campus. The renovation was completed in 2012.

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:

Cash Flows for the Years Ended June 30			
	2013	2012	2011
Cash (Used in) Provided by			
Operating activities	$ (52,352,850)	$(44,906,940)	$(63,776,933)
Noncapital financing activities	53,681,181	55,494,960	57,291,065
Capital and related financing activities	(2,242,985)	(1,720,519)	(303,868)
Investing activities	397,431	(7,203,695)	6,448,113
Net (Decrease) Increase in Cash and Cash Equivalents	(517,223)	1,663,806	(341,623)
Cash and Cash Equivalents - Beginning of year	8,881,124	7,217,318	7,558,941
Cash and Cash Equivalents - End of year	**$ 8,363,901**	**$ 8,881,124**	**$ 7,217,318**

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.

Net cash used for operating activities in 2012 totaled $44.9 million. This was financed by $55.5 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 $1.7 million during 2012. Net cash used for investing activities totaled $7.2 million. This includes interest received during 2012 of $185,300, the sale and maturity of investments totaling $41.2 million, and the purchase of investments totaling $48.6 million. The net result of all cash flows is an increase in cash of $1.7 million for 2012.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the College had approximately $73.1 million invested in capital assets, net of accumulated depreciation of $67.5 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, 2014 of approximately $2.4 million. This includes replacement of parking lots, the welding lab ventilation system, and 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 $42 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 $35 million.

The Kalamazoo Valley Museum has planned capital expenditures for the fiscal year ending June 30, 2014 of approximately $.5 million. This is for upgrading and replacement of mechanical systems.

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.

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
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
2008	$ 22,678,422	6.69%	$ 19,423,426	$ 3,254,996

Property taxes have declined over the past three years as taxable values on properties have fallen. Southwest Michigan, unlike many areas in the state, has seen less of a drop in its taxable value. The decrease for 2013 appears to indicate that taxable values have started to stabilize. Personal property taxes collected for Kalamazoo Valley Community College represent approximately 10 percent of its tax revenue. Continued discussion by the legislature regarding the repeal of personal property taxes, without replacement of the revenues, remains a concern.

Although the state of Michigan's economic condition has stabilized, state post-retirement benefits under MPSERS continue to be a concern. Recent revenues at the state level have provided additional funding to offset some of the unfunded actuarial accrued liability; however, if the national or state economy were to slow, an increase in the College's contributions could negatively affect college programs and services.

State support to Kalamazoo Valley Community College has increased in 2013. This was the first year since 2009 Kalamazoo Valley Community College had seen an increase in base aid for operations.

	State Appropriations		Percent Change by
Fiscal Year	Operations	MPSERS UAAL	Year - Operations
2013	$ 11,950,554	$ 388,169	3.7%
2012	$ 11,522,700	$ -	(3.1%)
2011	$ 11,888,600	$ -	0.0%
2010	$ 11,888,600	$ -	0.0%
2009	$ 11,888,600	$ -	(6.3%)

Without growth in property taxes or state appropriations, all inflation and increases in costs have been placed squarely on tuition and fees. The following table shows the increase in in-district tuition rates adopted since 2009 and the percent of change by year.

Fiscal Year	In-district Tuition Rate	Percent Change by Year
2013	$ 83.50	5.0%
2012	$ 79.50	3.9%
2011	$ 76.50	7.2%
2010	$ 71.00	4.4%
2009	$ 68.00	3.0%

Since 2009, in-district tuition rates have increased $15.50 per credit hour, or 22.8 percent. Although tuition increases have exceeded inflation, tuition charged to Kalamazoo Valley Community College students is still below the state average.

Institutional efforts to reduce operating costs through attrition and cost-cutting initiatives have been made and are an on-going 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	
	2013	2012
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 8,363,901	$ 8,881,124
Short-term investments (Note 2)	22,549,929	22,291,770
Accounts receivable - Net (Note 3)	8,343,418	9,048,997
Inventories	1,342,384	1,293,070
Prepaid expenses and other assets	315,354	339,306
Total current assets	40,914,986	41,854,267
Noncurrent Assets		
Long-term investments (Note 2)	15,583,089	16,108,353
Capital assets (Note 4)	73,064,281	75,073,538
Total noncurrent assets	88,647,370	91,181,891
Total assets	129,562,356	133,036,158
Liabilities		
Current Liabilities		
Accounts payable	573,934	568,294
Accrued payroll, vacation, and other compensation	4,825,967	4,796,835
Other accrued liabilities	1,299,703	2,920,055
Deposits	19,565	23,655
Unearned revenue	1,603,183	1,835,130
Total current liabilities	8,322,352	10,143,969
Net Position		
Net investment in capital assets	73,064,281	75,073,538
Restricted for expendable scholarships and grants	210,752	350,155
Unrestricted (Note 1)	47,964,971	47,468,496
Total net position	**$ 121,240,004**	**$ 122,892,189**

The Accompanying Notes are an Integral Part of these Statements.

Kalamazoo Valley Community College

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2013	2012
Operating Revenue		
Tuition and fees - Net of scholarship allowance of $4,745,910 and $5,124,933 for 2013 and 2012, respectively	$ 17,741,493	$ 17,147,316
Federal grants	1,199,653	1,330,655
State grants	7,249	40,638
Foundation grants	519,504	538,650
Other grants	25,355	72,370
Sales and services revenue - Net of scholarship allowance of $1,092,853 and $1,170,497 for 2013 and 2012, respectively	5,193,819	5,163,702
Other income	593,107	506,303
Total operating revenue	25,280,180	24,799,634
Operating Expenses		
Instruction	27,860,341	27,874,297
Public services	4,360,602	4,221,971
Instructional support	5,827,437	5,893,724
Student services	25,823,772	26,003,236
Institutional administration	5,912,664	5,892,080
Physical plant	7,423,023	7,479,130
Depreciation	4,252,242	4,097,355
Total operating expenses	81,460,081	81,461,793
Operating Loss	(56,179,901)	(56,662,159)
Nonoperating Revenue (Expenses)		
State appropriations	12,338,723	11,522,700
Property tax levy	21,973,780	22,167,750
Other taxes and interest	207,284	245,765
Federal grants	19,529,731	20,368,225
State grants	264,135	-
Investment income	170,550	185,255
Net loss from investments	(40,225)	(66,135)
Net loss from sale of assets	-	(23,245)
Gifts and contributions	83,738	44,688
Net nonoperating revenue	54,527,716	54,445,003
Loss Before Other	(1,652,185)	(2,217,156)
Other - State capital appropriations	-	10,405
Change in Net Position	(1,652,185)	(2,206,751)
Net Position - Beginning of year	122,892,189	125,098,940
Net Position - End of year	**$ 121,240,004**	**$ 122,892,189**

The Accompanying Notes are an Integral Part of these Statements.

Kalamazoo Valley Community College

Statement of Cash Flows

	Year Ended June 30	
	2013	2012
Cash Flows from Operating Activities		
Tuition and fees	$ 18,591,048	$ 17,186,155
Grants and contracts	2,180,707	7,872,850
Payments to suppliers	(30,559,866)	(28,778,570)
Payments to employees	(48,258,914)	(46,796,910)
Sales and services revenue	5,193,819	5,163,702
Other	500,356	445,833
Net cash used in operating activities	(52,352,850)	(44,906,940)
Cash Flows from Noncapital Financing Activities		
Federal grant	19,312,136	21,325,721
State grant	264,135	-
Local property taxes	21,918,898	22,289,560
Other taxes and interest	207,284	245,765
State appropriations	11,894,990	11,589,226
Gifts and contributions	83,738	44,688
Net cash provided by noncapital financing activities	53,681,181	55,494,960
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts	-	25,863
Loss on disposal of capital assets	-	(23,245)
Purchase of capital assets	(2,242,985)	(1,723,137)
Net cash used in capital and related financing activities	(2,242,985)	(1,720,519)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	44,972,177	41,209,770
Interest income	170,550	185,255
Purchase of investments	(44,745,296)	(48,598,720)
Net cash provided by (used in) investing activities	397,431	(7,203,695)
Net (Decrease) Increase in Cash and Cash Equivalents	(517,223)	1,663,806
Cash and Cash Equivalents - Beginning of year	8,881,124	7,217,318
Cash and Cash Equivalents - End of year	**$ 8,363,901**	**$ 8,881,124**

The Accompanying Notes are an Integral Part of these Statements.

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2013	2012
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (56,179,901)	$ (56,662,159)
Adjustments to reconcile operating loss to net cash from operating activities:		
Bad debt expense	1,007,192	1,561,722
Depreciation	4,252,242	4,097,355
(Increase) decrease in assets:		
Accounts receivable	414,596	4,409,730
Inventories	(49,314)	(16,057)
Prepaid assets and other current assets	23,952	(49,991)
(Decrease) increase in liabilities:		
Accounts payable and other liabilities	(1,618,802)	869,392
Accrued payroll and other compensation	29,132	991,338
Unearned tuition and fees	(231,947)	(108,270)
Net cash used in operating activities	**$ (52,352,850)**	**$ (44,906,940)**

There were no noncash activities during 2013 or 2012.

The Accompanying Notes are an Integral Part of these Statements.

Kalamazoo Valley Community College

Discretely Presented Component Unit - Foundation

Balance Sheet

	June 30 2013	June 30 2012
Assets		
Cash and cash equivalents	$ 538,857	$ 662,595
Marketable securities (Note 2)	12,204,369	10,588,213
Contributions receivable	43,623	42,793
Total current assets	**$ 12,786,849**	**$ 11,293,601**
Liabilities and Net Assets		
Liabilities		
Payable to Kalamazoo Valley Community College	$ 40,499	$ 55,577
Other payables	-	1,061
Total liabilities	40,499	56,638
Net Assets		
Unrestricted	4,711,627	4,618,129
Temporarily restricted	6,895,549	5,495,460
Permanently restricted	1,139,174	1,123,374
Total net assets	12,746,350	11,236,963
Total liabilities and net assets	**$ 12,786,849**	**$ 11,293,601**

Statement of Activities

	June 30 2013	June 30 2012
Revenue		
Contributions	$ 255,877	$ 367,555
Income from investments	226,606	306,145
Net gain (loss) from investments (Note 2)	1,591,230	(236,192)
Total revenue	2,073,713	437,508
Expenses		
Program expenditures:		
Grants to Kalamazoo Valley Community College	412,652	422,541
Grants to Kalamazoo Valley Museum	109,945	116,109
Fundraising and other	41,729	38,495
Total expenditures	564,326	577,145
Change in net assets	1,509,387	(135,548)
Net assets at beginning of year	11,236,963	11,372,511
Net assets at end of year	**$ 12,746,350**	**$ 11,236,963**

The Accompanying Notes are an Integral Part of these Statements.

Note 1 - Basis for 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 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 - Effective July 1, 2012, the College implemented the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement No. 61 is an amendment to Statement No. 14 and Statement No. 34, modifying certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

Note 1 - Basis for Presentation and Significant Accounting Policies (Continued)

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.

Effective July 1, 2012, the College also implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The standard incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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.

Note 1 - Basis for Presentation and Significant Accounting Policies (Continued)

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 $1,261,000 and $1,336,500 for the 2013 and 2012 summer semesters, and approximately $308,100 and $498,500 for the 2013 and 2012 fall semesters, respectively. Other small amounts are due to student payments for a future term (not specifically identified) and gift certificates in the bookstore.

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.

Note 1 - Basis for Presentation and Significant Accounting Policies (Continued)

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.

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

	2013	2012
Designated for future capital outlay and major maintenance	$ 15,190,560	$ 11,387,557
Designated for capital receivables	1,726,141	1,726,141
Designated for technology	2,506,759	3,065,736
Designated for program development	2,869,803	3,701,561
Designated for trustee scholarships	55,000	55,000
Designated per board policy	5,648,022	8,354,317
Designated for auxiliary activities	3,162,269	2,729,031
Designated for auxiliary activities - Kalamazoo Valley Museum	641,932	445,162
Designated for auxiliary activities - Kalamazoo Valley Museum - Per board policy	289,143	442,662
Designated for future capital outlay and major maintenance of Kalamazoo Valley Museum	10,685,995	10,503,648
Designated for KVCC Holding Company purposes	390,352	394,151
Unrestricted and unallocated	4,798,995	4,663,530
Total unrestricted net position	$ 47,964,971	$ 47,468,496

Note 1 - Basis for 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, 2013 and 2012, 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 $21,973,780 and $22,167,750 for the years ended June 30, 2013 and 2012, 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.

Note 2 - Cash and Investments (Continued)

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	$ 38,133,018	$ 22,549,929	$ 15,583,089	$ -

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

As of June 30, 2012, 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	$ 19,799,673	$ 19,299,673	$ 500,000	$ -
Commercial paper	2,992,097	2,992,097	-	-
U.S. Agency securities*	15,608,353	-	15,608,353	-
Total investments	$ 38,400,123	$ 22,291,770	$ 16,108,353	$ -

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

Credit Risk - According to Michigan Public Act 331 of 1966, as amended through 2013, 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 which 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.

Note 2 - Cash and Investments (Continued)

More than 5 percent of the College's investments at June 30, 2013 and 2012 were invested as follows:

Issuer	2013	2012
Federal Farm Credit Banks	20%	20%
Federal National Mortgage Association	16%	8%
Bank of America Certificates of Deposit	11%	10%
Huntington National Bank Certificates of Deposit	10%	10%
1st Source Bank Certificates of Deposit	8%	6%
Fifth Third Bank Certificates of Deposit	8%	5%
Comerica Certificates of Deposit	6%	5%
Federal Home Loan Bank	5%	2%

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, 2013, the College's deposit balances of $29,133,151 had $25,859,037 of bank deposits (money markets, certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. For June 30, 2012, the College's deposit balances of $29,073,987 had $26,066,811 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, 2013 and 2012 are as follows:

Description	Cost	Market Value	Unrealized Appreciation
Mutual funds - June 30, 2013	$ 9,699,558	$ 10,204,369	$ 2,504,811
Mutual funds - June 30, 2012	$ 9,562,129	$ 10,588,213	$ 1,026,084

Note 2 - Cash and Investments (Continued)

Net gains (losses) from security transactions for the years ended June 30, 2013 and 2012 include net unrealized gains (losses) of $1,478,726 and ($236,190), respectively, and net realized gains (losses) of $112,504 and ($2), respectively.

Note 3 - Accounts Receivable

Accounts receivable held at the College consist of the following at June 30, 2013 and 2012:

	2013	2012
Appropriations from the State of Michigan for operations	$ 2,538,771	$ 2,095,038
Property taxes receivable	1,415,022	1,645,318
Federal and state grants receivable	3,709,058	3,903,765
Student receivables	285,395	1,370,985
Capital project receivables	1,726,141	1,726,141
Other receivables	519,647	443,541
Total	10,194,034	11,184,788
Less allowances for doubtful accounts	(1,850,616)	(2,135,791)
Net accounts receivable	$ 8,343,418	$ 9,048,997

Note 4 - Capital Assets

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 Balance	Additions	Transfer/ Deletions	June 30, 2013 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
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
Museum collection	37,331	12,975	-	50,306
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

Note 4 - Capital Assets (Continued)

The following table presents the changes in the various fixed asset class categories for the years ended June 30, 2012 and 2011:

	June 30, 2011 Balance	Additions	Transfer/ Deletions	June 30, 2012 Balance
Nondepreciable capital assets:				
Land	$ 5,310,545	$ -	$ -	$ 5,310,545
Easements	5,115	-	-	5,115
Construction in progress	58,701	39,659	(58,701)	39,659
Depreciable capital assets:				
Site improvements	1,937,288	166,116	-	2,103,404
Buildings	105,462,498	-	-	105,462,498
Building improvements	1,875,848	602,032	-	2,477,880
Furniture and equipment	13,296,160	753,651	12,211	14,062,022
Museum assets	366,260	108,963	-	475,223
Library books	1,453,803	75,278	(50,493)	1,478,588
Museum exhibits	7,002,933	-	-	7,002,933
Museum collection	36,647	684	-	37,331
Capital lease equipment	102,926	-	(102,926)	-
Total capital assets	136,908,724	1,746,383	(199,909)	138,455,198
Less accumulated depreciation:				
Site improvements	(1,471,281)	(71,064)	-	(1,542,345)
Buildings	(40,428,013)	(2,407,058)	-	(42,835,071)
Building improvements	(1,074,949)	(210,725)	-	(1,285,674)
Furniture and equipment	(10,354,512)	(997,883)	23,244	(11,329,151)
Museum assets	(332,163)	(26,963)	-	(359,126)
Library books	(1,273,564)	(71,143)	50,493	(1,294,214)
Museum exhibits	(4,423,560)	(312,519)	-	(4,736,079)
Capital lease equipment	(102,926)	-	102,926	-
Total accumulated depreciation	(59,460,968)	$ (4,097,355)	$ 176,663	(63,381,660)
Total capital assets - Net	$ 77,447,756			$ 75,073,538

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 2013 the State appropriated $388,169 for reduction of the College's portion of the Unfunded Actuarial Accrued Liability for the MPSERS. This amount is included in the accrual.

The accrued state appropriation receivable as of June 30, 2013 and 2012 was $2,538,771 and $2,095,038, respectively.

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 System 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, 2012 through June 30, 2013 are based on the option selected. The plan options include Basic Member Investment Plan (MIP), MIP Fixed, MIP Graded, MIP Plus, Pension Plus, and beginning February 1, 2013, employees could transition to a defined contribution plan (DC), and could also 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 7.0 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, 2013, 2012, and 2011 were $3,359,000, $2,973,000, and $2,383,000, 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 was 8.5 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013, the employer contribution rate ranged from 8.18 percent to 9.11 percent depending upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be 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 health care benefits for the years ended July 30, 2013, 2012, and 2011 were $1,616,000, $1,777,000, and $1,595,000, 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, 2013, 2012, and 2011, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing approximately $1,496,000, $1,491,000, and $1,411,000 to the retirement plans for 2013, 2012, and 2011, respectively.

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:

	2013	2012
Estimated liability - Beginning of year	$ 900,000	$ 900,000
Estimated claims incurred, including changes in estimates	5,454,090	5,250,229
Less claim payments	(5,454,090)	(5,250,229)
Estimated liability - End of year	$ 900,000	$ 900,000

Note 8 - Federal Direct Lending Program

The College distributed $27,882,099 and $29,937,359 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2013 and 2012, respectively. These distributions and related funding source are not included as expenses or revenue in the accompanying financial statements.

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, 2013 and 2012, the stated value of the net assets of the Holding Company totaled $1,113,000 and $1,116,799, respectively. These assets 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, 2013 and 2012, the stated value of the net assets of the Emerging Technology Center totaled ($3,786,331) and ($3,551,306), respectively. The assets and activities of the Emerging Technology Center are included in the financial statements of the College as a blended component unit.

Note 10 - Upcoming Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this statement are effective for financial statements for the year ending June 30, 2014.

Note 10 - Upcoming Pronouncements (Continued)

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 is currently evaluating the impact this standard will have on the financial statements when adopted. Under GASB No. 68, the College's pension liability will be computed on a different basis than the current actuarial accrued liability, and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. However, if we approximated the liability based on the actuarial accrued liability and allocate it based on covered payroll, the College's estimated liability is $48.9 million. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Supplemental Information

Kalamazoo Valley Community College

Combining Statement of Net Position
Year Ended June 30, 2013

	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	ETC	Holding Company	Combined Total
Assets									
Current Assets									
Cash and cash equivalents	$ 2,563,728	$ -	$ 2,404,152	$ -	$ 2,989,780	$ 15,889	$ -	$ 390,352	$ 8,363,901
Short-term investments	2,034,817	5,406,656	-	-	15,108,456	-	-	-	22,549,929
Accounts receivable - Net	2,182,249	70	411,319	3,851,762	1,726,029	7,389	164,600	-	8,343,418
Inventories	52,851	-	1,289,533	-	-	-	-	-	1,342,384
Prepaid expenses and other assets	179,431	54,300	29,385	-	52,238	-	-	-	315,354
Due from (to) other funds	6,309,072	-	-	(2,458,317)	-	-	(3,850,755)	-	-
Total current assets	13,322,148	5,461,026	4,134,389	1,393,445	19,876,503	23,278	(3,686,155)	390,352	40,914,986
Long-term investments	7,791,545	-	-	-	7,791,544	-	-	-	15,583,089
Capital assets:									
Land and improvements	-	-	-	-	7,267,710	-	-	722,648	7,990,358
Buildings and improvements	-	-	-	-	108,266,874	-	-	-	108,266,874
Construction in progress	-	-	-	-	20,000	-	-	-	20,000
Equipment	-	-	-	-	15,799,659	-	-	-	15,799,659
Library and educational materials	-	-	-	-	1,452,260	-	-	-	1,452,260
Exhibits	-	-	-	-	7,012,914	-	-	-	7,012,914
Collections	-	-	-	-	50,306	-	-	-	50,306
Accumulated depreciation	-	-	-	-	(67,528,090)	-	-	-	(67,528,090)
Total capital assets	-	-	-	-	72,341,633	-	-	722,648	73,064,281
Total assets	21,113,693	5,461,026	4,134,389	1,393,445	100,009,680	23,278	(3,686,155)	1,113,000	129,562,356
Liabilities									
Current Liabilities									
Accounts payable	401,456	29,464	40,020	32,534	65,351	3,713	1,396	-	573,934
Accrued payroll, vacation, and other compensation	4,825,967	-	-	-	-	-	-	-	4,825,967
Other accrued liabilities	82,439	-	725	1,117,759	-	-	98,780	-	1,299,703
Deposits	-	-	-	-	-	19,565	-	-	19,565
Unearned revenue	1,570,483	-	300	32,400	-	-	-	-	1,603,183
Total current liabilities	6,880,345	29,464	41,045	1,182,693	65,351	23,278	100,176	-	8,322,352
Net Position									
Net investment in capital assets	-	-	-	-	72,341,633	-	-	722,648	73,064,281
Restricted for expendable scholarships and grants	-	-	-	210,752	-	-	-	-	210,752
Unrestricted	14,233,348	5,431,562	4,093,344	-	27,602,696	-	(3,786,331)	390,352	47,964,971
Total net position	**$ 14,233,348**	**$ 5,431,562**	**$ 4,093,344**	**$ 210,752**	**$ 99,944,329**	**$ -**	**$ (3,786,331)**	**$ 1,113,000**	**$ 121,240,004**

Kalamazoo Valley Community College

Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2013

	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	ETC	Holding Company	Combined Total
Operating Revenue									
Tuition and fees - Net of scholarship allowance	$ (4,745,910)	$ 22,263,097	$ 224,306	$ -	$ -	$ -	$ -	$ -	$ 17,741,493
Federal grants	-	-	-	-	1,199,653	-	-	-	1,199,653
State grants	-	-	-	-	7,249	-	-	-	7,249
Gifts and grants from Kalamazoo Valley Community College Foundation	-	-	-	-	519,504	-	-	-	519,504
Other grants	-	-	-	-	25,355	-	-	-	25,355
Sales and services revenue - Net of scholarship allowance	(1,124,177)	524,094	-	5,265,052	-	-	528,850	-	5,193,819
Other income	-	498,794	1,100	93,117	-	-	-	96	593,107
Current funds capital expenditures	(2,242,984)	-	-	-	-	2,242,984	-	-	-
Total operating revenue	(8,113,071)	23,285,985	225,406	5,358,169	1,751,761	2,242,984	528,850	96	25,280,180
Operating Expenses									
Instruction	(382,003)	26,627,684	805,027	-	535,931	273,702	-	-	27,860,341
Public services	(108,439)	1,372,015	-	2,096,251	129,245	138,174	733,356	-	4,360,602
Instructional support	(111,362)	5,023,567	378,709	-	302,440	234,083	-	-	5,827,437
Student services	(5,940,294)	5,879,262	582,043	4,533,464	20,727,353	41,944	-	-	25,823,772
Institutional administration	(67,185)	5,637,448	276,174	-	39,220	22,331	-	4,676	5,912,664
Physical plant	(1,503,788)	6,282,583	27,457	548,644	267,401	1,800,726	-	-	7,423,023
Depreciation expense	-	-	-	-	-	4,252,242	-	-	4,252,242
Total operating expenses	(8,113,071)	50,822,559	2,069,410	7,178,359	22,001,590	6,763,202	733,356	4,676	81,460,081
Operating Loss	-	(27,536,574)	(1,844,004)	(1,820,190)	(20,249,829)	(4,520,218)	(204,506)	(4,580)	(56,179,901)
Nonoperating Revenue (Expenses)									
State appropriations	-	12,338,723	-	-	-	-	-	-	12,338,723
Property tax levy	-	18,813,435	-	3,160,345	-	-	-	-	21,973,780
Other taxes and interest	-	177,463	-	29,808	-	13	-	-	207,284
Federal grants	-	-	-	-	19,529,731	-	-	-	19,529,731
State grants	-	-	-	-	264,135	-	-	-	264,135
Investment income	-	81,618	7,265	3,450	-	77,436	-	781	170,550
Net loss from investments	-	(40,225)	-	-	-	-	-	-	(40,225)
Gifts and contributions	-	42,796	18,580	13,500	-	8,862	-	-	83,738
Net nonoperating revenue	-	31,413,810	25,845	3,207,103	19,793,866	86,311	-	781	54,527,716
Increase (Decrease) in Net Position - Before transfers	-	3,877,236	(1,818,159)	1,386,913	(455,963)	(4,433,907)	(204,506)	(3,799)	(1,652,185)
Transfers	-	(6,213,041)	427,424	(910,424)	316,560	6,410,000	(30,519)	-	-
Increase (Decrease) in Net Position	-	(2,335,805)	(1,390,735)	476,489	(139,403)	1,976,093	(235,025)	(3,799)	(1,652,185)
Net Position - Beginning of year	-	16,569,153	6,822,297	3,616,855	350,155	97,968,236	(3,551,306)	1,116,799	122,892,189
Net Position - End of year	**$ -**	**$ 14,233,348**	**$ 5,431,562**	**$ 4,093,344**	**$ 210,752**	**$ 99,944,329**	**$ (3,786,331)**	**$ 1,113,000**	**$ 121,240,004**