



Kennebec Valley Community College Foundation

**Financial Report
June 30, 2017**

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Independent Auditors' Report

Board of Trustees
Kennebec Valley Community College Foundation
Fairfield, Maine

We have audited the accompanying financial statements of Kennebec Valley Community College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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.

Auditors' 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 of 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 Kennebec Valley Community College Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



South Portland, Maine
September 20, 2017



Statements of Financial Position

June 30,

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 188,524	\$ 195,035
Other assets	12,337	4,703
Total Current Assets	<u>200,861</u>	<u>199,738</u>
Long-Term Assets		
Long-term investments	<u>3,997,326</u>	3,901,088
Total Long-Term Assets	<u>3,997,326</u>	<u>3,901,088</u>
Total Assets	<u>\$ 4,198,187</u>	<u>\$ 4,100,826</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 14,237	\$ 62,236
Deferred event revenue	8,600	18,470
Total Current Liabilities	<u>22,837</u>	<u>80,706</u>
Net Assets		
Unrestricted	121,722	117,708
Temporarily restricted	1,407,078	1,298,103
Permanently restricted	2,646,550	2,604,309
Total Net Assets	<u>4,175,350</u>	<u>4,020,120</u>
Total Liabilities and Net Assets	<u>\$ 4,198,187</u>	<u>\$ 4,100,826</u>

Statement of Activities

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues and Support				
Contributions	\$ 21,206	\$ 34,164	\$ 42,241	\$ 97,611
Investment income	1,324	342,045		343,369
Interest income	70	34		104
Special events	52,148	50,235		102,383
	<u>74,748</u>	<u>426,478</u>	<u>42,241</u>	<u>543,467</u>
Assets released from restriction	317,503	(317,503)		
Total Revenues and Support	<u>392,251</u>	<u>108,975</u>	<u>42,241</u>	<u>543,467</u>
Expenses				
Program expenses				
Scholarships	202,537			202,537
Academic support grants	23,554			23,554
Grants to KVCC for capital purposes	3,726			3,726
	<u>229,817</u>			<u>229,817</u>
Contributed services	13,283			13,283
Fundraising & administrative	106,325			106,325
Special events	38,812			38,812
Total Expenses	<u>388,237</u>			<u>388,237</u>
Change in Net Assets	4,014	108,975	42,241	155,230
Net Assets - Beginning of Year	<u>117,708</u>	<u>1,298,103</u>	<u>2,604,309</u>	<u>4,020,120</u>
Net Assets - End of Year	<u>\$ 121,722</u>	<u>\$ 1,407,078</u>	<u>\$ 2,646,550</u>	<u>\$ 4,175,350</u>

Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues and Support				
Contributions	\$ 20,017	\$ 75,610	\$ 336,260	\$ 431,887
Investment income (loss)	(1,324)	69,105		67,781
Interest income	50	152		202
Special events	62,856	61,400		124,256
	<u>81,599</u>	<u>206,267</u>	<u>336,260</u>	<u>624,126</u>
Assets released from restriction	643,609	(643,609)		
Total Revenues and Support	<u>725,208</u>	<u>(437,342)</u>	<u>336,260</u>	<u>624,126</u>
Expenses				
Program expenses				
Scholarships	161,104			161,104
Academic support grants	34,555			34,555
Grants to KVCC for capital purposes	156,052			156,052
Grants to FMCC	200,000			200,000
	<u>551,711</u>			<u>551,711</u>
Contributed services	13,433			13,433
Fundraising & administrative	116,081			116,081
Special events	37,735			37,735
Total Expenses	<u>718,960</u>			<u>718,960</u>
Changes in Net Assets before changes in Donor Intent	6,248	(437,342)	336,260	(94,834)
Changes in Donor Intent		31,770	(31,770)	
Change in Net Assets	6,248	(405,572)	304,490	(94,834)
Net Assets - Beginning of Year	<u>111,460</u>	<u>1,703,675</u>	<u>2,299,819</u>	<u>4,114,954</u>
Net Assets - End of Year	<u>\$ 117,708</u>	<u>\$ 1,298,103</u>	<u>\$ 2,604,309</u>	<u>\$ 4,020,120</u>

Statements of Cash Flows

Years Ended June 30,

	2017	2016
Cash flows from operating activities:		
Change in total net assets	<u>\$ 155,230</u>	<u>\$ (94,834)</u>
Adjustments to reconcile change in total net assets to net cash flows from operating activities:		
(Gain) loss on investments	(254,529)	21,195
Permanently restricted contributions	(42,241)	(336,260)
(Increase) decrease in:		
Other assets	(7,634)	(4,703)
Increase (decrease) in:		
Accrued expenses	(47,999)	51,660
Deferred event revenue	(9,870)	18,470
Total adjustments	<u>(362,273)</u>	<u>(249,638)</u>
Net cash flows from operating activities	<u>(207,043)</u>	<u>(344,472)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	1,738,496	2,063,262
Purchase of investments	(1,580,205)	(1,982,051)
Net cash flows from investing activities	<u>158,291</u>	<u>81,211</u>
Cash flows from financing activities:		
Permanently restricted contributions and grants	42,241	336,260
Net cash flows from investing activities	<u>42,241</u>	<u>336,260</u>
Net change in cash	(6,511)	72,999
Cash and cash equivalents at beginning of year	<u>195,035</u>	<u>122,036</u>
Cash and cash equivalents at end of year	<u><u>\$ 188,524</u></u>	<u><u>\$ 195,035</u></u>

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kennebec Valley Community College Foundation (the Foundation) raises funds for scholarships, facilities, and the general betterment of the Kennebec Valley Community College (KVCC). To this end, the purposes of the Foundation are to promote and support all educational programs at KVCC; to promote academic excellence and to provide support for needy students through scholarships; to support projects of an educational nature that are needed to further training and to encourage the theory and practice of high ethical standards in business and industry; to promote respect for technical education and to that end merit a reputation for quality education; to promote support for a well-balanced liberal arts education and the transfer to four-year colleges and universities; and to encourage public support for a community-college education in Central Maine.

Basis of Accounting

The accounts of the Foundation are maintained under the accrual basis of accounting. The net assets of the Foundation are reported, as follows:

Unrestricted Net Assets

Unrestricted net assets represent unrestricted resources over which the Board of Directors retains full control to accomplish any of the Foundation's stated purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. Temporarily restricted net assets includes the unexpended income, including realized and unrealized gains and losses on investments, earned on certain classes of Endowment Funds which may only be utilized in accordance with the purpose established by the donors of the related Endowment Funds. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets represent Endowment Funds that are subject to the restrictions of the gift instruments requiring that the principal be invested in perpetuity and that income only be utilized, as stated in the gift instruments. The Board of Trustees has interpreted State of Maine law as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Management 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, 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. Accordingly, actual results could differ from those estimates.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments and Investment Income

Investments are carried at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade date basis. Interest income is recorded on the accrual basis. Investment income in the statements of activities includes dividends and interest, and gains and losses on investments bought and sold, as well as held during the year.

Investment income on temporarily or permanently restricted assets is recorded as temporarily restricted until such time as the amounts are spent in accordance with the donor's restrictions. Such amounts are reflected as net assets released from restrictions. This also applies to investment income whose restriction is met within the same year it is earned. In accordance with the *Uniform Prudent Management of Institutional Funds Act of the State of Maine*, appreciation on investments of permanently restricted funds is considered temporarily restricted until appropriated by the Foundation's Board unless otherwise indicated in the gift instrument. When the fair value of permanently restricted assets is less than the original corpus, the deficiency is used to reduce temporarily restricted assets to the extent of previously recorded appreciation, and then as a reduction of unrestricted net assets.

Investment Return Objectives and Risk Parameters

The investment objectives for the endowment and other assets are to provide income to support scholarships and programmatic needs of the Foundation and KVCC, and to achieve growth over time. The goal is to realize an average annualized total investment return that is equal to or greater than, the sum of the Consumer Price Index, plus investment expense, plus distributions over any rolling twelve-quarter period. The general policy is to diversify investments within both equity and fixed-income securities and/or funds to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

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

For support of College scholarships and programs, the Foundation will maintain an annual spending level of not more than seven percent (7%) of the rolling twelve-quarter average market value. The typical annual spending percentage will be within the range of three to six percent (3% - 6%) unless otherwise authorized by the Board.

The Foundation assesses each fund an administrative fee to cover the costs of general, administrative and fundraising costs. The fees were approximately \$86,000 and \$85,000 for the years ended June 30, 2017 and 2016, respectively.

Risks and Uncertainties

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 investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions

Contributions are recorded at their fair value on the date of the gift. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. This also applies to donor restricted contributions whose restrictions are met within the same year as they are received.

Tax Status

The Foundation has been determined to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has determined that the Foundation has no uncertain tax positions that require adjustment to the financial statements. The Foundation is currently open to examination under the statute of limitations by the Internal Revenue Service for three years after the filing of the return.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributed Services

The Foundation reimburses KVCC for 1.38 full time equivalent employees. Other KVCC employees carry out the Foundation's operations and a portion of this time is contributed to the Foundation by KVCC. The fair value of these services was approximately \$13,283 and \$13,433 for the years ended June 30, 2017 and 2016, respectively, and has been recognized as unrestricted contributions and expense in the statement of activities.

Recent Accounting Pronouncements

Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, to amend current reporting requirements to make several improvements including reducing complexities of information presented within Not-for-Profit financial statements. A main provision of this update is that a Not-for-Profit entity will report two classes of net assets (amounts for net assets with donor restrictions and net assets without donor restrictions), rather than the currently required three classes. The guidance is effective for annual periods beginning after December 15, 2017. This standard requires retroactive application to previously issued financial statements for 2018 and 2017, if presented. Management is currently evaluating the impact of adoption on its financial statements.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 2 – INVESTMENTS

Investments were comprised of the following as of June 30:

	2017	2016
Cash and cash equivalents	\$ 74,505	\$ 38,531
Mutual funds	64,715	541,678
Equity securities	2,700,470	2,504,334
Fixed income securities	1,157,636	816,545
	<u>\$ 3,997,326</u>	<u>\$ 3,901,088</u>

The Foundation's Board of Trustees has interpreted state law as not requiring that the purchasing power of permanent endowment funds be maintained. Accordingly, except for explicit donor stipulations specifying reinvestment of some or all of net appreciation, net appreciation on permanent endowment investments is available for appropriation and is reported as increases in temporarily restricted net assets.

Donor-restricted endowment net asset composition by type of fund as of June 30, 2017 is, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 430,545	\$ 2,646,550	\$ 3,077,095
Donor-restricted gifts		920,231		920,231
	<u>-</u>	<u>\$ 1,349,937</u>	<u>\$ 2,646,550</u>	<u>\$ 3,997,326</u>

Donor-restricted endowment net asset composition by type of fund as of June 30, 2016 is, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,324)	\$ 310,849	\$ 2,604,309	\$ 2,913,834
Donor-restricted gifts		987,254		987,254
	<u>\$ (1,324)</u>	<u>\$ 1,298,103</u>	<u>\$ 2,604,309</u>	<u>\$ 3,901,088</u>

Changes in endowment net assets for the year ended June 30, 2017 are, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ (1,324)	\$ 1,298,103	\$ 2,604,309	\$ 3,901,088
Investment return:				
Investment income		117,465		117,465
Net gain	1,324	224,580		225,904
Contributions		38,754	42,241	80,995
Transfer		(43,381)		(43,381)
Release of funds		(284,745)		(284,745)
End of year	<u>\$ -</u>	<u>\$ 1,349,937</u>	<u>\$ 2,646,550</u>	<u>\$ 3,997,326</u>

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 2 – INVESTMENTS – CONTINUED

Changes in endowment net assets for the year ended June 30, 2016 are, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year		\$ 1,703,675	\$ 2,299,819	\$ 4,003,494
Investment return:				
Investment income		118,022		118,022
Net loss	\$ (1,324)	(48,917)		(50,241)
Contributions		137,009	336,260	473,269
Change in donor intent		31,770	(31,770)	
Release of funds		(643,456)		(643,456)
End of year	<u>\$ (1,324)</u>	<u>\$ 1,298,103</u>	<u>\$ 2,604,309</u>	<u>\$ 3,901,088</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods, including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques. Level 3 valuations incorporate the entity's own assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs, are classified as Level 3.

For the fiscal years ended June 30, 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of fixed income and publicly traded equity securities is based on quoted market prices, when available, or market prices provided by recognized broker dealers. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 3 – FAIR VALUE MEASUREMENTS – CONTINUED

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 74,505	\$ 74,505		
Mutual funds	64,715	64,715		
Equity securities	2,700,470	2,700,470		
Fixed income securities	1,157,636		\$ 1,157,636	
	<u>\$ 3,997,326</u>	<u>\$ 2,839,690</u>	<u>\$ 1,157,636</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 38,531	\$ 38,531		
Mutual funds	541,678	541,678		
Equity securities	2,504,334	2,504,334		
Fixed income securities	816,545		\$ 816,545	
	<u>\$ 3,901,088</u>	<u>\$ 3,084,543</u>	<u>\$ 816,545</u>	<u>\$ -</u>

NOTE 4 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets are available for the following purposes as of June 30:

	2017	2016
Temporarily restricted:		
Endowment earnings – scholarships	\$ 430,545	\$ 310,849
KVCC fund for scholarships	684,925	660,307
Instructional department uses	373	373
Scholarship gifts	287,584	304,920
Grants and other	3,651	21,654
Total temporarily restricted	<u>\$ 1,407,078</u>	<u>\$ 1,298,103</u>
Permanently restricted:		
Scholarships and fellowships	<u>\$ 2,646,550</u>	<u>\$ 2,604,309</u>

NOTE 5 – GRANT TO FMCC

During the year ended 2016, the Foundation granted \$200,000 to The Foundation for Maine's Community Colleges. The purpose of the grant is the Early Childhood Education Family Laboratory and Nature Exploration Center.

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS

Management has made an evaluation of subsequent events through September 20, 2017, the date the financial statements were available to be issued and determined that any subsequent events that would require recognition or disclosure have been considered in the preparation of these financial statements.