
Kellogg Community College Foundation

Financial Report
May 31, 2021

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Independent Auditor's Report

To the Board of Directors
Kellogg Community College Foundation

We have audited the accompanying financial statements of Kellogg Community College Foundation (the "Foundation"), which comprise the balance sheet as of May 31, 2021 and 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kellogg Community College Foundation as of May 31, 2021 and 2020 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

October 12, 2021

Kellogg Community College Foundation

Balance Sheet

May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 441,932	\$ 737,666
Investments (Note 4)	13,352,487	9,763,843
Contributions receivable (Note 5)	1,296,271	54,720
Total assets	<u><u>\$ 15,090,690</u></u>	<u><u>\$ 10,556,229</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable - To Kellogg Community College	\$ 145,891	\$ 70,821
Deferred revenue	43,150	-
Total liabilities	189,041	70,821
Net Assets		
Without donor restrictions	3,447,660	2,637,995
With donor restrictions	11,453,989	7,847,413
Total net assets	<u>14,901,649</u>	<u>10,485,408</u>
Total liabilities and net assets	<u><u>\$ 15,090,690</u></u>	<u><u>\$ 10,556,229</u></u>

Kellogg Community College Foundation

Statement of Activities and Changes in Net Assets

Years Ended May 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions and grants	\$ 71,127	\$ 1,526,181	\$ 1,597,308	\$ 38,921	\$ 500,436	\$ 539,357
Contributed services (Note 10)	335,625	-	335,625	419,125	-	419,125
Special event revenue	103,650	-	103,650	99,877	-	99,877
Net realized and unrealized gain on investments	767,499	2,269,752	3,037,251	50,175	128,977	179,152
Dividends and interest	63,533	187,603	251,136	73,010	207,701	280,711
Net assets released from restrictions for grants and scholarships	376,893	(376,893)	-	378,595	(378,595)	-
Total revenue, gains, and other support	1,718,327	3,606,643	5,324,970	1,059,703	458,519	1,518,222
Expenses						
Program services - Grants and scholarships	519,350	-	519,350	551,537	-	551,537
Support services:						
Management and general	165,302	-	165,302	229,684	-	229,684
Fundraising	224,077	-	224,077	256,594	-	256,594
Total expenses	908,729	-	908,729	1,037,815	-	1,037,815
Increase in Net Assets - Before donor transfers	809,598	3,606,643	4,416,241	21,888	458,519	480,407
Donor Transfers (Note 9)	67	(67)	-	(3,016)	3,016	-
Increase in Net Assets	809,665	3,606,576	4,416,241	18,872	461,535	480,407
Net Assets - Beginning of year	2,637,995	7,847,413	10,485,408	2,619,123	7,385,878	10,005,001
Net Assets - End of year	\$ 3,447,660	\$ 11,453,989	\$ 14,901,649	\$ 2,637,995	\$ 7,847,413	\$ 10,485,408

Kellogg Community College Foundation

Statement of Functional Expenses

Year Ended May 31, 2021

	Program Services			Support Services			Total
	Scholarships	Grants	Total Program Services	Management and General	Fundraising	Total Support Services	
Scholarships and grants	\$ 491,732	\$ 27,618	\$ 519,350	\$ -	\$ -	\$ -	\$ 519,350
Salaries and benefits	-	-	-	129,659	170,323	299,982	299,982
Supplies	-	-	-	-	53,754	53,754	53,754
Professional services	-	-	-	3,955	-	3,955	3,955
Travel	-	-	-	1,611	-	1,611	1,611
Office and administrative	-	-	-	12,558	-	12,558	12,558
Other	-	-	-	17,519	-	17,519	17,519
Total functional expenses	<u>\$ 491,732</u>	<u>\$ 27,618</u>	<u>\$ 519,350</u>	<u>\$ 165,302</u>	<u>\$ 224,077</u>	<u>\$ 389,379</u>	<u>\$ 908,729</u>

Kellogg Community College Foundation

Statement of Functional Expenses

Year Ended May 31, 2020

	Program Services			Support Services			Total
	Scholarships	Grants	Total Program Services	Management and General	Fundraising	Total Support Services	
Scholarships and grants	\$ 489,505	\$ 62,032	\$ 551,537	\$ -	\$ -	\$ -	\$ 551,537
Salaries and benefits	-	-	-	170,727	189,441	360,168	360,168
Supplies	-	-	-	-	67,153	67,153	67,153
Professional services	-	-	-	19,614	-	19,614	19,614
Travel	-	-	-	1,773	-	1,773	1,773
Office and administrative	-	-	-	18,542	-	18,542	18,542
Other	-	-	-	19,028	-	19,028	19,028
Total functional expenses	\$ 489,505	\$ 62,032	\$ 551,537	\$ 229,684	\$ 256,594	\$ 486,278	\$ 1,037,815

Kellogg Community College Foundation

Statement of Cash Flows

Years Ended May 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Net increase in net assets	\$ 4,416,241	\$ 480,407
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Realized and unrealized gain on investments	(3,037,251)	(179,152)
Contributions restricted for long-term investments	(1,372,081)	(335,642)
Changes in operating assets and liabilities that (used) provided cash:		
Contributions receivable	(1,241,551)	8,214
Accrued other liabilities	43,150	-
Payable to Kellogg Community College	75,070	3,489
Net cash used in operating activities	(1,116,422)	(22,684)
Cash Flows from Investing Activities		
Purchases of investments	(3,059,112)	(2,757,579)
Proceeds from sales and maturities of investments	2,507,719	2,764,345
Net cash (used in) provided by investing activities	(551,393)	6,766
Cash Flows Provided by Financing Activities - Proceeds from contributions restricted for long-term investments	1,372,081	335,642
Net (Decrease) Increase in Cash and Cash Equivalents	(295,734)	319,724
Cash and Cash Equivalents - Beginning of year	737,666	417,942
Cash and Cash Equivalents - End of year	<u>\$ 441,932</u>	<u>\$ 737,666</u>

May 31, 2021 and 2020

Note 1 - Nature of Business

Kellogg Community College Foundation (the "Foundation"), located in Battle Creek, Michigan, was formed in 1998 to solicit, collect, and invest donations made for the promotion of education activities at, and on behalf of, Kellogg Community College (the "College").

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. For external financial reporting purposes, the Foundation presents its financial statements by net asset classifications. The Foundation's significant accounting policies are described below.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

Contributions

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

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as contributions without donor restrictions.

Investments

Investments are carried at fair market value using quoted market prices. The realized gain or loss on the sale of investments is determined by specific identification of the securities sold.

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

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

May 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, it is exempt from income and excise taxes that apply to certain nonprofit organizations.

Special Event Revenue and Expense

The Foundation holds an annual golf outing in which all of the net earnings are without donor restrictions. All direct expenses related to the event are shown at gross costs within total expenses.

Deferred Revenue

Deferred revenue consists of registrations and sponsorships on the Foundation's annual golf outing, which occurs in the fall of 2021.

Scholarships and Grants

Scholarship awards are given to students meeting certain criteria established by the financial aid office of the College and by the board of directors. Grants are applied for and awarded for special projects that are initiated by the faculty of Kellogg Community College and are also based on certain criteria established by the board. The total amount to be awarded is determined by the board prior to each academic year.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between the various program and support services primarily on the basis of time and effort, where available, or based upon reasonable methods. Other expenses are allocated based on original intent at time of purchase. Such allocations are determined by management on a consistent basis. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 12, 2021, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncement

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-profit Entities (Topic 958): Presentation and Disclosures by Not-for-profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Foundation's year ending June 30, 2022 and will be applied using the retrospective method.

May 31, 2021 and 2020

Note 3 - Liquidity and Availability of Resources

The following reflects the Foundation's financial assets as of May 31, 2021 and 2020, reduced by amounts not available for general use because of contractual, board-designated, or donor-imposed restrictions within one year of the balance sheet date:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 441,932	\$ 737,666
Net assets without donor restrictions held in investments available for current use	<u>3,447,660</u>	<u>2,637,995</u>
Total	<u>\$ 3,889,592</u>	<u>\$ 3,375,661</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

The Foundation's endowment funds consist of donor-restricted endowments, and income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As described in Note 8, the endowment has a spending rate of 4 to 6 percent of its net assets without donor restrictions' average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned, plus the specified percentage directed by the donors for the net assets with restrictions. The expected distribution for the following year is approximately \$500,000, which is expected to be used to fund the Foundation's scholarships and grants.

The Foundation has a goal to maintain financial assets on hand to meet annual grant and scholarship disbursements, as well as general expenditures. The Foundation also realizes there could be unanticipated liquidity needs.

Note 4 - Investments

Investments consisted of the following at May 31:

	<u>2021</u>		<u>2020</u>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual funds	\$ 6,350,138	\$ 7,361,732	\$ 6,324,620	\$ 5,911,333
Exchange-traded funds	1,865,920	2,653,799	2,258,091	2,290,598
Stocks	<u>2,278,694</u>	<u>3,336,956</u>	<u>1,341,329</u>	<u>1,561,912</u>
Total investments	<u>\$ 10,494,752</u>	<u>\$ 13,352,487</u>	<u>\$ 9,924,040</u>	<u>\$ 9,763,843</u>

Note 5 - Contributions Receivable

Contributions receivable are composed of unconditional promises to give. Contributions receivable are recognized at the present value of the estimated future cash flows using a discount rate of 2.85 percent, which is based on the 10-year Treasury note rate as of the date the pledge was received. Contributions expected to be received within one year are not discounted.

Note 5 - Contributions Receivable (Continued)

Contributions receivable as of May 31 consist of the following unconditional promises to give:

	2021	2020
Gross promises to give before unamortized discount	\$ 1,300,000	\$ 60,000
Less allowance for net present value discount	(3,729)	(5,280)
Net contributions receivable	\$ 1,296,271	\$ 54,720
Amounts due in:		
Less than one year	\$ 1,260,000	\$ 10,000
One to five years	36,271	36,271
More than five years	-	8,449
Total	\$ 1,296,271	\$ 54,720

Note 6 - Fair Value Measurements

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

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

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

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at May 31, 2021 and 2020 and the valuation techniques used by the Foundation to determine those fair values.

	Assets Measured at Fair Value on a Recurring Basis at May 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at May 31, 2021
Investments:				
Mutual funds	\$ 7,361,732	\$ -	\$ -	\$ 7,361,732
Exchange-traded funds	2,653,799	-	-	2,653,799
Stocks	3,336,956	-	-	3,336,956
Total assets	\$ 13,352,487	\$ -	\$ -	\$ 13,352,487

Note 6 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at May 31, 2020			Balance at May 31, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Mutual funds	\$ 5,911,333	\$ -	\$ -	\$ 5,911,333
Exchange-traded funds	2,290,598	-	-	2,290,598
Stocks	1,561,912	-	-	1,561,912
Total assets	<u>\$ 9,763,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,763,843</u>

Note 7 - Net Assets

Net assets with donor restrictions as of May 31 are available for the following purposes:

	2021	2020
Subject to expenditures for a specified purpose:		
Specific programs and scholarships	\$ 1,586,300	\$ 1,177,061
Endowed programs and scholarships	6,726,326	5,324,063
Total subject to expenditures for a specified purpose	8,312,626	6,501,124
Subject to the Foundation's spending policy and appropriation -		
Restricted earnings on endowed programs and scholarships	3,141,363	1,346,289
Total	<u>\$ 11,453,989</u>	<u>\$ 7,847,413</u>

Net assets released from donor restrictions during the years ended May 31, 2021 and 2020 were primarily for scholarships, foundation expenses, and distributions to others.

Note 8 - Donor-restricted and Board-designated Endowments

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Interpretation of Relevant Law

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The long-term and short-term needs of the Foundation in carrying out its purpose
- The present and anticipated financial requirements of the Foundation
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

	With Donor Restrictions Endowment Net Asset Composition	
	2021	2020
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 6,726,326	\$ 5,324,063
Accumulated investment gains	3,141,363	1,346,289
Total	\$ 9,867,689	\$ 6,670,352

May 31, 2021 and 2020

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

	Changes in Endowment Net Assets With Donor Restrictions	
	2021	2020
Endowment net assets - Beginning of year	\$ 6,670,352	\$ 6,158,373
Investment return:		
Investment income	158,176	175,853
Net unrealized and realized appreciation	1,947,065	139,038
Total investment return	2,105,241	314,891
Contributions	1,372,081	335,642
Transfers	(228)	124,087
Appropriation of endowment assets for expenditure	(245,324)	(215,540)
Other changes	(34,433)	(47,101)
Endowment net assets - End of year	\$ 9,867,689	\$ 6,670,352

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in the donor-restricted endowment fund, which together have an original gift value of \$10,500 and \$123,435, a current fair value of \$9,954 and \$113,126, and a deficiency of \$546 and \$10,309 as of May 31, 2021 and 2020, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs, which was deemed prudent by the board of directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for investments that attempt to provide a predictable stream of funding to programs supported by its investments while seeking to maintain the purchasing power of the investment assets. Investment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the investment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual distribution policy of 4 to 6 percent of its net assets without donor restrictions' average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned and other distributions per the restrictions of its donors. In establishing this policy, the Foundation considered the long-term expected return of its portfolio.

Note 9 - Donor Transfers

During 2021, the Foundation received correspondence and clarifying documentation from donors releasing amounts recorded as net assets with donor restrictions in prior years or creating endowments from previous gifts. The amounts have been reclassified appropriately given the updated documentation received from the donor related to the time or purpose restriction or the lack thereof.

Note 10 - Contributed Services

The following is a description of transactions between the Foundation and Kellogg Community College:

For the years ended May 31, 2021 and 2020, the College provided services (primarily salaries) to the Foundation, which were included on the statement of activities and changes in net assets as contributed services revenue of \$335,625 and \$419,125, respectively. The corresponding management and general expenses were \$165,302 and \$229,684 for the years ended May 31, 2021 and 2020, respectively, and fundraising expenses were \$170,323 and \$189,441 for the years ended May 31, 2021 and 2020, respectively.