
Kellogg Community College Foundation

Financial Report
May 31, 2023

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Independent Auditor's Report

To the Board of Directors
Kellogg Community College Foundation

Opinion

We have audited the financial statements of Kellogg Community College Foundation (the "Foundation"), which comprise the balance sheet as of May 31, 2023 and 2022 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of May 31, 2023 and 2022 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Kellogg Community College Foundation

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

October 20, 2023

Kellogg Community College Foundation

Balance Sheet

May 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 903,997	\$ 355,767
Investments (Note 4)	13,058,855	13,401,667
Contributions receivable (Note 5)	839,330	956,219
Accounts receivable - From Kellogg Community College	65,449	245,528
	<u>14,867,631</u>	<u>14,959,181</u>
Total assets	<u>\$ 14,867,631</u>	<u>\$ 14,959,181</u>
Liabilities and Net Assets		
Liabilities		
Deferred revenue	\$ 37,350	\$ 12,300
Net Assets		
Without donor restrictions	2,974,194	3,161,251
With donor restrictions	11,856,087	11,785,630
	<u>14,830,281</u>	<u>14,946,881</u>
Total net assets	<u>14,830,281</u>	<u>14,946,881</u>
Total liabilities and net assets	<u>\$ 14,867,631</u>	<u>\$ 14,959,181</u>

Kellogg Community College Foundation

Statement of Activities and Changes in Net Assets

Years Ended May 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains (Losses), and Other Support						
Contributions of financial assets	\$ 25,559	\$ 653,537	\$ 679,096	\$ 146,066	\$ 1,573,851	\$ 1,719,917
Contributions of nonfinancial assets (Note 10)	299,290	-	299,290	343,230	-	343,230
Special event revenue	151,310	-	151,310	116,816	-	116,816
Net realized and unrealized losses on investments	(168,649)	(568,969)	(737,618)	(370,547)	(1,259,308)	(1,629,855)
Dividends and interest	119,306	413,844	533,150	134,234	429,988	564,222
Net assets released from restrictions for grants and scholarships	439,501	(439,501)	-	420,952	(420,952)	-
Total revenue, gains, and other support	866,317	58,911	925,228	790,751	323,579	1,114,330
Expenses						
Program services - Grants and scholarships	667,273	-	667,273	675,544	-	675,544
Support services:						
Management and general	158,516	-	158,516	176,839	-	176,839
Fundraising	216,039	-	216,039	216,715	-	216,715
Total expenses	1,041,828	-	1,041,828	1,069,098	-	1,069,098
(Decrease) Increase in Net Assets - Before donor transfers	(175,511)	58,911	(116,600)	(278,347)	323,579	45,232
Donor Transfers (Note 9)	(11,546)	11,546	-	(8,062)	8,062	-
(Decrease) Increase in Net Assets	(187,057)	70,457	(116,600)	(286,409)	331,641	45,232
Net Assets - Beginning of year	3,161,251	11,785,630	14,946,881	3,447,660	11,453,989	14,901,649
Net Assets - End of year	\$ 2,974,194	\$ 11,856,087	\$ 14,830,281	\$ 3,161,251	\$ 11,785,630	\$ 14,946,881

Statement of Functional Expenses

Year Ended May 31, 2023

	Program Services			Support Services			Total
	Scholarships	Grants	Total Program Services	Management and General	Fundraising	Total Support Services	
Scholarships and grants	\$ 474,052	\$ 193,221	\$ 667,273	\$ -	\$ -	\$ -	\$ 667,273
Salaries and benefits	-	-	-	123,219	140,774	263,993	263,993
Supplies	-	-	-	-	75,265	75,265	75,265
Professional services	-	-	-	10,734	-	10,734	10,734
Travel	-	-	-	217	-	217	217
Office and administrative	-	-	-	14,837	-	14,837	14,837
Other	-	-	-	9,509	-	9,509	9,509
Total functional expenses	\$ 474,052	\$ 193,221	\$ 667,273	\$ 158,516	\$ 216,039	\$ 374,555	\$ 1,041,828

Statement of Functional Expenses

Year Ended May 31, 2022

	Program Services			Support Services			Total
	Scholarships	Grants	Total Program Services	Management and General	Fundraising	Total Support Services	
Scholarships and grants	\$ 531,048	\$ 144,496	\$ 675,544	\$ -	\$ -	\$ -	\$ 675,544
Salaries and benefits	-	-	-	121,978	166,391	288,369	288,369
Supplies	-	-	-	-	50,324	50,324	50,324
Professional services	-	-	-	7,211	-	7,211	7,211
Travel	-	-	-	179	-	179	179
Office and administrative	-	-	-	18,118	-	18,118	18,118
Other	-	-	-	29,353	-	29,353	29,353
Total functional expenses	\$ 531,048	\$ 144,496	\$ 675,544	\$ 176,839	\$ 216,715	\$ 393,554	\$ 1,069,098

Kellogg Community College Foundation

Statement of Cash Flows

Years Ended May 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Net (decrease) increase in net assets	\$ (116,600)	\$ 45,232
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Realized and unrealized losses on investments	737,618	1,629,855
Contributions restricted for long-term investments	(465,588)	(1,101,962)
Changes in operating assets and liabilities that provided (used) cash:		
Contributions receivable	116,889	340,052
Deferred revenue	25,050	(30,850)
Receivable from Kellogg Community College	180,079	(391,419)
Net cash provided by operating activities	477,448	490,908
Cash Flows from Investing Activities		
Purchases of investments	(3,795,930)	(4,181,558)
Proceeds from sales and maturities of investments	3,401,124	2,502,523
Net cash used in investing activities	(394,806)	(1,679,035)
Cash Flows Provided by Financing Activities - Proceeds from contributions restricted for long-term investments	465,588	1,101,962
Net Increase (Decrease) in Cash and Cash Equivalents	548,230	(86,165)
Cash and Cash Equivalents - Beginning of year	355,767	441,932
Cash and Cash Equivalents - End of year	<u>\$ 903,997</u>	<u>\$ 355,767</u>

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 period in which the gift is received 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.

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 and the Bid a Brighter Future auction. 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 to and sponsorships for the Foundation's annual golf outing, which occurs in the fall.

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, staff, and retirees of Kellogg Community College and are also based on certain criteria established by the board of directors. The total amount to be awarded is determined by the board of directors 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 20, 2023, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The following reflects the Foundation's financial assets as of May 31, 2023 and 2022, 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 903,997	\$ 355,767
Net assets without donor restrictions held in investments available for current use	<u>2,974,194</u>	<u>3,161,251</u>
Total	<u>\$ 3,878,191</u>	<u>\$ 3,517,018</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>2023</u>		<u>2022</u>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual funds	\$ 8,082,386	\$ 7,430,927	\$ 8,341,027	\$ 8,050,160
Exchange-traded funds	2,226,831	2,752,203	1,927,411	2,480,424
Stocks	<u>2,492,643</u>	<u>2,875,725</u>	<u>2,416,115</u>	<u>2,871,083</u>
Total investments	<u>\$ 12,801,860</u>	<u>\$ 13,058,855</u>	<u>\$ 12,684,553</u>	<u>\$ 13,401,667</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.

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

	<u>2023</u>	<u>2022</u>
Gross promises to give before unamortized discount	\$ 967,222	\$ 958,367
Less allowance for net present value discount	<u>(127,892)</u>	<u>(2,148)</u>
Net contributions receivable	<u>\$ 839,330</u>	<u>\$ 956,219</u>
Amounts due in:		
Less than one year	\$ 112,379	\$ 931,637
One to five years	401,602	24,582
More than five years	<u>325,349</u>	<u>-</u>
Total	<u>\$ 839,330</u>	<u>\$ 956,219</u>

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.

May 31, 2023 and 2022

Note 6 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at May 31, 2023 and 2022 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, 2023			
	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, 2023
Investments:				
Mutual funds	\$ 7,430,927	\$ -	\$ -	\$ 7,430,927
Exchange-traded funds	2,752,203	-	-	2,752,203
Stocks	2,875,725	-	-	2,875,725
Total assets	<u>\$ 13,058,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,058,855</u>

	Assets Measured at Fair Value on a Recurring Basis at May 31, 2022			
	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, 2022
Investments:				
Mutual funds	\$ 8,050,160	\$ -	\$ -	\$ 8,050,160
Exchange-traded funds	2,480,424	-	-	2,480,424
Stocks	2,871,083	-	-	2,871,083
Total assets	<u>\$ 13,401,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,401,667</u>

Note 7 - Net Assets

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

	2023	2022
Subject to expenditures for a specified purpose:		
Specific programs and scholarships	\$ 1,520,944	\$ 1,514,883
Endowed programs and scholarships	8,279,926	7,788,162
Total subject to expenditures for a specified purpose	9,800,870	9,303,045
Subject to the Foundation's spending policy and appropriation -		
Restricted earnings on endowed programs and scholarships	2,055,217	2,482,585
Total	<u>\$ 11,856,087</u>	<u>\$ 11,785,630</u>

Net assets released from donor restrictions during the years ended May 31, 2023 and 2022 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 duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- 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

	Endowment Net Asset Composition - With Donor Restrictions	
	2023	2022
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 8,279,926	\$ 7,788,162
Accumulated investment gains	2,055,217	2,482,585
Total	\$ 10,335,143	\$ 10,270,747

May 31, 2023 and 2022

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

	Changes in Endowment Net Assets - With Donor Restrictions	
	2023	2022
Endowment net assets - Beginning of year	\$ 10,270,747	\$ 9,867,689
Investment return:		
Investment income	356,308	340,272
Net unrealized and realized depreciation	(455,814)	(968,119)
Total investment return	(99,506)	(627,847)
Contributions	465,588	1,101,962
Appropriation of endowment assets for expenditure	(282,232)	(233,438)
Other changes	(19,454)	162,381
Endowment net assets - End of year	\$ 10,335,143	\$ 10,270,747

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 \$1,496,382 and \$1,105,753, a current fair value of \$1,401,555 and \$1,064,284, and a deficiency of \$94,827 and \$41,469 as of May 31, 2023 and 2022, 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 2023 and 2022, 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 - Contributions of Nonfinancial Assets

For the years ended May 31, 2023 and 2022, the College provided services (primarily salaries) to the Foundation, which were included on the statement of activities and changes in net assets as contributions of nonfinancial assets of \$299,290 and \$343,230, respectively. The corresponding management and general expenses were \$158,516 and \$176,839 for the years ended May 31, 2023 and 2022, respectively, and fundraising expenses were \$140,774 and \$166,391 for the years ended May 31, 2023 and 2022, respectively. These personnel services are measured by the Foundation at the cost recognized by the College for the personnel providing those services.