



Kalamazoo Community Foundation

Combined Financial Statements and
Supplementary Information
Years Ended December 31, 2017 and 2016

Kalamazoo Community Foundation

Combined Financial Statements and Supplementary Information
Years Ended December 31, 2017 and 2016

Kalamazoo Community Foundation

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Independent Auditor's Report

Kalamazoo Community Foundation
Kalamazoo, Michigan

We have audited the accompanying combined financial statements of Kalamazoo Community Foundation (the Foundation), which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Foundation as of December 31, 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.

BDO USA, LLP

Kalamazoo, Michigan

June 11, 2018

Combined Financial Statements

Kalamazoo Community Foundation
Combined Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,188,332	\$ 688,282
Investments	502,239,135	423,953,383
Program related investments, net	3,247,962	5,973,671
Contributions and pledges receivable	2,476,988	24,447,155
Prepaid scholarships	566,936	505,653
Accrued investment income	681,589	929,470
Beneficial interest in charitable perpetual trusts	11,551,497	10,392,113
Other assets	962,544	926,775
Total Current Assets	524,914,983	467,816,502
Property and Equipment:		
Building and improvements	3,905,102	3,905,102
Software	626,818	626,818
Leasehold improvements	185,475	185,475
Equipment	620,693	589,240
	5,338,088	5,306,635
Less accumulated depreciation	1,430,701	1,138,492
Net Property and Equipment	3,907,387	4,168,143
Total Assets	\$ 528,822,370	\$ 471,984,645
Liabilities and Net Assets		
Liabilities:		
Funds held as agency endowments	\$ 28,119,821	\$ 25,707,631
Annuities payable	3,890,780	4,048,144
Loan payable	320,000	380,000
Other	267,328	237,752
Total Liabilities	32,597,929	30,373,527
Net Assets:		
Unrestricted	48,969,776	44,571,623
Temporarily restricted	218,709,423	175,333,423
Permanently restricted	228,545,242	221,706,072
Total Net Assets	496,224,441	441,611,118
Total Liabilities and Net Assets	\$ 528,822,370	\$ 471,984,645

See accompanying notes to combined financial statements.

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Kalamazoo Community Foundation

Combined Statements of Activities and Changes in Net Assets

		<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Year ended December 31, 2017</i>		<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Year ended December 31, 2016</i>
	<i>Unrestricted</i>				<i>Unrestricted</i>			
Support, Revenue, and Gains:								
Public support -								
Gifts and bequests	\$ 3,021,722	\$ 1,116,948	\$ 5,130,491	\$ 9,269,161	\$ 3,220,311	\$ 293,392	\$ 20,175,563	\$ 23,689,266
Less gifts and bequests received for agency endowments	-	-	162,418	162,418	6,500	108,338	118,454	233,292
Total gifts and bequests	3,021,722	1,116,948	4,968,073	9,106,743	3,213,811	185,054	20,057,109	23,455,974
Dividends and interest	1,129,525	8,190,302	-	9,319,827	1,196,976	7,551,137	-	8,748,113
Less dividends and interest received for agency endowments	121,657	393,614	-	515,271	143,359	380,711	-	524,070
Total dividends and interest	1,007,868	7,796,688	-	8,804,556	1,053,617	7,170,426	-	8,224,043
Net gain from investment transactions	7,085,208	52,433,915	-	59,519,123	3,625,401	31,202,369	-	34,827,770
Less net gain from investment transactions for agency endowments	557,750	2,454,185	-	3,011,935	314,466	1,668,374	-	1,982,840
Total net gain from investment transactions	6,527,458	49,979,730	-	56,507,188	3,310,935	29,533,995	-	32,844,930
Other income (loss):								
Change in value of perpetual trusts	-	-	1,159,384	1,159,384	-	-	106,733	106,733
Other loss	(419,076)	-	-	(419,076)	(325,176)	-	-	(325,176)
Plus income from agency endowments	136,464	-	-	136,464	135,698	-	-	135,698
Total other income (loss)	(282,612)	-	1,159,384	876,772	(189,478)	-	106,733	(82,745)
Total Support, Revenue, and Gains	10,274,436	58,893,366	6,127,457	75,295,259	7,388,885	36,889,475	20,163,842	64,442,202

See accompanying notes to combined financial statements.

Kalamazoo Community Foundation

Combined Statements of Activities and Changes in Net Assets

				<i>Total Year ended December 31, 2017</i>				<i>Total Year ended December 31, 2016</i>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>		<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	
Expenditures:								
Grants paid	\$ 5,767,642	\$ 10,622,797	\$ -	\$ 16,390,439	\$ 6,959,091	\$ 8,367,816	\$ -	\$ 15,326,907
Less grants paid for agency endowments	557,458	555,393	-	1,112,851	880,424	226,793	-	1,107,217
Total grants paid	5,210,184	10,067,404	-	15,277,588	6,078,667	8,141,023	-	14,219,690
Investment management fees	99,183	595,810	-	694,993	86,204	448,558	-	534,762
Less investment management fees for agency endowments	11,034	17,085	-	28,119	10,234	14,970	-	25,204
Total investment management fees	88,149	578,725	-	666,874	75,970	433,588	-	509,558
Other expenses:								
Program services	1,571,065	-	-	1,571,065	2,096,755	-	-	2,096,755
Donor relations and development	1,311,189	-	-	1,311,189	1,216,138	-	-	1,216,138
Administrative and general expenses	1,696,899	158,321	-	1,855,220	1,681,300	154,019	-	1,835,319
Total other expenses	4,579,153	158,321	-	4,737,474	4,994,193	154,019	-	5,148,212
Total Expenditures	9,877,486	10,804,450	-	20,681,936	11,148,830	8,728,630	-	19,877,460
Increase (Decrease) in Net Assets	396,950	48,088,916	6,127,457	54,613,323	(3,759,945)	28,160,845	20,163,842	44,564,742
Net Assets, beginning of year	44,571,623	175,333,423	221,706,072	441,611,118	44,122,530	151,553,815	201,370,031	397,046,376
Net Assets Released from Restrictions	4,001,203	(4,712,916)	711,713	-	4,209,038	(4,381,237)	172,199	-
Net Assets, end of year	\$ 48,969,776	\$ 218,709,423	\$ 228,545,242	\$ 496,224,441	\$ 44,571,623	\$ 175,333,423	\$ 221,706,072	\$ 441,611,118

See accompanying notes to combined financial statements.

Kalamazoo Community Foundation

Combined Statements of Cash Flows

<i>Year ended December 31,</i>	2017	2016
Operating Activities:		
Increase in net assets	\$ 54,613,323	\$ 44,564,742
Adjustments to reconcile increase in net assets to cash provided by (used in) operating activities:		
Depreciation	294,088	281,927
Net gain on investment transactions	(59,519,123)	(34,827,770)
Change in value of collective fund	(2,477,535)	(2,431,853)
Change in value of perpetual trusts	(1,159,384)	(106,733)
Noncash contributions	(1,119,242)	(1,552,736)
Program related investments reserve adjustment	(570,757)	(380,000)
Changes in operating assets and liabilities:		
Contributions and pledges receivable	21,970,167	(17,735,831)
Accrued investment income	247,881	(59,612)
Prepaid scholarships	(61,283)	25,386
Other current assets	(35,769)	28,299
Funds held as agency endowments	2,412,190	1,472,085
Annuities payable	(157,364)	(303,856)
Other liabilities	29,576	13,415
Cash Provided by (Used in) Operating Activities	14,466,768	(11,012,537)
Investing Activities:		
Purchase of investments	(228,148,589)	(175,365,099)
Proceeds from sale and maturity of investments	217,014,224	184,578,687
Proceeds (expenses) from program related investments	(1,340,813)	1,270,806
Purchase of property and equipment	(33,332)	(96,040)
Distributions from limited partnerships	601,792	35,834
Cash Provided by (Used in) Investing Activities	(11,906,718)	10,424,188
Cash Used in Financing Activities -		
Payments on loan payable	(60,000)	(70,507)
Increase (Decrease) in Cash and Cash Equivalents	2,500,050	(658,856)
Cash and Cash Equivalents, beginning of year	688,282	1,347,138
Cash and Cash Equivalents, end of year	\$ 3,188,332	\$ 688,282

See accompanying notes to combined financial statements.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

1. Nature of Business and Summary of Accounting Policies

Kalamazoo Community Foundation (the Foundation) is a public charity founded in 1925, created to make life better for all through leadership and stewardship of resources that last forever. The Foundation administers charitable gifts, including permanent endowments, from which grants are made to non-profit organizations for community betterment. The Foundation's activities are conducted by the board of trustees, the chief executive officer, and supporting staff.

A nonprofit corporation, Kalamazoo Community Foundation Real Estate Holdings, Inc., has been established as a supporting organization to the Foundation. Its purpose is primarily to accept gifts of real estate and other personal property.

The accompanying combined financial statements include the accounts of the Foundation and Kalamazoo Community Foundation Real Estate Holdings, Inc., which are under common control. Intercompany transactions and balances have been eliminated in combination.

The Foundation has 1,009 component funds that have been combined for presentation purposes. The component funds are of various types reflecting the distribution restrictions of the donors who have established or contributed to them:

Discretionary Funds - These funds have no suggested distribution restrictions. The board allocates these funds in making distributions for charitable purposes to meet community needs.

Field-of-Interest Funds - These funds establish support in a particular area of interest.

Advised Funds - These funds provide the donor or others with the ability to make suggestions as to recipients of grants. Such suggestions are not binding on the Foundation.

Agency Endowments and Designated Funds - These funds provide support to specific nonprofit organizations or programs based on the donors' wishes and subject to the Foundation board's discretion and approval.

Gift Annuity Funds - The Foundation operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the Foundation under an annuity contract.

Operating Funds - These funds are used to support the operational expenses of the Foundation.

Supporting Organization Funds - These funds will be transferred to the Foundation upon sale of the gifted asset. A supporting organization is organized and operated exclusively for the benefit of a public charity such as the Foundation. It provides all of the benefits of a public charity and most of the benefits of a private foundation.

Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred in accordance with accounting principles generally accepted in the United States of America. For financial statement purposes, the Foundation distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

Net Asset Classification

The board of trustees, on the advice of legal counsel, has determined that the majority of the Foundation's net assets meet the definition of endowment funds under Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation is governed subject to the Articles of Incorporation and by-laws and most contributions are received subject to the terms of the governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation.

Under the terms of the governing documents, the board of trustees has the ability to distribute the amount of income from any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. It also has the ability to modify any restriction or condition on the distribution of funds for any specified charitable purpose or purposes or to a specified charitable organization or organizations if, in the sole judgment of the board (without the necessity of the approval of any participating trustee, custodian or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

The Foundation classifies as permanently restricted net assets (a) the original gift value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Temporarily restricted net assets consist of donor restricted endowment funds that are not classified as permanently restricted net assets.

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return strategy to receive the maximum long-term, risk adjusted cumulative return through diversification of asset classes. The current long-term return objective is to return 7% net of investment fees. Actual returns in any given year may vary from this amount.

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 an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The overall spending policy goal is to spend 4.5% over rolling 20 year time frames. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

Spending for each calendar year is calculated based upon the prior year's spending factored up or down by the one-year Bureau of Labor Statistics CPI-U Spending as of the previous March 31st. The spending will never be less than 4% or greater than 5% of the 20 quarter rolling average (QRA) market value. In situations when the ensuing year's spending is calculated to be less than prior year's spending, the Board of Trustees could consider modifications to the spending rate calculations.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Foundation and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and appreciation of investments.
- 6) Other resources of the Foundation.
- 7) The investment policies of the Foundation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit with banks, and other highly liquid investments with an original maturity of three months or less. At December 31, 2017, \$606,000 of the Foundation's cash on hand or cash on deposit was FDIC insured, \$4,008,000 was uninsured. At December 31, 2016, \$253,000 of the Foundation's cash on hand or cash on deposit was FDIC insured, \$2,033,000 was uninsured. The uninsured amounts were primarily deposits in transit.

Investments

Investments in securities are stated at quoted market values if available, and if not available, other fair value inputs (see Note 2). Realized gains and losses on sales of investments are determined using the specific identification cost method.

Program Related Investments

Program related investments are loans to other nonprofit organizations at below-market interest rates or that are interest free. The loans are used to fund specific projects. The loans are to be repaid at various dates through 2030. The loans are recorded equal to the amount borrowed, less a reserve for program related investments.

Contributions and Pledges Receivable

Contributions and pledges receivable consist of unconditional promises to give and are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

Prepaid Scholarships

Prepaid scholarships consist of payments of students' enrollment in a future year.

Beneficial Interest in Charitable Perpetual Trusts

The Foundation is the income beneficiary under several charitable perpetual trusts, the corpus of which is not controlled by the Foundation. The Foundation has an irrevocable right to the net income of the trusts. The Foundation's interest in these trusts is recorded at fair value and is classified as permanently restricted net assets. Distributions received from these trusts are recorded as unrestricted income and the change in fair value is recorded as permanently restricted net income in the Combined Statements of Activities and Change in Net Assets.

Property and Equipment

Property and equipment consists of buildings and improvements, furniture, fixtures, equipment, leasehold improvements, capitalized software, and real estate and are recorded at cost at the date of acquisition or fair value at the date of donation and depreciated over their estimated useful lives on the straight-line method. Useful lives range from three to 40 years. Leasehold improvements are depreciated over the life of the improvement or the term of the lease, whichever is shorter.

Funds Held as Agency Endowments

In accordance with generally accepted accounting principles (GAAP), if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as an agency transaction. The Foundation refers to such funds as agency funds.

The Foundation maintains legal ownership of agency funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with GAAP a liability has been established for the fair value of the funds.

Annuities Payable

Charitable gift annuities represent gifts which are given to the Foundation with the condition that a specified payment be made to an income beneficiary over his or her life. A liability is established based on the present value of the payments to be made. This liability is recalculated annually, based on changes in the life expectancy assumptions and payments made. Changes in the liability are recorded as an increase or decrease to current year's revenue.

Contributed Services

During the years ended December 31, 2017 and 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation in various capacities.

Grants

Unconditional grants are recognized as expenses at their fair market value in the period when approved. Grants subject to conditions are recorded when the conditions are substantially met.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Federal Income Taxes

The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986. It has been classified as an organization which is not a private foundation as defined in Sections 509(a)(1) and 170(b)(A)(vi) of the IRC. Kalamazoo Community Foundation Real Estate Holdings Inc. is exempt from federal income tax under the same provisions.

The Foundation applies a more-likely-than-not recognition threshold for all tax uncertainties. Tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities are recognized.

Based on its evaluation, the Foundation has concluded there are no significant uncertain tax positions requiring recognition in its financial statements.

Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.

The price of the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are: (i) independent; (ii) knowledgeable; (iii) able to transact; and (iv) willing to transact.

In determining fair value, the Foundation uses various valuation approaches. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset based on market data obtained from sources independent of the organization. Unobservable inputs are inputs that would reflect an organization's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available in the circumstances.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The Foundation uses prices and inputs that are current as of the measurement date, obtained through multiple third-party custodians from independent pricing services.

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below:

- The fair value of corporate fixed income securities is estimated using recently executed transactions, market price quotations (where observable) or bond spreads. If the spread data does not reference the issuer, then data that references a comparable issuer is used. Corporate bonds are generally categorized in *Level 2* of the fair value hierarchy.
- U.S. Government agency securities are valued daily based on available market data and, accordingly, are categorized in *Level 2* of the fair value hierarchy.
- U.S. Government securities are valued using quoted market prices and, accordingly, are categorized in *Level 1* of the fair value hierarchy.
- Asset backed securities including residential mortgage backed securities, commercial mortgage backed securities, and other securitized assets are valued through a variety of methods, including actively traded markets, market data, and observations. Evaluations utilize evaluated pricing applications that vary by asset class and incorporate available market information and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. In addition, they use model processes, such as the Option Adjusted Spread model, to develop prepayment and interest rate scenarios for securities that have prepayment features. Correspondingly, these securities are generally categorized in *Level 2* of the fair value hierarchy.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

- Mutual funds are open-ended SEC registered investment funds with daily net asset values and collective funds. The mutual funds allow investors to sell their interests to the fund at the published daily Net Asset Value (NAV), with no restrictions on redemptions. These mutual funds are categorized in *Level 1* of the fair value hierarchy. The collective funds are not actively traded. The valuation is provided by the fund manager and is based on the value of the underlying assets which are all publicly traded stocks. The collective fund is categorized in *Level 2* of the fair value hierarchy.
- Non-U.S. Government securities are valued daily based on available market data and, accordingly, are categorized in *Level 2* of the fair value hierarchy.
- The fair value of domestic publicly traded and international developed market securities are valued using quoted prices in active markets when available. Such actively traded securities are categorized in *Level 1* of the fair value hierarchy.
- Exchange traded funds are open-ended SEC registered investment funds. The funds allow investors to sell their interests to the fund using quoted prices in active markets. These funds are categorized in *Level 1* and *Level 2* of the fair value hierarchy.
- Limited partnerships are partnerships created and administered by a general partner. The partnership documents outline the terms and conditions by which the general partner administers the partnership and its investments. Each limited partner owns a specified share of the partnership. These partnerships cannot be marketed to the public and are restricted, by regulation, to qualified investors. The valuation of the partnership interest is performed quarterly by the general partner through unaudited statements and validated annually through audited statements. As such, these partnerships are categorized in *Level 3* of the fair value hierarchy.
- Real estate investment trust invests in real estate properties located throughout the United States. All real estate investments are based on quarterly external valuations by independent real estate appraisers. This investment is categorized in *Level 3* of the fair value hierarchy.
- Beneficial interest in perpetual trusts is the value of trusts for which the Foundation is the perpetual beneficiary. The trusts are invested in open-ended SEC registered investment funds with daily net asset values. The mutual funds allow investors to sell their interest to the fund at the daily Net Asset Value, with no restrictions on redemptions. These are categorized in *Level 1* of the fair value hierarchy. The trusts are also invested in U.S. Government and agency, U.S. corporate and asset backed securities. As described above, these assets are categorized in *Level 2*.

Subsequent Event Reporting

The Foundation's management has evaluated the period from January 1, 2018 through June 11, 2018, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material recognizable subsequent events were identified.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

2. Investments

Investments are at fair value and consist of the following at December 31, 2017 and 2016:

<i>December 31,</i>	2017	2016
Mutual funds	\$ 354,559,595	\$ 315,031,580
Exchange traded funds	57,597,756	16,067,777
U.S. Government obligations	24,470,493	32,697,041
Corporate stock	19,023,234	18,342,171
Corporate obligations	18,950,567	21,259,356
Money market funds	13,742,157	5,919,023
Other	12,312,113	11,998,445
Asset backed securities	1,583,220	2,637,990
	\$ 502,239,135	\$ 423,953,383

Net gain or loss from investment transactions includes unrealized appreciation of \$37,425,000 and \$16,365,000 in 2017 and 2016, respectively. Sales of investments resulted in net realized gains of \$19,082,000 and \$16,480,000 in 2017 and 2016, respectively.

3. Fair Value Measurements

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1.

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Kalamazoo Community Foundation

Notes to Combined Financial Statements

The aggregate carrying value of investments, exclusive of cash equivalents, at December 31, 2017 and 2016, is summarized as follows:

Investments Held at December 31, 2017

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money Market	\$ 13,742,157	\$ -	\$ -	\$ 13,742,157
Fixed Income:				
Corporate securities	-	18,950,567	-	18,950,567
U.S. Government and agency securities	23,023,489	1,447,004	-	24,470,493
Asset backed securities	-	1,583,220	-	1,583,220
Mutual funds	27,748,176	-	-	27,748,176
Exchange traded funds	41,715,955	-	-	41,715,955
Domestic Equities:				
Publicly traded	19,023,234	-	-	19,023,234
Mutual funds	106,605,175	127,787,867	-	234,393,042
Exchange traded funds	15,881,801	-	-	15,881,801
International Equities -				
Mutual funds	92,418,377	-	-	92,418,377
Other:				
Limited partnerships	-	-	809,376	809,376
Real estate investment trust	-	-	11,502,737	11,502,737
	340,158,364	149,768,658	12,312,113	502,239,135
Beneficial Interest in Charitable Perpetual Trusts	11,550,727	770	-	11,551,497
Total	\$ 351,709,091	\$ 149,769,428	\$ 12,312,113	\$ 513,790,632

Kalamazoo Community Foundation

Notes to Combined Financial Statements

Investments Held at December 31, 2016

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money Market	\$ 5,919,023	\$ -	\$ -	\$ 5,919,023
Fixed Income:				
Corporate securities	-	21,259,356	-	21,259,356
U.S. Government and agency securities	27,612,343	5,084,698	-	32,697,041
Asset backed securities	-	2,637,990	-	2,637,990
Mutual funds	34,257,434	-	-	34,257,434
Exchange traded funds	2,956,522	-	-	2,956,522
Domestic Equities:				
Publicly traded	18,342,171	-	-	18,342,171
Mutual funds	96,620,701	113,731,892	-	210,352,593
Exchange traded funds	11,111,225	-	-	11,111,225
International Equities:				
Mutual funds	70,421,553	-	-	70,421,553
Exchange traded funds	2,000,030	-	-	2,000,030
Other:				
Limited partnerships	-	-	1,193,349	1,193,349
Real estate investment trust	-	-	10,805,096	10,805,096
	269,241,002	142,713,936	11,998,445	423,953,383
Beneficial Interest in Charitable Perpetual Trusts	10,391,242	871	-	10,392,113
Total	\$ 279,632,244	\$ 142,714,807	\$ 11,998,445	\$ 434,345,496

Kalamazoo Community Foundation

Notes to Combined Financial Statements

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2017 and 2016:

*Fair Value Measurement Using
Significant Unobservable Inputs (Level 3)*

Balance, January 1, 2016	\$ 11,850,251
Total gains and losses -	
Unrealized	450,631
Sales or withdrawals	(38,349)
Transfers out	(264,088)
<hr/>	
Balance, December 31, 2016	11,998,445
Total gains and losses -	
Unrealized	915,460
Sales or withdrawals	(601,792)
<hr/>	
Balance, December 31, 2017	\$ 12,312,113

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

4. Program Related Investments

Program related investments total approximately \$3,422,000 and \$6,719,000 at December 31, 2017 and 2016, respectively. The Foundation has established a fair market reserve in the amount of \$174,000 and \$745,000 at December 31, 2017 and 2016, respectively. The reserve on loans is established on a case-by-case basis. The Foundation's management evaluates all loans individually and estimates the collectability of each loan.

5. Guarantees

The Foundation provided a loan guarantee to Kalamazoo Neighborhood Housing Services (KNHS) (a local nonprofit 501(c)(3)) in the amount of \$200,000 in 2000 and an additional \$35,000 in 2006. Since the early 1990s, KNHS has been administering a Home Ownership Program (HOP) whereby the local banks are part of mortgage financing pools for low-income homeowners (HOP I through HOP X). There have been 10 pools. The loan guarantees are to provide a loan loss reserve in the case of foreclosures on homes. Uncollected loans are first charged against the pool, then Local Initiative Support Corporation (LISC), and finally against the Foundation's guarantee. The \$200,000 guarantee has been extended to HOP I, II, III, IV, V, and VIII. The \$35,000 guarantee is for HOP IX.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

6. Contributions and Pledges Receivable

Contributions and pledges receivable consisted of the following at December 31, 2017 and 2016:

<i>December 31,</i>	2017	2016
Contributions and Pledges Due:		
Within one year	\$ 775,297	\$ 20,052,473
One to five years	108,741	3,026,302
Over five years	3,710,548	3,732,192
Total	4,594,586	26,810,967
Less present value (at various discount rates)	(2,117,598)	(2,363,812)
Total Contributions and Pledges Receivable	\$ 2,476,988	\$ 24,447,155

7. Beneficial Interest in Charitable Perpetual Trusts

The Foundation is the income beneficiary under several charitable perpetual trusts, the corpus of which is not controlled by the Foundation. In the absence of donor-imposed conditions, the Foundation recognizes its beneficial interest in a trust as a permanently restricted contribution in the period in which it receives notice that the trust conveys an unconditional right to receive benefits. The assets in the trusts are recorded at fair market value as permanently restricted net assets on the Combined Statements of Financial Position.

Distributions received from these trusts are recorded as unrestricted income and the change in market value is recorded as permanently restricted other income in the Combined Statements of Activities and Changes in Net Assets.

8. Loan Payable

On January 10, 2012, the Foundation entered into a revolving note agreement with a bank for an amount up to \$600,000. The Foundation used the note proceeds to finance the acquisition and development of an integrated software system. The outstanding balance at December 31, 2017 and 2016 was \$320,000 and \$380,000, respectively. Interest on the revolving note is accrued at 30 day LIBOR plus 1.5%, effectively 3.06% at December 31, 2017. Interest and principal amounts are due quarterly through August of 2020.

Kalamazoo Community Foundation

Notes to Combined Financial Statements

9. Lease Commitments

The Foundation leases building space, transportation equipment, and copiers under operating leases that expire at various dates through 2022. Management expects in the normal course of business, leases will be renewed or replaced with other leases. Minimum future payments under these leases with terms in excess of one year are as follows:

2018	\$	238,000
2019		230,000
2020		13,000
2021		13,000
2022		6,000
<hr/>		
Total	\$	500,000

Rent expense for 2017 and 2016, was \$210,000 and \$338,000, respectively.

10. Employee Benefit Plan

The Foundation maintains a 401(k) plan which covers all full-time employees. The Foundation matches 100% of employee contributions up to 3% of the employee's salary and matches 50% of employee contributions on the next 2% of the employee's salary. The Foundation may also make discretionary non-elective contributions to the plan. For the years ended December 31, 2017 and 2016, non-elective contributions were equal to 2% of eligible employee compensation. For 2017 and 2016, the total amount of contributions was approximately \$112,000 and \$122,000, respectively.

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Kalamazoo Community Foundation

Notes to Combined Financial Statements

11. Endowment Net Assets

Endowment net assets consisted of the following at December 31, 2017 and 2016:

*Changes in Endowment Net Assets
For the Year Ended December 31, 2017*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment Net Assets, beginning of year	\$ 25,447,613	\$ 175,333,423	\$ 221,706,072	\$ 422,487,108
Interest and dividends, net of investment expenses	667,019	7,217,963	-	7,884,982
Net appreciation	4,296,392	49,979,730	-	54,276,122
Contributions	591,025	1,116,948	4,968,073	6,676,046
Amounts appropriated for expenditure	(7,388,228)	(10,225,723)	-	(17,613,951)
Other changes	5,115,884	(4,712,918)	1,871,097	2,274,063
Change in endowment net assets	3,282,092	43,376,000	6,839,170	53,497,262
Endowment Net Assets, end of year	\$ 28,729,705	\$ 218,709,423	\$ 228,545,242	\$ 475,984,370

*Endowment Net Asset Composition
For the Year Ended December 31, 2017*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor Restricted				
Endowment Funds:				
Kalamazoo Community Foundation	\$ 2,216,871	\$ 218,709,423	\$ 216,993,745	\$ 437,920,039
Charitable perpetual trusts	-	-	11,551,497	11,551,497
Total Donor Restricted				
Endowment Funds	2,216,871	218,709,423	228,545,242	449,471,536
Board Designated				
Endowment Funds	26,512,834	-	-	26,512,834
Total Endowment Funds	\$ 28,729,705	\$ 218,709,423	\$ 228,545,242	\$ 475,984,370

Kalamazoo Community Foundation

Notes to Combined Financial Statements

*Changes in Endowment Net Assets
For the Year Ended December 31, 2016*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment Net Assets, beginning of year	\$ 24,226,863	\$ 151,553,815	\$ 201,370,031	\$ 377,150,709
Interest and dividends, net of investment expenses	649,787	6,736,838	-	7,386,625
Net appreciation	2,778,723	29,533,996	-	32,312,719
Contributions	718,141	185,054	20,057,109	20,960,304
Amounts appropriated for expenditure	(7,668,331)	(8,295,042)	-	(15,963,373)
Other changes	4,742,430	(4,381,238)	278,932	640,124
Change in endowment net assets	1,220,750	23,779,608	20,336,041	45,336,399
Endowment Net Assets, end of year	\$ 25,447,613	\$ 175,333,423	\$ 221,706,072	\$ 422,487,108

*Endowment Net Asset Composition
For the Year Ended December 31, 2016*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor Restricted Endowment Funds:				
Kalamazoo Community Foundation	\$ 1,606,744	\$ 175,333,423	\$ 211,313,959	\$ 388,254,126
Charitable perpetual trusts	-	-	10,392,113	10,392,113
Total Donor Restricted Endowment Funds	1,606,744	175,333,423	221,706,072	398,646,239
Board Designated Endowment Funds	23,840,869	-	-	23,840,869
Total Endowment Funds	\$ 25,447,613	\$ 175,333,423	\$ 221,706,072	\$ 422,487,108

Kalamazoo Community Foundation

Notes to Combined Financial Statements

In addition to endowment funds, the Foundation also manages other non-endowed funds. The following table summarizes all of the Foundation's net assets as of December 31, 2017 and 2016:

Net Asset Composition at December 31, 2017

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Net Assets</i>
Endowment Funds	\$ 28,729,705	\$ 218,709,423	\$ 228,545,242	\$ 475,984,370
Non-Endowment Funds:				
Donor advised	11,700,707	-	-	11,700,707
Agency and designated	922,816	-	-	922,816
Field of interest	674	-	-	674
Scholarship	138,878	-	-	138,878
Other	5,203,550	-	-	5,203,550
Total Non-Endowment Funds	17,966,625	-	-	17,966,625
Perpetual Trusts and Split Interest Agreements	2,273,446	-	-	2,273,446
Total Net Assets	\$ 48,969,776	\$ 218,709,423	\$ 228,545,242	\$ 496,224,441

Net Asset Composition at December 31, 2016

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Net Assets</i>
Endowment Funds	\$ 25,447,613	\$ 175,333,423	\$ 221,706,072	\$ 422,487,108
Non-Endowment Funds:				
Donor advised	11,110,640	-	-	11,110,640
Agency and designated	1,026,088	-	-	1,026,088
Field of interest	603	-	-	603
Scholarship	121,902	-	-	121,902
Other	5,074,701	-	-	5,074,701
Total Non-Endowment Funds	17,333,934	-	-	17,333,934
Perpetual Trusts and Split Interest Agreements	1,790,076	-	-	1,790,076
Total Net Assets	\$ 44,571,623	\$ 175,333,423	\$ 221,706,072	\$ 441,611,118

Supplementary Information



Independent Auditor's Report on Supplementary Information

Kalamazoo Community Foundation
Kalamazoo, Michigan

Our audits of the combined financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

June 11, 2018

Kalamazoo Community Foundation
Combining Statements of Financial Position
December 31, 2017 (With Comparative Totals for 2016)

	Kalamazoo Community Foundation	Kalamazoo Community Foundation Real Estate Holdings, Inc.	Eliminating Entries	2017 Combined Total	2016 Combined Total
Assets:					
Cash and cash equivalents	\$ 3,187,490	\$ 842	\$ -	\$ 3,188,332	\$ 688,282
Investments	500,456,134	1,783,001	-	502,239,135	423,953,383
Program related investments, net	3,247,962	-	-	3,247,962	5,973,671
Contributions and pledges receivable	2,476,988	-	-	2,476,988	24,447,155
Prepaid scholarships	566,936	-	-	566,936	505,653
Accrued investment income	681,589	-	-	681,589	929,470
Beneficial interest in charitable perpetual trusts	11,551,497	-	-	11,551,497	10,392,113
Other assets	6,343,614	-	(5,381,070)	962,544	926,775
Net property and equipment	473,266	3,434,121	-	3,907,387	4,168,143
Total Assets	\$ 528,985,476	\$ 5,217,964	\$ (5,381,070)	\$ 528,822,370	\$ 471,984,645
Liabilities and Net Assets					
Liabilities:					
Funds held as agency endowments	\$ 28,119,821	\$ -	\$ -	\$ 28,119,821	\$ 25,707,631
Annuities payable	3,890,780	-	-	3,890,780	4,048,144
Loan Payable	320,000	-	-	320,000	380,000
Other	253,581	14,385	(638)	267,328	237,752
Total Liabilities	32,584,182	14,385	(638)	32,597,929	30,373,527
Net Assets:					
Unrestricted	49,146,629	5,203,579	(5,380,432)	48,969,776	44,571,623
Temporarily restricted	218,709,423	-	-	218,709,423	175,333,423
Permanently restricted	228,545,242	-	-	228,545,242	221,706,072
Total Net Assets	496,401,294	5,203,579	(5,380,432)	496,224,441	441,611,118
Total Liabilities and Net Assets	\$ 528,985,476	\$ 5,217,964	\$ (5,381,070)	\$ 528,822,370	\$ 471,984,645

See accompanying independent auditor's report on supplementary information.

Kalamazoo Community Foundation

Combining Statements of Activities and Changes in Net Assets Year Ended December 31, 2017 (With Comparative Totals for 2016)

	<i>Kalamazoo Community Foundation</i>	<i>Kalamazoo Community Foundation Real Estate Holdings, Inc.</i>	<i>Eliminating Entries</i>	<i>2017 Combined Total</i>	<i>2016 Combined Total</i>
Support, Revenue, and Gains:					
Public support -					
Gifts and bequests	\$ 9,269,161	\$ -	\$ -	\$ 9,269,161	\$ 23,689,266
Less gifts and bequests received for agency endowments	162,418	-	-	162,418	233,292
Total gifts and bequests	9,106,743	-	-	9,106,743	23,455,974
Dividends and interest	9,315,482	4,345	-	9,319,827	8,748,113
Less dividends and interest received for agency endowments	515,271	-	-	515,271	524,070
Total dividends and interest	8,800,211	4,345	-	8,804,556	8,224,043
Net gain from investment transactions	59,301,304	217,819	-	59,519,123	34,827,770
Less net gain from investment transactions for agency endowments	3,011,935	-	-	3,011,935	1,982,840
Total net gain from investment transactions	56,289,369	217,819	-	56,507,188	32,844,930
Other income (loss):					
Change in value of perpetual trusts	1,159,384	-	-	1,159,384	106,733
Other income (loss)	(419,076)	210,000	(210,000)	(419,076)	(325,176)
Plus other income from agency endowments	136,464	-	-	136,464	135,698
Total other income (loss)	876,772	210,000	(210,000)	876,772	(82,745)
Total Support, Revenue, and Gains (Losses)	75,073,095	432,164	(210,000)	75,295,259	64,442,202

See accompanying independent auditor's report on supplementary information.

Kalamazoo Community Foundation

Combining Statements of Activities and Changes in Net Assets Year Ended December 31, 2017 (With Comparative Totals for 2016)

	<i>Kalamazoo Community Foundation</i>	<i>Kalamazoo Community Foundation Real Estate Holdings, Inc.</i>	<i>Eliminating Entries</i>	<i>2017 Combined Total</i>	<i>2016 Combined Total</i>
Expenditures:					
Grants paid	\$ 16,390,439	\$ -	\$ -	\$ 16,390,439	\$ 15,326,907
Less grants paid for agency endowments	1,112,851	-	-	1,112,851	1,107,217
Total grants paid	15,277,588	-	-	15,277,588	14,219,690
Investment management fees	693,741	1,252	-	694,993	534,762
Less investment management fees for agency endowments	28,119	-	-	28,119	25,204
Total investment management fees	665,622	1,252	-	666,874	509,558
Other expenses:					
Program services	1,571,065	-	-	1,571,065	2,096,755
Donor relations and development	1,311,189	-	-	1,311,189	1,216,138
Administrative and general expenses	1,763,219	302,001	(210,000)	1,855,220	1,835,319
Total other expenses	4,645,473	302,001	(210,000)	4,737,474	5,148,212
Total Expenditures	20,588,683	303,253	(210,000)	20,681,936	19,877,460
Increase in Net Assets	54,484,412	128,911	-	54,613,323	44,564,742
Net Assets, beginning of year	441,916,882	(305,764)	-	441,611,118	397,046,376
Net Assets, end of year	\$ 496,401,294	\$ (176,853)	\$ -	\$ 496,224,441	\$ 441,611,118

See accompanying independent auditor's report on supplementary information.