

# **Kalamazoo Valley Community College**

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## **Financial Statements and Other Financial Information**

*Year Ended June 30, 2012*

# Kalamazoo Valley Community College

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## Independent Auditor's Report

To the Board of Trustees  
Kalamazoo Valley Community College

We have audited the accompanying basic financial statements of Kalamazoo Valley Community College (Community College District of the County of Kalamazoo) and its discretely presented component unit as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These basic financial statements are the responsibility of Kalamazoo Valley Community College's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. In addition, the basic financial statements were audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Kalamazoo Valley Community College Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Valley Community College and its discretely presented component unit as of June 30, 2012 and 2011 and the changes in its financial position and its cash flows, if applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of the 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 for the year ended June 30, 2012. 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 opinions on the internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 3-13, 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.

To the Board of Trustees  
Kalamazoo Valley Community College

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

*Plant & Moran, PLLC*

October 19, 2012

## **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, 2012, 2011, and 2010. 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 balance sheet, the statement of revenue, expenses, and changes in net assets, 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 Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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 non-operating 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 non-operating. 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 assets 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 balance sheet and the statement of revenue, expenses, and changes in net assets report information on the College as a whole. These statements report the College's financial position as of June 30, 2012 and 2011 and the change in net assets for the years then ended. The College's financial position remained strong at June 30, 2012, with assets of \$133.0 million and liabilities of \$10.1 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, decreased by \$2.2 million, or 1.8 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.

**Kalamazoo Valley Community College  
Management's Discussion and Analysis - Unaudited (Continued)**

**Balance Sheet**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$41,854,267	\$48,776,021	\$49,684,796
Noncurrent assets			
Long-term investments	16,108,353	7,266,672	6,332,972
Capital assets – Net	<u>75,073,538</u>	<u>77,447,756</u>	<u>75,152,227</u>
Total assets	<u>\$133,036,158</u>	<u>\$133,490,449</u>	<u>\$131,169,995</u>
Current liabilities	\$10,143,969	\$8,391,509	\$8,322,750
Net assets:			
Invested in capital assets	\$75,073,538	\$77,447,756	\$75,152,227
Restricted – Expendable	350,155	401,613	174,641
Unrestricted	<u>47,468,496</u>	<u>47,249,571</u>	<u>47,520,377</u>
Total net assets	<u>\$122,892,189</u>	<u>\$125,098,940</u>	<u>\$122,847,245</u>
Total liabilities and net assets	<u>\$133,036,158</u>	<u>\$133,490,449</u>	<u>\$131,169,995</u>

The primary changes in assets, liabilities, and net assets 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 assets decreased by approximately \$2.2 million, or 1.8 percent due to investment in capital assets.

The primary changes in assets, liabilities, and net assets of the College for fiscal year 2011 were the result of the following:

- Current assets decreased by approximately \$0.9 million, or 1.8 percent. This was due to a decrease in cash and cash equivalents and short-term investments (\$7.5 million) used for construction and an increase in accounts receivable (\$6.3 million) for student federal direct loans.

**Kalamazoo Valley Community College  
Management's Discussion and Analysis - Unaudited (Continued)**

- Noncurrent assets increased by approximately \$3.2 million, or 4.0 percent, due to an increase in long-term investments (\$0.9 million) and an increase in capital assets (\$2.3 million) related to construction of the Student Service Center on the Texas Township Campus and renovation of the Kalamazoo Valley Museum History Gallery. Both projects were complete at June 30, 2011.
- Current liabilities remained relatively unchanged. The reduction in payables related to construction being offset by increased liabilities related to accrued vacation leave.
- Total net assets increased by approximately \$2.3 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.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tuition and fees	\$17,147,316	\$14,919,712	\$16,049,469
Federal grants	1,330,655	1,622,002	1,082,659
State and other grants	651,658	864,290	652,203
Sales and service revenue	5,163,702	4,813,800	4,905,826
Other	<u>506,303</u>	<u>536,194</u>	<u>613,079</u>
 Total operating revenue	 <u>\$24,799,634</u>	 <u>\$22,755,998</u>	 <u>\$23,303,236</u>

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

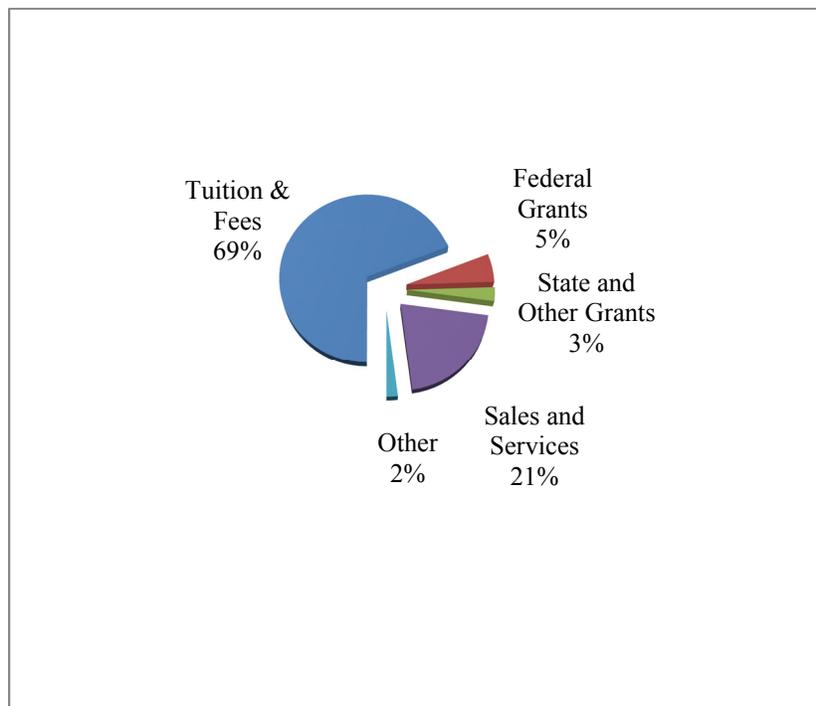
- Tuition and fee revenue increased by approximately \$2.2 million, or 14.9 percent. This was due to a 16.9 percent decrease (\$1.0 million) in the scholarship allowance (deduction) related to student federal financial aid and an increase in total unadjusted tuition and fee revenue (\$1.2 million).
- 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.

## Kalamazoo Valley Community College Management's Discussion and Analysis - Unaudited (Continued)

Operating revenue changes for fiscal year 2011 were the result of the following:

- Tuition and fee revenues decreased by approximately \$1.1 million, or 7.0 percent. This was due to a 53.8 percent increase in the scholarship allowance (deduction) related to student federal financial aid.
- Federal grants revenues increased \$539,300, or 49.8 percent. This was due to a Wind Energy Equipment grant for our Wind Turbine Technician Academy.
- State and other grants revenue increased by approximately \$212,000, or 32.5 percent. This was due to a local private grant for our Expressways program.
- Sales and service revenues decreased \$92,000, or 1.9 percent. This was due to a 51.9 percent increase in the scholarship allowance (deduction) related to student federal financial aid.
- 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 \$803,000.

The following is a graphic illustration of operating revenues by source for fiscal year 2012:



**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.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Instruction	\$27,874,297	\$27,712,766	\$26,464,167
Public service	4,221,971	4,561,216	4,553,531
Instructional support	5,893,724	5,547,391	5,584,080
Student services-Scholarships/ Grants	16,157,679	16,214,723	15,883,868
Student services-Auxiliaries	3,362,113	2,745,091	3,093,317
Student services-Other	6,483,444	6,684,661	6,157,350
Institutional administration	5,892,080	6,113,023	5,593,657
Physical plant	7,479,130	8,270,379	6,348,340
Depreciation	4,097,355	3,975,931	3,952,819
 Total operating expenses	 <u>\$81,461,793</u>	 <u>\$81,825,181</u>	 <u>\$77,631,129</u>

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

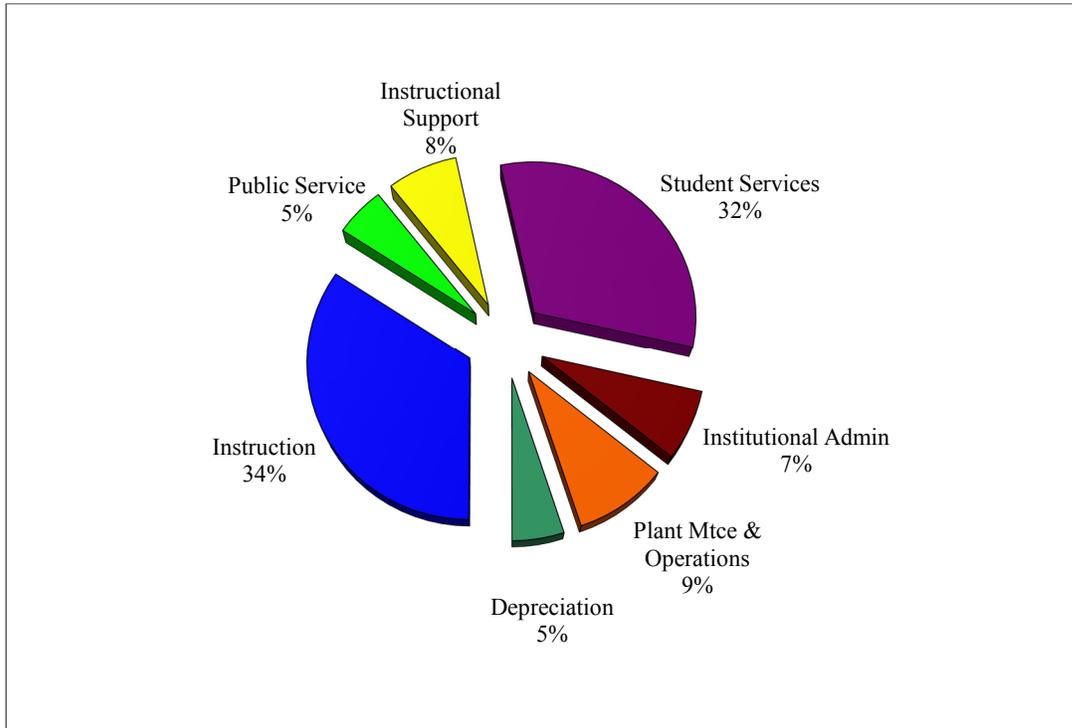
- Public service expense decreased approximately \$339,200, or 7.4 percent due to the completion of Kalamazoo Valley Museum's exhibit renewals in fiscal year 2011.
- Student services expense increased approximately \$358,800, or 1.4 percent. This was due to an increase in auxiliary services from the 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.

Operating expense changes for fiscal year 2011 were the result of the following:

- Instructional expenses increased approximately \$1.2 million, or 4.7 percent, due to increases in wages and benefits (group insurance claims and retirement) and information technology allocations.
- Student services expenses increased approximately \$510,000, or 2.0 percent. This was due to increases in Federal Pell Grants and associated scholarship allowance (approximately \$330,900); decreases in auxiliary services (approximately \$348,226) due to increases in book sales and the associated scholarship allowance and write-off of obsolete inventory; and an increase in other student services costs (approximately \$527,300) due to student parking, interpreter and administrative costs.
- Institutional administration expenses increased approximately \$519,400, or 9.3 percent, due to increases in Talent initiatives, bad debt expense related to student financial aid, and information technology allocations.
- Physical plant expenses increased approximately \$1.9 million, or 30.3 percent, due to construction activities. The Student Service Center project was completed as of June 30, 2011.

**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 2012:



**Non-operating Revenue (Expenses)**

Non-operating 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.

Non-operating revenue (expenses) were comprised of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
State appropriations	\$11,522,700	\$11,888,600	\$11,888,600
Property taxes	22,413,515	22,787,878	23,497,498
Federal grants	20,368,225	21,582,364	19,110,439
Investment income	185,255	223,231	375,766
Net realized and unrealized (loss) gain on investments	(66,135)	(48,270)	22,121
Net loss on sale of assets	(23,245)	-	-
Interest on capital asset - Related Debt	-	-	(263)
Gifts and contributions	<u>44,688</u>	<u>45,388</u>	<u>71,954</u>
 Net non-operating revenue	 <u>\$54,445,003</u>	 <u>\$56,479,191</u>	 <u>\$54,966,115</u>

## Kalamazoo Valley Community College Management's Discussion and Analysis - Unaudited (Continued)

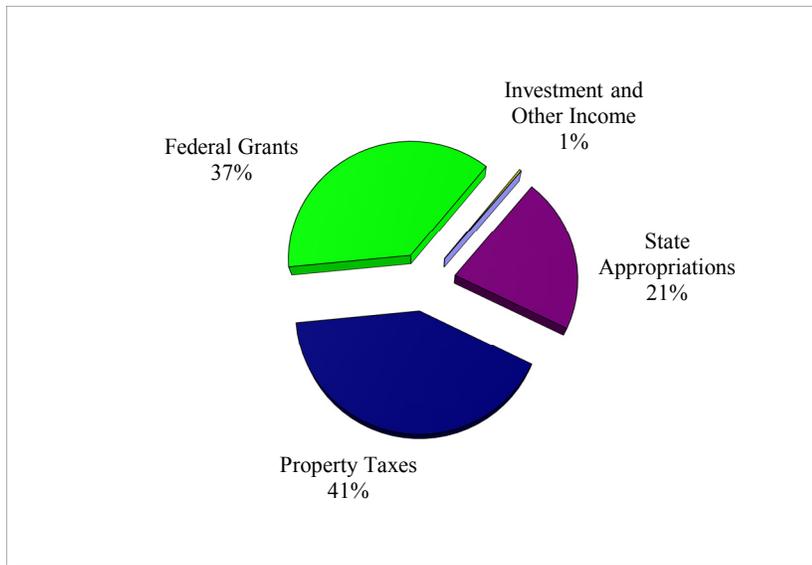
Non-operating revenue (expense) changes for fiscal year 2012 were the result of the following factors:

- 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.

Non-operating revenue (expense) changes for fiscal year 2011 were the result of the following factors:

- Property taxes decreased \$709,600, or 3.0 percent, due to a decrease in taxable values within the district.
- Federal grants increased by approximately \$2.5, or 12.9 percent, due to an increase in the number of students receiving Pell awards and an increase in the amount awarded.

The following is a graphic illustration of non-operating revenues by source for fiscal year 2012:



### Other Revenue/Expense

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

Other revenue changes for fiscal year 2012, 2011, and 2010 were the result of state appropriations for the construction of the Student Service Center addition and renovation of the Texas Township Campus.

**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:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Provided (Used) by:			
Operating activities	(\$44,906,940)	(\$63,776,933)	(\$49,076,562)
Noncapital financing activities	55,494,960	57,291,065	52,768,041
Capital and related financing activities	(1,720,519)	(303,868)	(9,617,996)
Investing activities	<u>(7,203,695)</u>	<u>6,448,113</u>	<u>10,636,826</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,663,806	(341,623)	4,710,309
Cash and Cash Equivalents - Beginning of year	<u>7,217,318</u>	<u>7,558,941</u>	<u>2,848,632</u>
Cash and Cash Equivalents - End of year	<u><u>\$8,881,124</u></u>	<u><u>\$7,217,318</u></u>	<u><u>\$7,558,941</u></u>

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.

Net cash used for operating activities in 2011 totaled \$63.8 million. This was financed by \$57.3 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 \$304,000 during 2011. This includes \$6.3 million expended for capital additions and \$6.0 million received in grants and gifts for capital additions. Net cash from investing activities totaled \$6.4 million. This includes interest received during 2011 of \$223,200, the sale and maturity of investments totaling \$40.5 million, and the purchase of investments totaling \$34.3 million. The net result of all cash flows is a decrease in cash of \$341,600 for 2011.

**Kalamazoo Valley Community College  
Management's Discussion and Analysis - Unaudited (Continued)**

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2012, the College had approximately \$75.1 million invested in capital assets, net of accumulated depreciation of \$63.4 million. Depreciation charges totaled \$4.1 million for the current fiscal year.

The College has planned capital expenditures for the fiscal year ending June 30, 2013 of approximately \$1.4 million. This includes replacement of parking lots, carpet and mechanical systems.

The Kalamazoo Valley Museum has planned capital expenditures for the fiscal year ending June 30, 2013 of approximately \$335,100. This includes replacement of the roof and new exterior signage.

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.

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Percent Change by Year</u>	<u>Support to College</u>	<u>Support to KVM</u>
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 two years as taxable values on properties have fallen. Property taxes continued their decline in 2013 (1.2 percent) and a rebound is not anticipated until the housing market improves. Property taxes also include taxes on personal property (over 10 percent) that are currently under consideration by the legislature for reduction or repeal.

**Kalamazoo Valley Community College  
Management's Discussion and Analysis - Unaudited (Continued)**

Although the State of Michigan's economic condition has stabilized, State appropriations for operations have been flat for the past several years. Additional funding available for State appropriations in the future may be used to offset unfunded liabilities for the Michigan Public School Employees' Retirement System (MPSERS) maintaining this trend.

	Fiscal Year	State Appropriations	Percent Change by Year
Anticipated	2013	\$11,828,300	2.6%
	2012	\$11,522,700	(3.1%)
	2011	\$11,888,600	0.0%
	2010	\$11,888,600	0.0%
	2009	\$11,888,600	(6.3%)
	2008	\$12,690,500	26.8%
	2007	\$10,010,600	(11.2%)

With the reduction in property tax and state revenues, the College has had to raise tuition and cut costs to maintain quality programs and services. The following table shows the increase in tuition rates adopted since 2008 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%
2008	\$66.00	8.2%

Since 2008, in-district tuition rates have increased \$17.50 per credit hour, or 26.5 percent. Although tuition increases have exceeded inflation, tuition charged to Kalamazoo Valley Community College students is still below the state average.

During the same time the College has experienced downward trends in revenues, it has seen an increase in enrollment. Since 2008, enrollment has increased 9.8 percent from both unemployed workers looking for retraining and high school graduates opting for a more affordable option. In fiscal year 2010 enrollment peaked and since then we have seen a slight to moderate decrease.

**Kalamazoo Valley Community College  
Management's Discussion and Analysis - Unaudited (Continued)**

Another factor impacting Kalamazoo Valley Community College's resources is its contribution to the Michigan Public School Employees' Retirement System (MPSERS), the state-run pension fund for K-12 and community college employees. Since 2008, the contribution rate on wages paid into the MPSERS plan has increased 46.3 percent. Recently enacted legislation (PA 300 of 2012) will begin to address the unfunded liability related to the MPSERS retirement plan. It was anticipated that the rate would be frozen at 24.46 percent for 2013. However, court challenges have delayed the implementation and driven up the contribution rate for 2013.

<u>Fiscal Year</u>	<u>MPSERS Contribution Rate</u>	<u>Percent Change by Year</u>
Estimated 2013	25.36%	3.68%
2012	24.46%	18.39%
2011	20.66%	21.96%
2010	16.94%	2.42%
2009	16.54%	(1.08%)
2008	16.72%	(5.75%)

In addition to the required contributions for MPSERS, GASB Statement No. 68 would require Kalamazoo Valley Community College to record an unfunded liability of over \$40 million as its share of the current MPSERS liability.

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 Balance Sheet

	June 30	
	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,881,124	\$ 7,217,318
Short-term investments (Note 2)	22,291,770	23,810,636
Accounts receivable - Net (Note 3)	9,048,997	16,181,739
Inventories	1,293,070	1,277,013
Prepaid expenses and other assets	339,306	289,315
Total current assets	41,854,267	48,776,021
Long-term investments (Note 2)	16,108,353	7,266,672
Capital assets - Net (Note 4)	75,073,538	77,447,756
Total noncurrent assets	91,181,891	84,714,428
<b>TOTAL ASSETS</b>	<b>\$133,036,158</b>	<b>\$ 133,490,449</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 568,294	\$ 932,348
Accrued payroll, vacation, and other compensation	4,796,835	3,805,497
Other accrued liabilities	2,920,055	1,692,333
Deposits	23,655	17,931
Unearned revenue	1,835,130	1,943,400
Total current liabilities	10,143,969	8,391,509
Net Assets		
Invested in capital assets - Net of related debt	75,073,538	77,447,756
Restricted for expendable scholarships and grants	350,155	401,613
Unrestricted (Note 1)	47,468,496	47,249,571
Total net assets	122,892,189	125,098,940
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$133,036,158</b>	<b>\$ 133,490,449</b>

## Kalamazoo Valley Community College Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2012	2011
<b>REVENUE</b>		
Operating Revenue:		
Tuition and fees - Net of scholarship allowance of \$5,124,933 for 2012 and \$6,166,746 for 2011	\$ 17,147,316	\$ 14,919,712
Federal grants	1,330,655	1,622,002
State grants	40,638	118,265
Foundation grants	538,650	396,965
Other grants	72,370	349,060
Sales and services revenue - Net of scholarship allowance of \$1,170,497 for 2012 and \$1,399,757 for 2011	5,163,702	4,813,800
Other income	506,303	536,194
Total operating revenue	24,799,634	22,755,998
<b>EXPENSES</b>		
Operating Expenses:		
Instruction	27,874,297	27,712,766
Public services	4,221,971	4,561,216
Instructional support	5,893,724	5,547,391
Student services	26,003,236	25,644,475
Institutional administration	5,892,080	6,113,023
Physical plant	7,479,130	8,270,379
Depreciation expense	4,097,355	3,975,931
Total operating expenses	81,461,793	81,825,181
Operating loss	(56,662,159)	(59,069,183)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	11,522,700	11,888,600
Property tax levy	22,167,750	22,442,266
Other taxes and interest	245,765	345,612
Federal grants	20,368,225	21,582,364
Investment income	185,255	223,231
Net loss from investments	(66,135)	(48,270)
Net loss from sale of assets	(23,245)	-
Gifts and contributions	44,688	45,388
Net nonoperating revenues	54,445,003	56,479,191
Loss before other revenue	(2,217,156)	(2,589,992)
<b>OTHER REVENUE</b>		
State Capital Appropriations	10,405	4,841,687
<b>(DECREASE) INCREASE IN NET ASSETS</b>		
	(2,206,751)	2,251,695
<b>NET ASSETS - Beginning of year</b>	125,098,940	122,847,245
<b>NET ASSETS - End of year</b>	<b>\$122,892,189</b>	<b>\$125,098,940</b>

## Kalamazoo Valley Community College Statement of Cash Flows

	Year Ended June 30	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 17,186,155	\$ 15,415,785
Grants and contracts	7,872,850	(5,865,055)
Payments to suppliers	(28,778,570)	(31,142,901)
Payments to employees	(46,796,910)	(47,381,240)
Sales and services revenue	5,163,702	4,813,800
Other	445,833	382,678
	(44,906,940)	(63,776,933)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal Grant	21,325,721	22,500,000
Local property taxes	22,289,560	22,511,466
Other taxes and interest	245,765	345,612
State appropriations	11,589,226	11,888,600
Gifts and contributions	44,688	45,387
	55,494,960	57,291,065
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and gifts	25,863	5,967,592
Loss on disposal of capital assets	(23,245)	-
Purchase of capital assets	(1,723,137)	(6,271,460)
	(1,720,519)	(303,868)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	41,209,770	40,499,079
Interest income	185,255	223,231
Purchase of investments	(48,598,720)	(34,274,197)
	(7,203,695)	6,448,113
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,663,806	(341,623)
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	7,217,318	7,558,941
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 8,881,124</b>	<b>\$ 7,217,318</b>

**Kalamazoo Valley Community College  
Statement of Cash Flows (Continued)**

	Year Ended June 30	
	2012	2011
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (56,662,159)	\$ (59,069,183)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense	1,561,722	1,343,000
Depreciation	4,097,355	3,975,931
(Increase) decrease in assets:		
Accounts receivable	4,409,730	(9,803,843)
Inventories	(16,057)	(220,990)
Prepaid assets and other current assets	(49,991)	(70,607)
Increase (decrease) in liabilities:		
Accounts payable	869,392	(148,630)
Accrued payroll and other compensation	991,338	(216,733)
Unearned tuition and fees	(108,270)	434,122
	<b>\$ (44,906,940)</b>	<b>\$ (63,776,933)</b>
Net cash used in operating activities	<b>\$ (44,906,940)</b>	<b>\$ (63,776,933)</b>

## Kalamazoo Valley Community College Discretely Presented Component Unit - Foundation

### BALANCE SHEET

	June 30	
	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 662,595	\$ 732,537
Marketable securities (Note 2)	10,588,213	10,720,999
Contributions receivable	42,793	21,562
Total assets	<b>\$ 11,293,601</b>	<b>\$ 11,475,098</b>
<b>Liabilities and Net Assets</b>		
Payable to Kalamazoo Valley Community College	\$ 55,577	\$ 102,587
Other payables	1,061	-
Total liabilities	56,638	102,587
<b>Net Assets</b>		
Unrestricted	4,618,129	4,797,510
Temporarily restricted	5,495,460	5,518,797
Permanently restricted	1,123,374	1,056,204
Total net assets	11,236,963	11,372,511
Total liabilities and net assets	<b>\$ 11,293,601</b>	<b>\$ 11,475,098</b>

### STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2012	2011
<b>Revenues</b>		
Contributions	\$ 367,555	\$ 580,283
Income from investments	306,145	194,853
Net (loss) gain from investments (Note 2)	(236,192)	1,970,013
Total revenues	437,508	2,745,149
<b>Expenses</b>		
Program expenditures:		
Grants to Kalamazoo Valley Community College	422,541	361,467
Grants to Kalamazoo Valley Museum	116,109	35,907
Fundraising and other	34,406	38,495
Total expenditures	573,056	435,869
Change in net assets	(135,548)	2,309,280
Net assets at beginning of year	11,372,511	9,063,231
Net assets at end of year	<b>\$ 11,236,963</b>	<b>\$ 11,372,511</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 1 - Basis for Presentation and Significant Accounting Policies**

**Reporting Entity** - Kalamazoo Valley Community 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. 39 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** - The College follows all applicable GASB pronouncements. In addition, the College applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

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.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

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

**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
Equipment	5 years
Library materials	5 years
Site improvements	10 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 \$1,336,500 and \$1,665,200 for the 2012 and 2011 summer semesters, and approximately \$498,500 and \$278,200 for the 2012 and 2011 fall semesters, respectively.

**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 non-exchange, such as tax revenue and state appropriations, is non-operating 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 Assets** - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the College's policy is to first apply restricted resources.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

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

**Invested in Capital Assets, Net of Related Debt** - Invested in capital assets, net of related debt 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 Assets** - Restricted net assets represent amounts over which third parties have imposed restrictions that cannot be changed by the board.

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

	2012	2011
Designated for future capital outlay and major maintenance	\$ 11,387,557	\$ 10,908,409
Designated for capital receivables	1,726,141	1,726,141
Designated for technology	3,065,736	1,952,807
Designated for program development	3,701,561	4,561,439
Designated for trustee scholarships	55,000	55,000
Designated per board policy	8,354,317	8,326,658
Designated for auxiliary activities	2,729,031	3,671,619
Designated for auxiliary activities - Kalamazoo Valley Museum	445,162	226,527
Designated for auxiliary activities - Kalamazoo Valley Museum - Per board policy	442,662	424,137
Designated for future capital outlay and major maintenance of Kalamazoo Valley Museum	10,503,648	10,007,404
Designated for KVCC Holding Company purposes	394,151	398,644
Unrestricted and unallocated	<u>4,663,530</u>	<u>4,990,786</u>
Total unrestricted net assets	<u>\$47,468,496</u>	<u>\$47,249,571</u>

**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, 2012 and 2011, 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 \$22,167,750 and \$22,442,266 for the years ended June 30, 2012 and 2011, respectively.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

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

**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.

As of June 30, 2012, the College had the following investments and maturities:

	Fair Market Value	Less Than One 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	<u>\$ 38,400,123</u>	<u>\$ 22,291,770</u>	<u>\$ 16,108,353</u>	<u>\$ -</u>

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

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

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

As of June 30, 2011, the College had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-3 Years	More Than 3 Years
Certificates of deposit	\$ 6,786,254	\$ 6,786,254	\$ -	\$ -
U.S. Agency securities*	24,291,054	17,024,382	7,266,672	-
Total investments	<u>\$ 31,077,308</u>	<u>\$ 23,810,636</u>	<u>\$ 7,266,672</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 2012, 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.

More than 5 percent of the College's investments at June 30, 2012 and 2011 were invested as follows:

<u>Issuer</u>	<u>2012</u>	<u>2011</u>
Federal Farm Credit Banks	20%	6%
Bank of America Certificates of Deposit	10%	0%
Huntington National Bank Certificates of Deposit	10%	0%
Federal National Mortgage Association	8%	6%
1 <sup>st</sup> Source Bank Certificates of Deposit	6%	0%
Comerica Certificates of Deposit	5%	7%
Fifth Third Bank Certificates of Deposit	5%	0%
Federal Home Loan Bank	2%	36%
Federal Home Loan Mortgage Association	0%	26%

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

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

**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, 2012, the College's deposit balances of \$29,073,987 had \$26,066,811 of bank deposits (money markets, certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. For June 30, 2011, the College's deposit balances of \$14,611,326 had \$12,111,326 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 Foundation at June 30, 2012 and 2011 are as follows:

Description	Cost	Market Value	Unrealized Appreciation (Depreciation)
Mutual funds - June 30, 2012	\$ 9,562,129	\$ 10,588,213	\$ 1,026,084
Mutual funds - June 30, 2011	\$ 9,458,726	\$ 10,720,999	\$ 1,262,273

Net gains/(losses) from security transactions for the years ended June 30, 2012 and 2011 include net unrealized gains/(losses) of (\$236,190) and \$1,953,185, respectively, and net realized gains/(losses) of (\$2) and \$16,828, respectively.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 3 - Accounts Receivable**

Accounts receivable held at the College consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Appropriations from the State of Michigan for operations	\$ 2,095,038	\$ 2,161,564
Property taxes receivable	1,645,318	1,588,339
Federal and state grants receivable	3,903,765	10,705,160
Student receivables	1,370,985	1,512,371
Capital appropriations from the State of Michigan	-	15,458
Capital project receivables	1,726,141	1,726,141
Other receivables	<u>443,541</u>	<u>429,708</u>
Total	11,184,788	18,138,741
Less allowances for doubtful accounts	<u>(2,135,791)</u>	<u>(1,957,002)</u>
Net accounts receivable	<u>\$ 9,048,997</u>	<u>\$16,181,739</u>

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 4 - Capital Assets**

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

2012	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	<u>\$77,447,756</u>			<u>\$75,073,538</u>

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 4 - Capital Assets (Continued)**

The following table presents the changes in the various fixed asset class categories for the years ended June 30, 2011 and 2010:

2011	June 30, 2010 Balance	Additions	Transfer/ Deletions	June 30, 2011 Balance
Nondepreciable capital assets:				
Land	\$5,310,545	\$ -	\$ -	\$5,310,545
Easements	-	5,115	-	5,115
Construction in progress	7,900,244	4,604,450	(12,445,993)	58,701
Depreciable capital assets:				
Site improvements	1,594,985	126,193	216,110	1,937,288
Buildings	94,545,795	-	10,916,703	105,462,498
Building improvements	1,768,177	107,671	-	1,875,848
Furniture and equipment	11,889,171	1,335,864	71,125	13,296,160
Museum assets	351,222	15,038	-	366,260
Library books	1,477,842	76,141	(100,180)	1,453,803
Museum exhibits	7,549,410	-	(546,477)	7,002,933
Museum collection	35,659	988	-	36,647
Capital lease equipment	102,926	-	-	102,926
Total capital assets	132,525,976	6,271,460	(1,888,712)	136,908,724
Less accumulated depreciation:				
Site improvements	(1,425,638)	(45,643)	-	(1,471,281)
Buildings	(38,042,751)	(2,385,262)	-	(40,428,013)
Building improvements	(899,709)	(175,240)	-	(1,074,949)
Furniture and equipment	(9,353,618)	(1,000,894)	-	(10,354,512)
Museum assets	(317,601)	(14,562)	-	(332,163)
Library books	(1,303,823)	(69,921)	100,180	(1,273,564)
Museum exhibits	(5,940,549)	(271,543)	1,788,532	(4,423,560)
Capital lease equipment	(90,060)	(12,866)	-	(102,926)
Total accumulated depreciation	(57,373,749)	(3,975,931)	1,888,712	(59,460,968)
Total capital assets, net	<u>\$75,152,227</u>			<u>\$77,447,756</u>

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**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. The accrued state appropriation receivable as of June 30, 2012 and 2011 was \$2,095,038 and \$2,161,564, respectively.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**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.

**Funding Policy** - Employer contributions to the MPSERS result from the effects of implementing the School Finance Reform Act. Under these procedures, the College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rates range from 10.66 percent to 12.16 percent for the period from July 1, 2011 through September 30, 2011 and from 14.73 percent to 15.96 percent for the period from October 1, 2011 through June 30, 2012, of the covered compensation to the plan. Basic plan members make no contributions, but member investment plan participants contribute at rates ranging from 3 percent to 6.4 percent of gross wages. The College's contributions to the MPSERS plan for the years ended June 30, 2012, 2011, and 2010 totaled approximately \$2,973,000, \$2,383,000, and \$2,047,000, respectively.

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees electing continuing coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. 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, 2011 through June 30, 2012. The College's contributions to the retiree health care benefits for the years ended June 30, 2012, 2011, and 2010 totaled approximately \$1,777,000, \$1,595,000, and \$1,364,000, respectively.

**Defined Contribution Plan**

Beginning January 1997, the College is 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).

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 6 - Retirement Plans (Continued)**

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, 2012, 2011, and 2010, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing approximately \$1,491,000, \$1,411,000, and \$1,339,000 to the retirement plans for 2012, 2011, and 2010, 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.

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:

	2012	2011
Estimated liability - Beginning of year	\$ 900,000	\$ 900,000
Estimated claims incurred, including changes in estimates	5,250,229	5,445,599
Less claim payments	(5,250,229)	(5,445,599)
Estimated liability - End of year	\$ 900,000	\$ 900,000

**Note 8 - Federal Direct Lending Program**

The College distributed \$29,937,359 and \$28,157,856 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2012 and 2011, respectively. These distributions and related funding source are not included as expenses or revenue in the accompanying financial statements.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**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, 2012 and 2011, the stated value of the net assets of the Holding Company totaled \$1,116,799 and \$1,121,293, 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. 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 November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement No. 34, modifies 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. Lastly, the statement also clarifies the reporting of equity interest in legally separate organizations. The College is currently evaluating the impact this standard will have on the financial statements when adopted during the College’s fiscal year ending June 30, 2013.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This pronouncement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The College is currently evaluating the impact this standard will have on the financial statements when adopted during the College’s fiscal year ending June 30, 2013.

Kalamazoo Valley Community College  
Notes to Financial Statements  
Years Ended June 30, 2012 and 2011

**Note 10 - Upcoming Pronouncements (Continued)**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement 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 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet of the College. The statement will be effective for the College's 2012-2013 fiscal year.

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.

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 \$41.8 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 Balance Sheet**  
**June 30, 2012**

	<u>Combined Total</u>	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Holding Company</u>	<u>ETC</u>
<b>ASSETS</b>									
Current Assets:									
Cash and cash equivalents	\$ 8,881,124	\$ 3,358,049	\$ -	\$ 2,083,499	\$ -	\$ 3,027,418	\$ 18,007	\$ 394,151	\$ -
Short-term investments	22,291,770	4,409,215	6,975,136	-	-	10,907,419	-	-	-
Accounts receivable	9,048,997	2,887,532	164,844	279,054	3,900,554	1,726,122	8,291	-	82,600
Inventories	1,293,070	50,660	-	1,182,273	-	-	-	-	60,137
Prepaid expenses and other assets	339,306	186,519	54,716	28,827	-	52,230	-	-	17,014
Due from (to) other funds	-	4,319,594	-	-	(801,844)	-	-	-	(3,517,750)
<b>Total Current Assets</b>	<b>41,854,267</b>	<b>15,211,569</b>	<b>7,194,696</b>	<b>3,573,653</b>	<b>3,098,710</b>	<b>15,713,189</b>	<b>26,298</b>	<b>394,151</b>	<b>(3,357,999)</b>
Long-term investments	16,108,353	8,054,176	-	-	-	8,054,177	-	-	-
Capital Assets:									
Land and improvements	7,419,064	-	-	-	-	6,696,416	-	722,648	-
Buildings and improvements	107,940,378	-	-	-	-	107,940,378	-	-	-
Construction in progress	39,659	-	-	-	-	39,659	-	-	-
Equipment	14,537,245	-	-	-	-	14,537,245	-	-	-
Library and educational materials	1,478,588	-	-	-	-	1,478,588	-	-	-
Exhibits	7,002,933	-	-	-	-	7,002,933	-	-	-
Collections	37,331	-	-	-	-	37,331	-	-	-
Accumulated depreciation	(63,381,660)	-	-	-	-	(63,381,660)	-	-	-
<b>Total Capital Assets</b>	<b>75,073,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74,350,890</b>	<b>-</b>	<b>722,648</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 133,036,158</b>	<b>\$ 23,265,745</b>	<b>\$ 7,194,696</b>	<b>\$ 3,573,653</b>	<b>\$ 3,098,710</b>	<b>\$ 98,118,256</b>	<b>\$ 26,298</b>	<b>\$ 1,116,799</b>	<b>\$ (3,357,999)</b>
<b>LIABILITIES AND NET ASSETS</b>									
Current Liabilities:									
Accounts payable	\$ 568,294	\$ 391,184	\$ 9,843	\$ (44,224)	\$ 39,301	\$ 150,020	\$ 2,643	\$ -	\$ 19,527
Accrued payroll, vacation, and other compensation	4,796,835	4,796,835	-	-	-	-	-	-	-
Other accrued liabilities	2,920,055	57,039	13,250	722	2,675,264	-	-	-	173,780
Deposits	23,655	-	-	-	-	-	23,655	-	-
Unearned revenue	1,835,130	1,451,534	349,306	300	33,990	-	-	-	-
<b>Total Current Liabilities</b>	<b>10,143,969</b>	<b>6,696,592</b>	<b>372,399</b>	<b>(43,202)</b>	<b>2,748,555</b>	<b>150,020</b>	<b>26,298</b>	<b>-</b>	<b>193,307</b>
Net Assets:									
Invested in capital assets, net of related debt	75,073,538	-	-	-	-	74,350,890	-	722,648	-
Restricted for expendable scholarships and grants	350,155	-	-	-	350,155	-	-	-	-
Unrestricted	47,468,496	16,569,153	6,822,297	3,616,855	-	23,617,346	-	394,151	(3,551,306)
<b>Total Net Assets</b>	<b>122,892,189</b>	<b>16,569,153</b>	<b>6,822,297</b>	<b>3,616,855</b>	<b>350,155</b>	<b>97,968,236</b>	<b>-</b>	<b>1,116,799</b>	<b>(3,551,306)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 133,036,158</b>	<b>\$ 23,265,745</b>	<b>\$ 7,194,696</b>	<b>\$ 3,573,653</b>	<b>\$ 3,098,710</b>	<b>\$ 98,118,256</b>	<b>\$ 26,298</b>	<b>\$ 1,116,799</b>	<b>\$ (3,357,999)</b>

**Kalamazoo Valley Community College**  
**Combining Statement of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2012**

	Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Holding Company	ETC
<b>REVENUE</b>									
Operating Revenue:									
Tuition and fees (net of scholarship allowance of \$5,124,933)	\$ 17,147,316	\$ (5,124,933)	\$ 21,713,652	\$ 558,597	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	1,330,655	-	-	-	-	1,330,655	-	-	-
State grants	40,638	-	26,000	-	-	14,638	-	-	-
Gifts and grants from Kalamazoo Valley Community College Foundation	538,650	-	-	-	-	538,650	-	-	-
Other grants	72,370	-	-	-	-	72,370	-	-	-
Sales and services revenue (net of scholarship allowance of \$1,170,497)	5,163,702	(1,208,411)	602,769	650	5,456,039	-	-	-	312,655
Other income	506,303	-	363,956	45,696	96,651	-	-	-	-
Current funds capital expenditures	-	(1,746,383)	-	-	-	-	1,746,383	-	-
<b>Total Operating Revenue</b>	<b>24,799,634</b>	<b>(8,079,727)</b>	<b>22,706,377</b>	<b>604,943</b>	<b>5,552,690</b>	<b>1,956,313</b>	<b>1,746,383</b>	<b>-</b>	<b>312,655</b>
<b>EXPENSES</b>									
Operating Expenses:									
Instruction	27,874,297	(538,023)	26,151,226	1,203,646	-	697,437	360,011	-	-
Public services	4,221,971	(197,875)	1,361,366	23,517	1,961,334	131,635	56,629	-	885,365
Instructional support	5,893,724	(19,233)	5,002,371	369,127	-	274,871	266,588	-	-
Student services	26,003,236	(6,311,778)	5,613,124	544,131	4,570,524	215,19810	67,425	-	-
Institutional administration	5,892,080	(106,351)	5,319,949	525,494	-	42,586	105,909	4,493	-
Physical plant	7,479,130	(906,467)	6,098,128	28,967	536,462	26,900	1,695,140	-	-
Depreciation expense	4,097,355	-	-	-	-	-	4,097,355	-	-
<b>Total Operating Expenses</b>	<b>81,461,793</b>	<b>(8,079,727)</b>	<b>49,546,164</b>	<b>2,694,882</b>	<b>7,068,320</b>	<b>22,693,239</b>	<b>6,649,057</b>	<b>4,493</b>	<b>885,365</b>
<b>Operating Loss</b>	<b>(56,662,159)</b>	<b>-</b>	<b>(26,839,787)</b>	<b>(2,089,939)</b>	<b>(1,515,630)</b>	<b>(20,736,926)</b>	<b>(4,902,674)</b>	<b>(4,493)</b>	<b>(572,710)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>									
State appropriations	11,522,700	-	11,522,700	-	-	-	-	-	-
Property tax levy	22,167,750	-	18,977,093	-	3,190,657	-	-	-	-
Other taxes and interest	245,765	-	210,424	-	35,334	-	7	-	-
Federal grants	20,368,225	-	-	-	-	20,368,225	-	-	-
Investment income	185,255	-	92,090	6,190	3,389	-	83,586	-	-
Net loss from investments	(66,135)	-	(66,135)	-	-	-	-	-	-
Net loss from sale of assets	(23,245)	-	-	-	-	-	(23,245)	-	-
Gifts and contributions	44,688	-	25,136	7,130	4,327	-	8,095	-	-
<b>Net Nonoperating Revenues</b>	<b>54,445,003</b>	<b>-</b>	<b>30,761,308</b>	<b>13,320</b>	<b>3,233,707</b>	<b>20,368,225</b>	<b>68,443</b>	<b>-</b>	<b>-</b>
<b>Income (Loss) Before Transfers</b>	<b>(2,217,156)</b>	<b>-</b>	<b>3,921,521</b>	<b>(2,076,619)</b>	<b>1,718,077</b>	<b>(368,701)</b>	<b>(4,834,231)</b>	<b>(4,493)</b>	<b>(572,710)</b>
<b>OTHER REVENUES</b>									
State Capital Appropriations	10,405	-	-	-	-	-	10,405	-	-
<b>Income (Loss) before transfers</b>	<b>(2,206,751)</b>	<b>-</b>	<b>3,921,521</b>	<b>(2,076,619)</b>	<b>1,718,077</b>	<b>(368,701)</b>	<b>(4,823,826)</b>	<b>(4,493)</b>	<b>(572,710)</b>
Transfers in (out)	-	-	(3,618,510)	2,329,670	(2,423,505)	317,243	3,425,000	-	(29,898)
<b>(DECREASE) INCREASE IN NET ASSETS</b>	<b>(2,206,751)</b>	<b>-</b>	<b>303,011</b>	<b>253,051</b>	<b>(705,428)</b>	<b>(514,58)</b>	<b>(1,398,826)</b>	<b>(4,493)</b>	<b>(602,608)</b>
<b>NET ASSETS - Beginning of year</b>	<b>125,098,940</b>	<b>-</b>	<b>16,266,142</b>	<b>6,569,246</b>	<b>4,322,283</b>	<b>401,613</b>	<b>99,367,062</b>	<b>1,121,292</b>	<b>(2,948,698)</b>
<b>NET ASSETS - End of year</b>	<b>\$ 122,892,189</b>	<b>\$ -</b>	<b>\$ 16,569,153</b>	<b>\$ 6,822,297</b>	<b>\$ 3,616,855</b>	<b>\$ 350,155</b>	<b>\$ 97,968,236</b>	<b>\$ 1,116,799</b>	<b>\$ (3,551,306)</b>