

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION**

**FINANCIAL STATEMENTS & INDEPENDENT
ACCOUNTANT'S REVIEW REPORT**

JUNE 30, 2015



Mary K. Flegal, CPA • Daniel E. Melnik, CPA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Kalamazoo Regional Educational
Service Agency Foundation
Portage, MI

We have reviewed the accompanying statement of financial position of the Kalamazoo Regional Educational Service Agency Foundation (a nonprofit organization) as of June 30, 2015 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our reasonability is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read 'Flegal & Melnik', is written over a faint, larger version of the same signature.

Flegal & Melnik

November 9, 2015

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015 WITH COMPARATIVE
TOTALS FOR JUNE 30, 2014**

	<u>2015</u>			<u>2014</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
ASSETS					
Cash	\$ 121,382			121,382	11,487
Investments	52,267	127,497	648,064	827,828	824,751
Beneficial interest in assets held at community foundation	6,861			6,861	6,788
TOTAL ASSETS	<u>\$ 180,510</u>	<u>127,497</u>	<u>648,064</u>	<u>956,071</u>	<u>843,026</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Scholarships payable	\$ 41,002			41,002	34,685
Accounts payable	6,014			6,014	3,736
TOTAL LIABILITIES	<u>\$ 47,016</u>			<u>47,016</u>	<u>38,421</u>
NET ASSETS					
Unrestricted	\$ 133,494			133,494	112,946
Restricted - K/RESA		62,969	308,296	371,265	412,136
Restricted - Administrative Board designated - Administrative		8,299	6,000	8,299	8,549
Restricted - Wile Scholarship Board designated - Wile Scholarship		56,229	36,114	56,229	61,911
Restricted - Scholarship					6,066
Restricted - Endowed Named Scholarship			297,654	297,654	160,883
TOTAL NET ASSETS	<u>\$ 133,494</u>	<u>127,497</u>	<u>648,064</u>	<u>909,055</u>	<u>804,605</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 180,510</u>	<u>127,497</u>	<u>648,064</u>	<u>956,071</u>	<u>843,026</u>

See accompanying notes and independent accountant's review report

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Contributions	\$ 19,299	64,155	136,771	220,225	68,930
Investment income	2,880	4,514	15,760	23,154	22,118
Realized gain (loss) on sale of investments	2,352	3,781	11,574	17,707	77,277
Unrealized gain (loss) on investments	(4,056)	(6,719)	(17,806)	(28,581)	19,463
Change in beneficial interest in assets held by community foundations	74			74	718
Net assets released from restrictions	128,128	(118,600)	(9,528)		
TOTAL REVENUE	\$ 148,677	(52,869)	136,771	232,579	188,506
EXPENSES					
Program Expenses	\$ 102,742			102,742	78,655
Administrative Expenses	25,387			25,387	18,924
TOTAL EXPENSES	\$ 128,129			128,129	97,579
CHANGE IN NET ASSETS	\$ 20,548	(52,869)	136,771	104,450	90,927
NET ASSETS - BEGINNING	112,946	180,366	511,293	804,605	713,678
NET ASSETS - ENDING	\$ 133,494	127,497	648,064	909,055	804,605

See accompanying notes and independent accountant's review report

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015			2014
	Program Expenses	Administrative Expenses	Total	Total
EXPENSES				
Scholarships and awards	\$ 100,425		100,425	76,427
Matching grants	2,317		2,317	2,228
Professional fees		13,100	13,100	3,400
Contracted fees				4,894
Investment fees		9,201	9,201	8,236
Bank fees		382	382	315
Miscellaneous		2,704	2,704	2,079
TOTAL EXPENSES	<u>\$ 102,742</u>	<u>25,387</u>	<u>128,129</u>	<u>97,579</u>

See accompanying notes and independent accountant's review report

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 104,450	\$ 90,927
Adjustments to reconcile change in net assets to net cash from operating activities		
Investment income	(23,154)	(22,118)
Realized (gain) loss on sale of investments	(17,707)	(77,277)
Unrealized (gain) loss on investments	28,581	(19,463)
Change in benefical interest in assets held by community foundations	(74)	(718)
Investment fees	9,201	8,238
Proceeds from the sale of investments	354,199	606,220
Purchase of investments	(354,199)	(578,221)
 From changes in assets and liabilities:		
Increase (decrease) in:		
Scholarships payable	6,317	(1,484)
Accounts payable	2,281	1,002
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 109,895	\$ 7,106
 INCREASE (DECREASE) IN CASH	\$ 109,895	\$ 7,106
 CASH - BEGINNING OF YEAR	11,487	4,381
 CASH - END OF YEAR	\$ 121,382	\$ 11,487

See accompanying notes and independent accountant's review report

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The purpose of the Kalamazoo Regional Educational Service Agency Foundation is to manage, solicit, and disburse funds for the benefit of the Kalamazoo Regional Educational Service Agency and for special capital outlay expenditures in connection with educational and work training programs designed to develop job skills. The Organization changed its name from the Kalamazoo Valley Intermediate School District Foundation to the Kalamazoo Regional Educational Service Agency Foundation effective August 7, 1997 by amendment of the by-laws.

The financial statements of Kalamazoo Regional Educational Service Agency Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The unrestricted portion is under the discretionary control of the Board of Directors, and it is against this fund that all expenditures for current operations are charged.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations, or legal requirements, that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations, or legal requirements, that the funds must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year-ended June 30, 2014, from which the summarized information was derived.

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities and changes in net assets.

The cost of providing their program has been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among program and administrative categories.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization other than a private foundation under Section 509 (a)(2).

The Organization evaluates all significant tax positions under a more likely than not threshold as required by U.S. generally accepted accounting principles. As of June 30, 2015, the Organization does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease in the next twelve months. The Organization's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of June 30, 2015, the Organization's federal return generally remains open for the last three years.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Accountant's Review Report, which is the date the financial statements were available to be issued.

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NET ASSETS - TEMPORARILY RESTRICTED

K/RESA

Money was restricted by donors for program and services of the organization. The balance of this fund also includes the earnings from the permanently restricted monies, which are transferred each year to temporarily restricted for programs and services.

BOARD DESIGNATED - ADMINISTRATOR

During a previous fiscal year, the board allocated temporarily restricted monies for programs and services to a board designated administrative training scholarship fund. The amount of this transfer matched the restricted administrative training scholarship funding process for that year. The interest from these funds are to be used for administrative training scholarships.

BOARD DESIGNATED - WILE SCHOLARSHIP

During previous fiscal years, the board allocated temporarily restricted monies for programs and services to a board designated Wile scholarship fund. The amount of these transfers matched the restricted Wile scholarship funding for those years. The interest from these funds are to be used for academic scholarships.

NET ASSETS - PERMANENTLY RESTRICTED

RESTRICTED - K/RESA

The Organization changed its name from the Youth Opportunities Unlimited Foundation, to the Kalamazoo Valley Intermediate School District Foundation effective August 1991. Included in the new by-laws was a provision that no funds on hand as of the date of the by-laws, including future earnings there from, shall be used for any non - Youth Opportunities Unlimited activities. In March 1998 the by-laws were changed to allow these monies to be used at the Board's discretion for the benefit of Kalamazoo Regional Educational Service Agency programs and services.

RESTRICTED - ADMINISTRATIVE

The Organization has received funds which have been matched by the Kalamazoo Regional Educational Services Agency Board to provide endowment monies. The interest from these funds are to be used for training purposes.

RESTRICTED - WILE SCHOLARSHIP

The Organization has received monies to establish the Larry and Rose Wile Scholarship Fund. These funds are being matched by the Kalamazoo Regional Educational Service Agency Foundation's Board to provide endowment monies. The interest from these funds are to be used for academic scholarships.

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NET ASSETS - PERMANENTLY RESTRICTED (continued)

RESTRICTED - NAMED SCHOLARSHIP

The Organization has received monies restricted for endowment of scholarships. These funds can be donated by organizations or individuals. The current policy adopted by the board is that any donor can have a scholarship given in their name for each contribution of \$5,000 or more. These gifts will be invested as part of the principal of the General Scholarship Fund which is held in perpetuity. Annual interest earnings will be available each year to fund individual named scholarships. The amount of the scholarship can vary considerably according to market fluctuation. The Organization will notify each donor as to the value of their scholarship prior to the presentation. If the value falls short of the amount desired, the donor will be given an opportunity to make a contribution that would bridge the gap.

The following named scholarships were awarded in the current year:

Burdick - Thorne Foundation	\$ 1,250
Dr. Robert & Ruth VanderRoest	500
Eaton Corporation	250
Gary Rice Memorial	250
Gayle Werme Memorial	500
Gilmore Foundation in Memory of Werme	1,500
Home Builders Association	1,000
Irv & Alberta Cumming	500
Jack & Nanette Keiser	1,000
Kalamazoo Fabri-Kal Fabrication	250
K/RESA Board of Education	750
Larry & Rose Wile	4,000
Miller Davis	500
Misner Family Scholarship	500
Paul & Betts Wollam	580
Rex & Ken Forgotten Heros-Pride of Scotts	5,000
Robert C. Thompson	500
Telecitey Information Highway	250
Tom & Marsha Connor	500
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Total scholarships awarded	<u>\$ 19,580</u>

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

ENDOWMENT FUNDS

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gifts instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 180,366	511,293	691,659
Contributions	64,155	136,771	200,926
Investment income	4,514	15,760	20,274
Realized gain (loss) on investments	3,781	11,574	15,355
Unrealized gain (loss) on investments	(6,719)	(17,806)	(24,525)
Amounts appropriated for expenditure	<u>(118,600)</u>	<u>(9,528)</u>	<u>(128,128)</u>
Endowment net assets, end of year	<u>\$ 127,497</u>	<u>648,064</u>	<u>775,561</u>

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

BENEFICIAL INTEREST IN ASSETS HELD BY KALAMAZOO COMMUNITY FOUNDATION

The Organization established a fund at the Kalamazoo Community Foundation with its own funds and specified itself as the beneficiary of that fund. The transfer of such assets is recorded as a beneficial interest in funds held by the Kalamazoo Community Foundation. The Kalamazoo Community Foundation refers to such funds as agency fund endowments.

The Kalamazoo Community Foundation maintains variance power and legal ownership of agency fund endowments and as such continues to report the funds as assets of the community foundation. However, an asset has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be received by the Organization.

Contributions by third parties have also been made to this fund. These amounts are not shown as agency fund endowments. The total of the fund at June 30, 2015 was \$78,758.

FINANCIAL INSTRUMENTS

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains its cash balances in one financial institution located in Michigan. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2015, the Organization had no uninsured cash balances.

Fair Values of Financial Instruments

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.

In general, fair values determined by Level 1 inputs used quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. Level 3 inputs are unobservable inputs, including inputs that are available in situation where there is little, if any, market activity for related assets.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash - cost of investment approximates fair value due to the short maturities of those investments.

Fixed income, equities, real estate investments and alternative strategies - determined by reference to quoted market prices and other relevant information generated by market transactions.

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

FINANCIAL INSTRUMENTS - continued

	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and equivalents	\$ 186,039	186,039	186,039	
Fixed income	194,740	194,740	194,740	
Equities	488,554	488,554	488,554	
Real estate investments	45,563	45,563	45,563	
Alternative strategies	34,314	34,314	34,314	
Investment at foundations	6,861	6,861		6,861
Total	\$ 956,071	\$ 956,071	949,210	6,861

INVESTMENTS

Investments are reported on the basis of quoted market prices and consist primarily of fixed income, equities, real estate investments, alternative strategies and investments at foundations. Investment values are as follows on June 30, 2015:

	Cost Basis	Fair Value	Net Unrealized Appreciation (Depreciation)
Cash equivalents	\$ 64,657	64,657	
Fixed income	193,638	194,740	1,102
Equities	427,548	488,554	61,006
Real estate investments	36,436	45,563	9,127
Alternative strategies	34,625	34,314	(311)
Total Investments	\$ 756,904	827,828	70,924
 Investment at foundations	 \$ 6,861	 6,861	

**KALAMAZOO REGIONAL EDUCATIONAL
SERVICE AGENCY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

INVESTMENTS - continued

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 2,880	4,514	15,760	23,154
Realized gain (loss) on sale of investments	2,352	3,781	11,574	17,707
Unrealized gain (loss) on investments	(4,056)	(6,719)	(17,806)	(28,581)
Change in beneficial interest in assets held by community foundations	74			74
	<u>\$ 1,250</u>	<u>1,576</u>	<u>9,528</u>	<u>12,354</u>

INVESTMENT EXPENSES

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amount to \$9,201 and have been included in the accompanying statement of activities and changes in net assets.