

Kirtland  
Community  
College



Years Ended  
June 30, 2016  
and 2015

Financial  
Statements  
and  
Supplementary  
Information

# KIRTLAND COMMUNITY COLLEGE

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Kirtland Community College's (the "College") financial statements provides an overview of the College's financial activities for the years ended June 30, 2016 and 2015. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

### Using this Report

The College's financial report includes three financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*.

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements, and notes to the financial statements. Following the notes to the financial statements are two required supplemental schedules, the combining statement of net position (deficit) and the combining statement of revenue, expenses, and changes in net position (deficit).

### Financial Highlights

The College's financial position for fiscal year 2016 remained stable compared to fiscal year 2015. Gross tuition and fees revenue increased by approximately \$143,000. Pell grants decreased by approximately \$630,000 or 18 percent. Operating property taxes were consistent with the prior year within 1 percent. State appropriations decreased by approximately \$351,000 or 9 percent. The majority of the decrease in state appropriations relates to the State's UAAL payments that get remitted to the Michigan Public School Employee's Retirement (MPERS) plan. In fiscal year 2016 the portion of UAAL payments received subsequent to the MPERS plan fiscal year end date of September 30, 2015 are included as a deferred inflow and will be recorded as revenue in fiscal year 2017. In fiscal year 2016, expenses remained stable versus fiscal year 2015, and increased by \$109,000 or .6 percent.

### The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position

The statement of net position and the statement of revenue, expenses, and changes in net position report information on the College's net position and changes in them. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions.

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total net position at June 30, 2016, 2015, and 2014 is \$4.5 million, \$2.9 million, and \$19.8 million, respectively. The College's statement of net position at June 30 is summarized as follows (in thousands):

	Condensed Statements of Net Position as of June 30 (in thousands)		
	2016	2015	2014
Current assets	\$ 10,730	\$ 9,269	\$ 8,387
Noncurrent assets			
Long-term investments	2,662	3,360	3,104
Restricted cash	1,658	9,768	-
Capital assets, net	<u>20,950</u>	<u>12,971</u>	<u>12,134</u>
Total assets	<u>36,000</u>	<u>35,368</u>	<u>23,625</u>
Deferred outflows of resources	<u>2,086</u>	<u>1,848</u>	<u>-</u>
Current liabilities	2,865	3,314	2,892
Noncurrent liabilities			
Net pension liability	18,701	18,658	-
Other noncurrent liabilities	<u>9,916</u>	<u>10,320</u>	<u>872</u>
Total liabilities	<u>31,482</u>	<u>32,292</u>	<u>3,764</u>
Deferred inflows of resources	<u>2,120</u>	<u>2,063</u>	<u>-</u>
Net position			
Net investment in capital assets	12,718	12,457	11,340
Restricted - Expendable	18	17	27
Unrestricted (deficit)	<u>(8,252)</u>	<u>(9,613)</u>	<u>8,494</u>
Total net position	<u>\$ 4,484</u>	<u>\$ 2,861</u>	<u>\$ 19,861</u>

### Statement of Net Position

The primary changes in the assets of the College between 2016 and 2015 include a decrease in restricted cash and a related increase in capital assets driven by the addition of the Health Sciences Education and Training Center during 2016.

The primary changes in the assets of the College between 2015 and 2014 include an increase in restricted cash and a related increase in liabilities driven by \$9.5 million in bonds issued during 2015. The College also recorded an \$18.7 million net pension liability for unfunded obligations to the MPSERS plan. This was due to the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*, in 2015.

### Deferred Outflows

Deferred outflows of resources of approximately \$2.1 million were recorded at June 30, 2016 as a result of changes in assumptions to the net pension liability and College contributions to the MPSERS plan subsequent to the plan's measurement date. This is an increase of approximately \$238,000 from June 30, 2015. During fiscal year 2015, the College implemented GASB Statement No. 68. The deferred outflow recorded in fiscal year 2015 as a result of implementation of GASB 68 was approximately \$1.8 million. See note 8 for more information.

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Deferred Inflows

Deferred inflows of approximately \$2.12 million were recorded at June 30, 2016 as a result of the pension portion of Section 147c state aid awarded subsequent to the measurement date and the difference between projected and actual earnings on pension plan investments. This is an increase of approximately \$57,000 from June 30, 2015. The deferred inflow recorded in fiscal year 2015 as a result of implementation of GASB 68 was approximately \$2.06 million. See note 8 for more information.

### Net Position

The difference between assets, deferred outflows, liabilities and deferred inflows is one way to measure the financial health or position of the College. Over time, increases or decreases in the College's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as trends in college applicants, student retention, condition of the buildings and infrastructure, and strength of its human resources to assess the overall health of the College.

Fiscal years 2016 and 2015 net position increased approximately \$1.6 million or 56.76 percent and decreased \$17 million or 85.59 percent, respectively. The increase between 2016 and 2015 was in large part attributable to the College receiving the Community College Skilled Trades Equipment Program (CCSTEP) grant money from the state for the new Health Sciences Education and Training Center. The decrease between 2015 and 2014 is attributed to the adoption of GASB Statement No. 68 which required the College to reduce beginning net position by \$18.8 million. Depreciation and amortization of approximately \$1,100,000 and \$1,022,000 for 2016 and 2015, respectively, was offset by investments in capital improvements and transfers into the Plant and Operations and Maintenance Funds. Transfers into the Plant Fund were funded by operating and nonoperating revenue in excess of expenses in the General Fund.

Although unrestricted net position is not subject to externally imposed restrictions, virtually all of the College's unrestricted net position is designated for purposes to fulfill its mission. These designations include Auxiliary Fund working capital (\$356,777 and \$413,945 for 2016 and 2015, respectively), future maintenance and capital improvements (\$1,871,639 and \$1,728,537 for 2016 and 2015, respectively), and quasi-endowment (\$2,000,000 for 2016 and 2015).

A total of \$2,000,000 of net position, as seen above, has been set aside in the Quasi-endowment Fund, by board of trustees' action, for the purpose of interest on investment proceeds being used to help offset the cost of institutional scholarships. Annual investment income, or the amount of Kirtland Community College scholarships, whichever is less, is transferred from this fund to the General Fund at the end of each fiscal year.

### Statement of Revenues, Expenses, and Changes in Net Position

When assessing the stability of the College's finances, one of the most important questions is, "Is the College better off or worse off as a result of the year's activities?" The statement of revenues, expenses, and changes in net position answers that question. When revenue and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as Kirtland Community College's operating results.

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a comparison of the major components of operating results of the College for the years ended June 30, 2016, 2015, and 2014 (in thousands):

	Operating Results for the Years Ended June 30 (in thousands)		
	2016	2015	2014
<b>Operating Revenue</b>			
Tuition and fees - net	\$ 3,809	\$ 3,666	\$ 3,802
Grants and contracts	2,438	909	822
Auxiliary activities	1,129	1,298	1,536
Other	<u>254</u>	<u>315</u>	<u>250</u>
<b>Total operating revenue</b>	<b><u>7,630</u></b>	<b><u>6,188</u></b>	<b><u>6,410</u></b>
<b>Operating Expenses</b>			
Instruction	6,128	6,723	6,114
Public service	43	74	101
Instructional support	3,168	3,217	3,304
Student services	3,489	3,539	4,035
Institutional administration	2,163	2,285	2,242
Operation and maintenance of physical plant	1,802	2,402	2,302
Depreciation and amortization expense	1,100	1,022	981
Loss on impairment of buildings	1,458	-	-
Other expenses	<u>209</u>	<u>189</u>	<u>225</u>
<b>Total operating expenses</b>	<b><u>19,560</u></b>	<b><u>19,451</u></b>	<b><u>19,304</u></b>
Net operating loss	<u>(11,930)</u>	<u>(13,263)</u>	<u>(12,894)</u>
<b>Nonoperating revenue (expense)</b>			
State appropriations	3,479	3,829	3,439
Federal Pell grant	2,887	3,517	4,186
Property tax levy	7,323	7,332	7,293
Gifts	115	15	2
Investment income	80	67	57
Interest on capital asset related debt	<u>(331)</u>	<u>(64)</u>	<u>(47)</u>
<b>Net nonoperating revenue</b>	<b><u>13,553</u></b>	<b><u>14,696</u></b>	<b><u>14,930</u></b>
Other revenue - contributed land	<u>-</u>	<u>361</u>	<u>-</u>
<b>Net increase in net position</b>	<b>1,623</b>	<b>1,794</b>	<b>2,036</b>
Net position beginning of year	2,861	19,861	17,825
Adjustment for change in accounting principle	<u>-</u>	<u>(18,794)</u>	<u>-</u>
Net position - beginning of year, as revised	<u>2,861</u>	<u>1,067</u>	<u>17,825</u>
<b>Net position - end of year</b>	<b><u>\$ 4,484</u></b>	<b><u>\$ 2,861</u></b>	<b><u>\$ 19,861</u></b>



# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Total Revenue

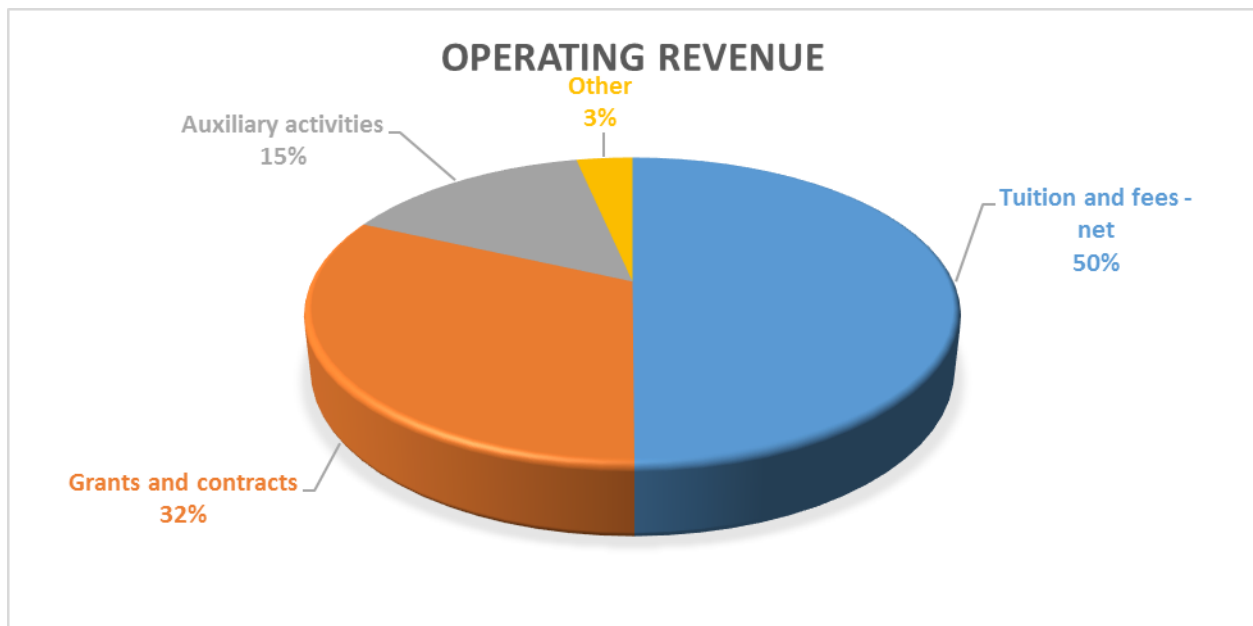
The major changes in revenue for fiscal year 2016 resulted from a combination of a slight increase in tuition and fees and a decline in enrollment. Auxiliary activities decreased due to a decline in enrollment and a shift in enrollment to online rather than on-campus classes.

The major changes in revenue for fiscal year 2015 resulted from a combination of a slight increase in tuition and fees and a decline in enrollment. Auxiliary activities decreased due to a decline in enrollment and a shift in enrollment to online rather than on-campus classes.

### Operating Revenue

For the College as a whole, operating revenue includes all transactions that result in the sales and/or receipts from goods and services such as tuition, fees, and other auxiliary operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue for fiscal year 2016 was as follows:



Some of the operating revenue changes for 2016 were the result of the following factors:

The financial statements reflect an increase in net student tuition and fee revenue of approximately \$143,000 and a decrease in auxiliary activities of \$169,000 related to a reduction in bookstore revenues which were due to a decline in enrollment, offset by increase in tuition and fee rates. There was also an increase in grant revenue of approximately \$1.8 million as a result of the Community College Skilled Trades Equipment Program (“CCSTEP”) grant.

Some of the operating revenue changes for 2015 were the result of the following factors:

The financial statements reflect a decrease in net student tuition and fee revenue of \$136,000 and a decrease in auxiliary activities of \$238,000 related to a reduction in bookstore revenues which were due to a decline in enrollment.

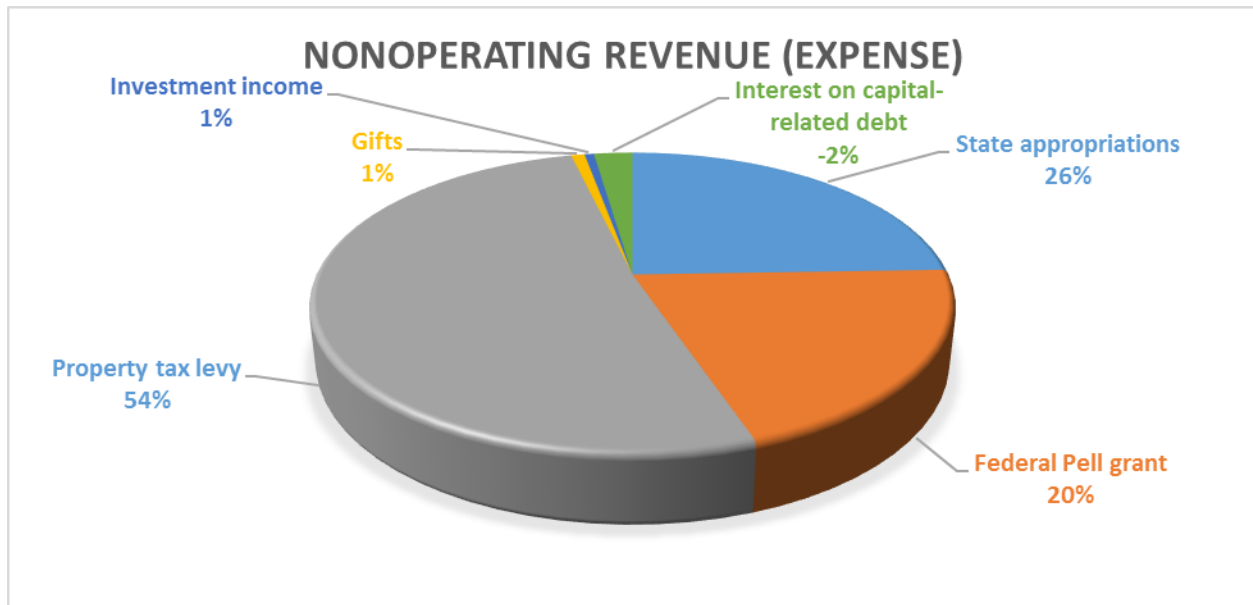
# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Nonoperating Revenue (Expense)

Nonoperating revenue (expense) is the net of all revenue and expenditure sources that are primarily nonexchange in nature. The nonoperating revenue consists primarily of state appropriations, federal Pell grant, and property tax revenue. The nonoperating expenditures include interest on capital assets. Investment income or losses contribute to either nonoperating revenue or expenditures, depending on how well the investments performed in a particular year.

Nonoperating revenue (expense) for fiscal year 2016 was as follows:



Factors affecting changes in nonoperating revenue (expense) for 2016 include:

- While State appropriations increased in 2016, adjustments made due to GASB 68 reduced total appropriations by \$351,000.
- Pell grants decreased by \$630,000 or 17.9 percent, due to a decline in enrollment.

Factors affecting changes in nonoperating revenue (expense) for 2015 include:

- State appropriations increased by \$390,000 or 11.3 percent, which was due to increased general appropriations and MPSERS stabilization payments.
- Pell grants decreased by \$669,000 or 16 percent, due to a decline in enrollment.

### Other Revenue

A state agency contributed land to the College valued at \$361,000 during fiscal year 2015.

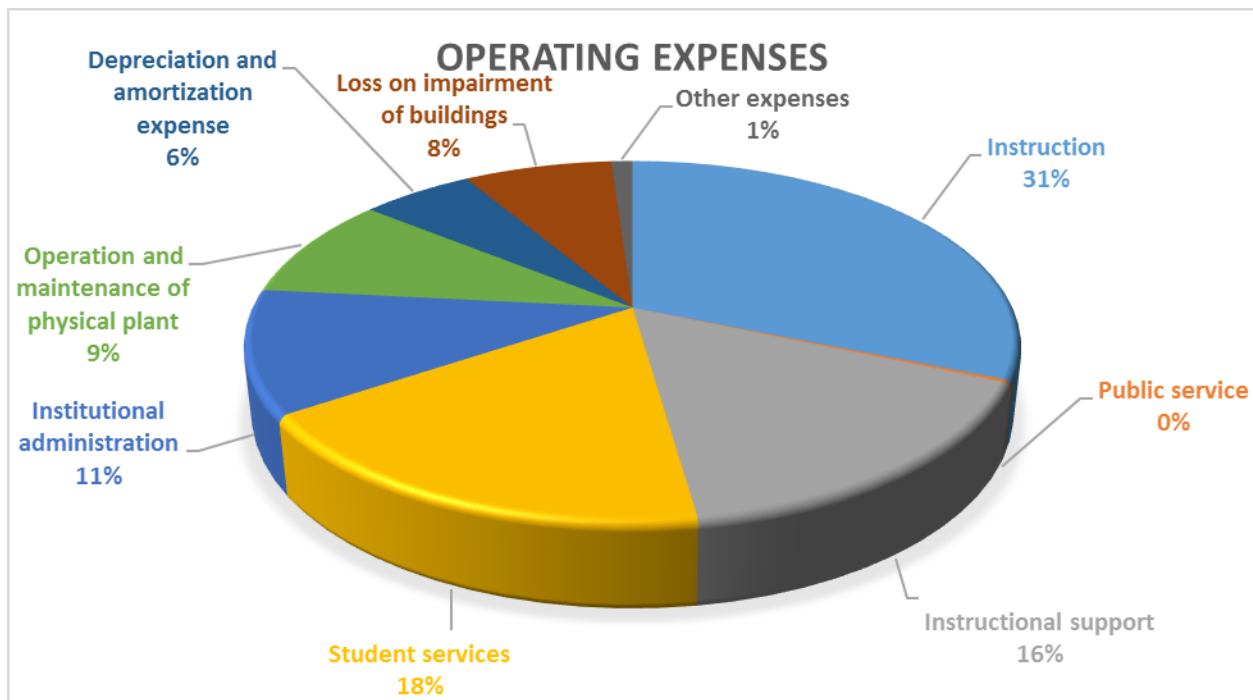
# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries, benefits, utilities, supplies, services, and depreciation and are then categorized by function. Overall, total operating expenses increased approximately \$109,000 (.6 percent) and \$145,000 (.3 percent) for fiscal years 2016 and 2015, respectively. For the purpose of the audit, operating expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

Operating expenses for fiscal year 2016 were as follows:



The major factor affecting the increase in operating expenses in 2016 is that the College recognized an approximate \$1.5 million loss on impairment of buildings as a result of no longer using the Instructional Center and Student Center on the College's main campus, as a result of the new Health Sciences Education and Training Center on the Grayling campus. Most of the departments were able to maintain or decrease their expenses when compared to 2015 which offset a majority of this loss.

The major factor affecting the increase in operating expenses in 2015 is that most of the departments were able to maintain or decrease their expenses when compared to 2014. The one area that saw a major increase was Instruction. In 2015 the College was awarded a Skilled Trades Equipment Grant in the amount of \$2,896,380 and \$741,700 was expended for Instructional Equipment in 2015.

### Statement of Cash Flows

Another way to assess the financial health of the College is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess the following:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Cash Flows for the Year Ended June 30 (in thousands)		
	2016	2015	2014
<b>Cash (Used in) Provided by</b>			
Operating activities	\$ (9,995)	\$ (11,593)	\$ (12,461)
Noncapital financing activities	13,397	14,278	14,666
Capital and related financing activities	(10,915)	8,258	(506)
Investing activities	<u>804</u>	<u>(189)</u>	<u>(735)</u>
<b>Net Increase (Decrease) in Cash</b>	(6,709)	10,754	964
<b>Cash - Beginning of year</b>	<u>16,441</u>	<u>5,687</u>	<u>4,723</u>
<b>Cash - End of year</b>	<u><b>\$ 9,732</b></u>	<u><b>\$ 16,441</b></u>	<u><b>\$ 5,687</b></u>

Major sources of funds from operations came from student tuition, fees, grants, contracts, auxiliary activities, and the bookstore. These sources were offset by expenditures for operations such as payments to employees and suppliers. For fiscal years 2016 and 2015, the cash used in operating activities was financed with \$10 million and \$11.6 million, respectively, of net cash flows from noncapital financing activities, including property taxes, Pell grants, and state appropriations.

The reduction in cash provided by noncapital financing activities from 2015 to 2016 resulted from a decrease in federal Pell grant revenue for fiscal year 2016 as compared with 2015.

Cash provided by capital and related financing for fiscal year 2016 was approximately \$10.9 million mainly from the addition of the new Grayling campus. Cash used in capital and related financing for fiscal year 2015 was approximately \$8.3 million mainly from bonds issued in 2015.

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2016, 2015, and 2014, the College had \$21.0 million, \$13.0 million, and \$12.1 million invested in capital assets, net of accumulated depreciation of \$19.3 million, \$18.2 million, and \$17.3 million, respectively. The College additionally recorded an allowance for impairment of buildings of approximately \$1.5 million during fiscal year 2016 to reflect management's estimate of losses pertaining to two buildings that are no longer being utilized as a result of the addition of the new Health Sciences Education and Training Center. Depreciation charges totaled approximately \$1,120,000 for the current fiscal year.

	Capital Assets as of June 30 (in thousands)		
	2016	2015	2014
Land and land improvements	\$ 1,658	\$ 1,650	\$ 1,465
Buildings and improvements	7,545	9,514	9,860
Furniture, fixtures, and equipment	2,716	1,238	809
Construction in progress	<u>9,031</u>	<u>569</u>	<u>-</u>
<b>Total</b>	<u><b>\$ 20,950</b></u>	<u><b>\$ 12,971</b></u>	<u><b>\$ 12,134</b></u>

# KIRTLAND COMMUNITY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The College began construction on a new Health Sciences Education and Training Center during fiscal year 2015-2016. The building became fully operational for Fall 2016 classes.

Additional information about the College's capital assets is presented in the notes to the financial statements.

### Debt

The College had \$9.5 million, \$9.9 million, and \$810 thousand in debt outstanding at June 30, 2016, 2015, and 2014, respectively. The table below summarizes this amount by type of debt instrument. The College issued two 2015 General Obligation Bonds rated A+ by Standards & Poor's. The College's bond rating for the 1996 and 2010 General Revenue Bonds was Baa1 by Moody's and A by Standard & Poor's. See note 7 for more information.

	Debt as of June 30 (in thousands)		
	2016	2015	2014
General obligation bonds	<u>\$ 9,500</u>	<u>\$ 9,870</u>	<u>\$ 810</u>

### Economic Factors That Will Affect the Future

The economic outlook for the College is tied heavily to national and state economic conditions. The federal appropriations, as they pertain to higher education, are being negotiated. These negotiations will potentially impact the funding received by the College. The current state law reflects a 1.5 percent increase in Kirtland's appropriations for the 2016-2017 fiscal year as compared to the year ended June 30, 2016.

The College has experienced declines in enrollment in each of the last four years. But, the fall 2016 enrollments have shown a leveling off as compared to fall 2015. The College expects this stabilizing of enrollment to continue for the remainder of the 2016-17 fiscal year, and looks for small increases to occur in the coming years with the impacts of the new Health Sciences Education and Training Center to help with this trend.

Property tax revenue continues to level off over the past few fiscal years, as the housing market in the College's service area has started to rebound slightly.

The College has reviewed its cash flow data and reserve funds. Kirtland Community College remains financially stable, but will need to continue to address the financial challenges identified above in order to maintain adequate cash flow and financial reserve.

# **INDEPENDENT AUDITORS' REPORT**

**INDEPENDENT AUDITORS' REPORT**

November 15, 2016

To the Board of Trustees  
Kirtland Community College  
Roscommon, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of *Kirtland Community College* (the "College") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

***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.

***Independent Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors' 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of **Kirtland Community College** as of June 30, 2016, and the respective results of their operations and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Implementation of GASB Statement No. 68**

As described in Notes 1 and 8, the College implemented the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the prior year. Accordingly, beginning net position of business-type activities as of July 1, 2014 was restated. The predecessor auditor opinion dated November 5, 2015 was not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's 2016 basic financial statements. The supplementary combining statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Predecessor Auditor**

The financial statements of **Kirtland Community College** as of June 30, 2015 were audited by other auditors whose report dated November 5, 2015, expressed an unmodified opinion on those statements.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated November 15, 2016, on our consideration of **Kirtland Community College's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Kirtland Community College's** internal control over financial reporting and compliance.





## **FINANCIAL STATEMENTS**

# KIRTLAND COMMUNITY COLLEGE

## STATEMENTS OF NET POSITION

	June 30, 2016		June 30, 2015	
	Primary Government	Component Unit	Primary Government	Component Unit
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents (Note 3)	\$ 8,073,228	\$ 78,175	\$ 6,672,519	\$ 89,138
Accounts receivable, current portion (Notes 4 and 5)	1,657,219	103,080	1,687,900	15,486
Inventories	370,496	-	393,599	-
Prepaid expenses and other assets	628,842	1,745	514,877	1,160
<b>Total current assets</b>	<b>10,729,785</b>	<b>183,000</b>	<b>9,268,895</b>	<b>105,784</b>
<b>Noncurrent assets</b>				
Long-term investments (Note 3)	2,661,997	1,664,678	3,359,545	1,653,009
Restricted cash	1,658,435	-	9,767,990	-
Accounts receivable, net of current portion (Note 5)	-	199,671	-	-
Capital assets, net (Note 6)	20,950,149	-	12,971,218	-
<b>Total noncurrent assets</b>	<b>25,270,581</b>	<b>1,864,349</b>	<b>26,098,753</b>	<b>1,653,009</b>
<b>Total assets</b>	<b>36,000,366</b>	<b>2,047,349</b>	<b>35,367,648</b>	<b>1,758,793</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts (Note 8)	2,085,502	-	1,848,344	-
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	570,050	4,417	968,845	21,173
Accrued payrolls, vacation and other	879,652	-	910,258	-
Other accrued liabilities	574,689	-	617,182	-
Unearned revenue	161,668	-	160,127	-
Long-term obligations - current portion (Note 7)	678,546	-	658,026	-
<b>Total current liabilities</b>	<b>2,864,605</b>	<b>4,417</b>	<b>3,314,438</b>	<b>21,173</b>
<b>Noncurrent liabilities</b>				
Long-term obligations - net of current portion (Note 7)	9,916,120	-	10,319,989	-
Net pension liability (Note 8)	18,701,369	-	18,658,349	-
<b>Total noncurrent liabilities</b>	<b>28,617,489</b>	<b>-</b>	<b>28,978,338</b>	<b>-</b>
<b>Total liabilities</b>	<b>31,482,094</b>	<b>4,417</b>	<b>32,292,776</b>	<b>21,173</b>
<b>Deferred inflows of resources</b>				
Deferred pension amounts (Note 8)	2,119,749	-	2,062,688	-
<b>Net position</b>				
Net investment in capital assets	12,717,784	-	12,456,850	-
Restricted for:				
Expendable	18,239	101,912	16,512	114,216
Nonexpendable	-	564,915	-	522,401
Unrestricted (deficit) (Note 1)	(8,251,998)	1,376,105	(9,612,834)	1,101,003
<b>Total net position</b>	<b>\$ 4,484,025</b>	<b>\$ 2,042,932</b>	<b>\$ 2,860,528</b>	<b>\$ 1,737,620</b>

The accompanying notes are an integral part of these financial statements.

KIRTLAND COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended			
	June 30, 2016		June 30, 2015	
	Primary Government	Component Unit	Primary Government	Component Unit
<b>Operating revenue</b>				
Tuition and fees, net of scholarship allowance of \$1,848,381 and \$2,291,328 for 2016 and 2015, respectively	\$ 3,808,733	\$ -	\$ 3,665,999	\$ -
Federal grants and contracts	510,559	-	754,945	-
State and local grants and contracts	1,870,277	-	85,597	-
Private grants and contracts	57,567	-	68,882	-
Auxiliary activities	1,128,890	-	1,297,934	-
Miscellaneous	254,639	-	315,105	-
<b>Total operating revenues</b>	<b>7,630,665</b>	<b>-</b>	<b>6,188,462</b>	<b>-</b>
<b>Operating expenses</b>				
Instruction	6,128,098	-	6,723,075	-
Public service	43,335	-	74,298	-
Instructional support	3,167,564	-	3,217,161	-
Student services	3,488,569	161,911	3,538,882	70,344
Institutional administration	2,163,301	162,421	2,285,082	286,709
Operation and maintenance of physical plant	1,802,480	-	2,401,357	-
Depreciation and amortization	1,100,105	-	1,022,144	-
Loss on impairment of buildings (Note 6)	1,457,618	-	-	-
Other expenses	209,120	-	188,993	-
<b>Total operating expenses</b>	<b>19,560,190</b>	<b>324,332</b>	<b>19,450,992</b>	<b>357,053</b>
<b>Operating loss</b>	<b>(11,929,525)</b>	<b>(324,332)</b>	<b>(13,262,530)</b>	<b>(357,053)</b>
<b>Nonoperating revenues (expenses)</b>				
State appropriations	3,478,694	-	3,829,674	-
Federal Pell grant	2,887,129	-	3,517,073	-
Contributed services from the College	-	124,172	-	263,599
Property tax levy (Note 2)	7,323,197	-	7,331,650	-
Gifts	114,874	491,043	15,279	154,248
Investment income	80,177	14,429	66,586	16,768
Interest on capital asset-related debt	(331,049)	-	(64,471)	-
<b>Net nonoperating revenues</b>	<b>13,553,022</b>	<b>629,644</b>	<b>14,695,791</b>	<b>434,615</b>
<b>Other revenues - contributed land</b>	<b>-</b>	<b>-</b>	<b>360,900</b>	<b>-</b>
<b>Increase in net position</b>	<b>1,623,497</b>	<b>305,312</b>	<b>1,794,161</b>	<b>77,562</b>
Net position, beginning of year	2,860,528	1,737,620	19,861,069	1,660,058
Implementation of GASB 68 (Notes 1 and 8)	-	-	(18,794,702)	-
<b>Adjusted net position, beginning of year</b>	<b>2,860,528</b>	<b>1,737,620</b>	<b>1,066,367</b>	<b>1,660,058</b>
<b>Net position, end of year</b>	<b>\$ 4,484,025</b>	<b>\$ 2,042,932</b>	<b>\$ 2,860,528</b>	<b>\$ 1,737,620</b>

The accompanying notes are an integral part of these financial statements.

# KIRTLAND COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS

	Primary Government	
	Year Ended June 30	
	2016	2015
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 3,822,199	\$ 3,695,102
Grants and contracts	2,455,613	1,036,308
Auxiliary activities	1,128,890	1,297,934
Other	281,742	336,266
Payments to suppliers	(11,266,518)	(10,030,970)
Payments to employees	(6,417,072)	(7,927,930)
<b>Net cash used in operating activities</b>	<b>(9,995,146)</b>	<b>(11,593,290)</b>
<b>Cash flows from noncapital financing activities</b>		
Direct lending receipts	3,243,165	3,202,563
Direct lending disbursements	(3,243,165)	(3,202,563)
Property tax levy	6,951,594	6,988,321
Federal Pell grants	2,887,129	3,517,073
State appropriations	3,443,886	3,757,252
Gifts for other than capital purposes	114,874	15,279
<b>Net cash provided by noncapital financing activities</b>	<b>13,397,483</b>	<b>14,277,925</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(10,568,714)	(1,501,649)
Proceeds from issuance of capital debt	-	9,851,368
Principal paid on capital debt	(370,000)	(380,000)
Debt property tax levy	354,789	352,533
Interest paid on capital asset-related debt	(331,049)	(64,471)
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(10,914,974)</b>	<b>8,257,781</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investments, net	1,200,034	1,088,130
Purchase of long-term investments	(494,343)	(1,354,025)
Interest on investments	98,100	77,304
<b>Net cash provided by (used in) investing activities</b>	<b>803,791</b>	<b>(188,591)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,708,846)</b>	<b>10,753,825</b>
Cash and cash equivalents, beginning of year	16,440,509	5,686,684
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,731,663</b>	<b>\$ 16,440,509</b>
<b>Reconciliation to Statements of Net Position</b>		
Cash and cash equivalents	\$ 8,073,228	\$ 6,672,519
Restricted cash	1,658,435	9,767,990
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,731,663</b>	<b>\$ 16,440,509</b>

continued...

### Significant Noncash Transactions:

A state department contributed land valued at \$360,900 during the year ended June 30, 2015.

The accompanying notes are an integral part of these financial statements.

# KIRTLAND COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS (CONCLUDED)

	Primary Government	
	Year Ended June 30	
	2016	2015
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (11,929,525)	\$ (13,262,530)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,100,105	1,022,144
Loss on disposal of capital assets	11,491	3,159
Loss on impairment of buildings	1,457,618	-
Change in operating assets:		
Accounts receivable, net	56,238	229,688
Inventories	23,103	(10,036)
Prepaid expenses and other assets	(113,965)	(52,612)
Change in operating liabilities:		
Accounts payable and other accrued liabilities	(441,288)	468,384
Accrued payrolls, vacation and other	(30,606)	34,463
Unearned revenue	1,541	(52,540)
Change in net pension liability and deferred amounts	(137,077)	77,991
Other accrued liabilities	7,219	(51,401)
<b>Net cash used in operating activities</b>	<b>\$ (9,995,146)</b>	<b>\$ (11,593,290)</b>

The accompanying notes are an integral part of these financial statements.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

*Kirtland Community College* (the "College") is a Michigan community college whose financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*. The College reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The College's financial statements have been prepared in accordance with GASB 61, *The Financial Reporting Entity Omnibus*, which requires examination of significant operational or financial relationships with the College. Based on the application of the criteria, the College has one component unit. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationships with the College.

Kirtland Community College Foundation (the "Foundation") is discretely presented as a separate component unit of the College's reporting entity (although it is legally separate and governed by its own board of directors) because its sole purpose is to provide support for the College.

#### Significant Accounting Policies

Significant accounting policies followed by the College and Foundation are described below to enhance the usefulness of the financial statements to the reader:

#### **Accrual Basis**

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of bank demand deposits and all highly liquid investments with an initial maturity of three months or less.

#### **Restricted Cash**

Restricted cash consists of unspent bond proceeds, which are restricted for capital expenditures related to the Health Sciences Education and Training Center.

#### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year end. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to expense.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### **Investments**

The College and Foundation carry their investments at fair value, which is determined generally by using quoted market prices. Realized and unrealized gains and losses are reflected in the statements of revenues, expenses and changes in net position.

### **Fair Value Measurements**

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurement, refer to Note 3 to the financial statements.

### **Inventories**

Cafeteria, bookstore, print shop, and technology inventories are stated at the average cost using the first-in, first-out method.

### **Capital Assets**

Capital assets are recorded at cost. Gifts of property are recorded at fair market value at the time gifts are received. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method. Land is not depreciated. Expenses for major renewals and betterments that extend the useful lives of the assets are capitalized. Management annually reviews these assets to determine whether carrying values have been impaired. The following estimated useful lives are used to compute depreciation:

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Classification	Estimated Useful Lives
Land improvements	15-20 years
Building and building improvements	10-40 years
Furniture, fixtures, and equipment	5-20 years

### Revenue Recognition

Student tuition and related revenues and expenses of an academic semester are reported in the fiscal year in which the program is conducted. State appropriation revenue is recognized in the period for which it is appropriated. Property taxes are recorded as revenue in the year for which taxes have been levied. Restricted grant revenue is recognized only to the extent expended. Restricted and unrestricted resources are allocated to the appropriate departments within the College that are responsible for adhering to any donor restrictions. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the College's policy is to first apply restricted net position.

Contributions, including unconditional promises to give in the future, are reported as unrestricted revenue when received unless use of the related assets is limited by donor-imposed restrictions. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Expirations of temporary restrictions on net assets (e.g., the donor-stipulated purpose has been fulfilled) are reported as reclassifications between the applicable classes of net position. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

### Scholarship Allowance

Student tuition and fee revenue, and certain other revenue from students, is reported net of scholarship allowances in the statement of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenue in the College's financial statements. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance.

### Operating and Nonoperating Revenue

Operating activities reported on the statement of revenues, expenses, and changes in net position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Operating revenues of the College include activities, such as (1) student tuition and fees, net of scholarship allowances; (2) auxiliary activities; and (3) most federal, state, and local grants and nonoperating revenues of the College include activities that have the characteristics of nonexchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, including state appropriations, property taxes, federal Pell grant revenue, and gifts.



# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### **Unearned Revenue**

Tuition and fees revenue received and related to periods of instruction that will occur after June 30, 2016 and 2015, have been recorded as unearned. Grants received prior to qualifying expenditures are also included in unearned revenue. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

### **Accrued Sick Leave**

Accrued sick leave payable represents the accumulated liability to be paid under the College's current sick pay policy. Under the College's policy, employees earn sick time based on time of service with the College.

### **Classification of Expenses**

Expenses are recognized when the service is provided or when materials are received. The College has classified expenses as either operating or nonoperating expenses according to the following criteria:

Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) scholarships and fellowships, net of scholarship allowances; (3) utilities, supplies, and other services; (4) professional fees; and (5) depreciation.

Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on capital asset-related debt and other expenses that are defined as nonoperating expenses by governmental accounting standards.

### **Income Taxes**

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2013.

### **Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense) until then. The College reports deferred outflows of resources for certain pension-related amounts, such as changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 8.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The College reports deferred inflows of resources for certain pension-related amounts, such as the difference between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions. More detailed information can be found in Note 8.

### Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Internal Service Activities

Both revenue and expenses related to internal service activities, including print shops, office equipment, maintenance, telecommunications, and institutional computing, have been eliminated.

### Net Position

GASB Statement No. 34, as amended by GASB Statement No. 63, establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting into the following three net position categories:

- *Net Investment in Capital Assets*: Capital assets, net of accumulated depreciation, unspent bond proceeds, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Nonexpendable*: Net position subject to externally imposed constraints that they be maintained permanently by the Foundation. Nonexpendable net position includes the corpus portion (historical value) of gifts to the Foundation's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.
- *Restricted Expendable*: Net position whose use by the College and the Foundation is subject to externally imposed constraints that can be fulfilled by actions of the College and the Foundation pursuant to those constraints or that expire by the passage of time. Expendable net position includes net appreciation of the Foundation's permanent endowment fund that have not been stipulated by the donor to be reinvested permanently.
- *Unrestricted*: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

The College, through board action, has designated the use of unrestricted net position (deficit) as follows:

	2016	2015
Auxiliary fund working capital	\$ 356,777	\$ 413,945
Deferred maintenance and replacement	1,871,639	1,728,537
Quasi-endowment	2,000,000	2,000,000
Pension liability fund deficit	(18,735,616)	(18,872,693)
Undesignated	<u>6,255,202</u>	<u>5,117,377</u>
<b>Total unrestricted net position (deficit)</b>	<b><u><u>\$(8,251,998)</u></u></b>	<b><u><u>\$(9,612,834)</u></u></b>

### Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 those estimates. Significant estimates include but are not limited to the assumptions based on historical trends and industry standards used in the actuarial valuations of the MPSERS pension plan.

### New Accounting Pronouncement

As of July 1, 2014, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires that the College recognize a net pension liability on the statement of net position, equal to the College's proportionate share of the net pension liability of the Michigan Public School Employees Retirement System (MPSERS), as defined and calculated in accordance with the new standard. More detailed information can be found in Note 8. As a result of this change, the College recognized a net pension liability of \$19,835,704 and deferred outflows of resources of \$1,041,002, which resulted in a decrease in net position of \$18,794,702 as of July 1, 2014.

### Reclassification

Certain amounts in the prior year financial information have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

### Subsequent Events

In preparing these financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of net position presented herein, through November 15, 2016, the date these financial statements were available to be issued. No significant such events or transactions were identified by the Foundation.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 2. PROPERTY TAXES

Property tax revenue is recognized in the year for which taxes have been levied. Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to the counties in which the district is located for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the counties' tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the years ended June 30, 2016 and 2015, \$1.2657 and \$2.1093, respectively, of tax per \$1,000 of taxable property value in the community college taxing district was levied for general operating purposes on all property. Total operating property tax revenue was \$6,230,404 and \$6,235,123 for the years ended June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, \$0.12 per \$1,000 of taxable property value in the community college taxing district was levied for debt retirement purposes. Total property tax revenue for debt retirement purposes was \$354,789 and \$355,202 for the years ended June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, \$0.8436 and \$0.6464, respectively, per \$1,000 of taxable property value in the M-Tec taxing district was levied for general operating purposes. Total property tax revenue was \$738,004 and \$741,325 for the years ended June 30, 2016 and 2015, respectively.

### 3. DEPOSITS AND INVESTMENTS AND FAIR VALUE MEASUREMENTS

#### Deposits and Investments

State statutes and the College's investment policy authorize the College to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the College is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The College's deposits are in accordance with statutory authority.

The College has designated two banks for deposit of its funds. The College's cash and investments are subject to several types of risk, which are examined in more detail below.

#### Fair Value Measurements

The College and the Foundation utilize fair value measurements to record fair value adjustments to their investment securities and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

The following is a description of the valuation methodology used for assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2016 or 2015.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### College

*U.S. government obligations:* Level 1 fair value measurement is based upon the closing price reported in the active market in which the individual securities are traded.

*Certificates of deposit:* Valued at face value plus accrued interest earned and classified as Level 1.

### Foundation

*Common stocks:* Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

*Mutual funds:* Shares held in mutual funds are valued at quoted market prices that represent the net asset value (“NAV”) of shares held by the Foundation at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities then divided by the number of shares outstanding.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its 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.

The following tables set forth by level, within the fair value hierarchy, the College’s investments measured at fair value on a recurring basis as of June 30:

2016	Level 1	Level 2	Level 3	Total
U.S. government obligations	<u>\$ 2,661,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,661,997</u>
2015	Level 1	Level 2	Level 3	Total
U.S. government obligations	\$ 3,108,707	\$ -	\$ -	\$ 3,108,707
Certificates of deposit	<u>250,838</u>	<u>-</u>	<u>-</u>	<u>250,838</u>
<b>Total investments</b>	<b><u>\$ 3,359,545</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,359,545</u></b>

The following tables set forth by level, within the fair value hierarchy, the Foundation’s investments measured at fair value on a recurring basis as of June 30:

2016	Level 1	Level 2	Level 3	Total
Common stock	\$ 397,181	\$ -	\$ -	\$ 397,181
Equity mutual funds	851,208	-	-	851,208
Bond mutual funds	<u>416,289</u>	<u>-</u>	<u>-</u>	<u>416,289</u>
<b>Total investments</b>	<b><u>\$ 1,664,678</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,664,678</u></b>

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

2015	Level 1	Level 2	Level 3	Total
Common stock	\$ 391,806	\$ -	\$ -	\$ 391,806
Equity mutual funds	864,958	-	-	864,958
Bond mutual funds	<u>396,245</u>	<u>-</u>	<u>-</u>	<u>396,245</u>
<b>Total investments</b>	<b><u>\$ 1,653,009</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,653,009</u></b>

### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The College's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

As of June 30, 2016, the College had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government obligations	<u>\$ 2,661,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,661,997</u>

As of June 30, 2015, the College had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More than 10 Years
Certificates of deposit	\$ 250,838	\$ -	\$ 250,838	\$ -	\$ -
U.S. government obligations	<u>3,108,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,108,707</u>
<b>Total</b>	<b><u>\$ 3,359,545</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 250,838</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,108,707</u></b>

### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be available or returned. The College's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk be used for the College's deposits. As of June 30, 2016, the College's deposit balances of \$8,309,151 had \$7,559,151 of bank deposits (money markets and certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. As of June 30, 2015, the College's deposit balances of \$16,135,669 had \$15,311,269 of bank deposits (money markets and certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The College believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

As a result, the College evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the College will do business using the criteria established in the investment policy. All investments that are uninsured and unregistered are held by counterparties.

### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The College's investment policy does not further limit its investment choices.

At June 30, 2016 and 2015, the College had debt securities with Federal National Mortgage Association, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation.

### Foreign Currency Risk

There are no foreign investments held by the College.

### Concentration of Credit Risk

The College's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of the potential losses from any one type of security or issuer will be minimized.

## 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following at June 30:

	2016	2015
State appropriations	\$ 727,254	\$ 692,446
Federal and state grants	585,900	625,927
Student	231,419	272,965
Property taxes	49,153	58,404
Other	<u>126,393</u>	<u>130,679</u>
Total accounts receivable	1,720,119	1,780,421
Less allowance for doubtful accounts	<u>62,900</u>	<u>92,521</u>
Net accounts receivable	<u>\$ 1,657,219</u>	<u>\$ 1,687,900</u>

All amounts deemed to be uncollectible are charged directly against income in the period that determination is made. Management's periodic evaluation of the adequacy of the allowance is based on the College's past collection experience, adverse situations that may affect the student's ability to repay, and current economic conditions.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 5. PLEDGES RECEIVABLE - FOUNDATION

Pledges receivable consist of unconditional promises to give toward the Health Sciences Education and Training Center and various scholarships and programs. The Foundation calculated the fair value of the pledges based on expected collections over the next five years at a risk-adjusted rate of 1.05% for the year ended June 30, 2016.

	2016	2015
Receivable in less than one year	\$ 103,080	\$ 15,486
Receivable in one to five years	210,600	-
Less:		
Present value discount	<u>(10,929)</u>	<u>-</u>
<b>Pledges receivable, net</b>	<b><u>\$ 302,751</u></b>	<b><u>\$ 15,486</u></b>



# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 695,242	\$ -	\$ -	\$ -	\$ 695,242
Construction in progress	<u>569,041</u>	<u>8,462,360</u>	<u>-</u>	<u>-</u>	<u>9,031,401</u>
<b>Subtotal nondepreciable assets</b>	<b><u>1,264,283</u></b>	<b><u>8,462,360</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,726,643</u></b>
Capital assets being depreciated:					
Land Improvements	2,323,340	163,420	-	-	2,486,760
Building and building improvements	20,903,821	32,749	-	-	20,936,570
Furniture, fixtures and equipment	<u>6,724,174</u>	<u>1,910,185</u>	<u>(97,850)</u>	<u>-</u>	<u>8,536,509</u>
<b>Subtotal depreciable assets</b>	<b><u>29,951,335</u></b>	<b><u>2,106,354</u></b>	<b><u>(97,850)</u></b>	<b><u>-</u></b>	<b><u>31,959,839</u></b>
<b>Total depreciable and nondepreciable assets</b>	<b><u>31,215,618</u></b>	<b><u>10,568,714</u></b>	<b><u>(97,850)</u></b>	<b><u>-</u></b>	<b><u>41,686,482</u></b>
Less accumulated depreciation:					
Land improvements	1,372,123	151,884	-	-	1,524,007
Building and building improvements	11,387,941	545,654	-	-	11,933,595
Furniture, fixtures and equipment	<u>5,484,336</u>	<u>423,135</u>	<u>(86,358)</u>	<u>-</u>	<u>5,821,113</u>
<b>Total accumulated depreciation</b>	<b><u>18,244,400</u></b>	<b><u>\$ 1,120,673</u></b>	<b><u>\$ (86,358)</u></b>	<b><u>\$ -</u></b>	<b><u>19,278,715</u></b>
Less: Allowance for impairment of buildings					<u>(1,457,618)</u>
<b>Capital assets, net</b>	<b><u>\$ 12,971,218</u></b>				<b><u>\$20,950,149</u></b>

The College recorded an impairment loss of \$1,457,618 in fiscal year 2016 to reflect management's estimate of losses pertaining to two buildings that are no longer being utilized as a result of the addition of the new Health Sciences Education and Training Center.

The College has entered into contracts with various contractors to perform the construction of the Health Sciences Education and Training Center with an estimated cost of approximately \$13.8 million. The majority of these costs were incurred in fiscal year 2016. Prior to June 30, 2016, the College made payments of approximately \$8.9 million for a balance of approximately \$4.9 million as of June 30, 2016. Subsequent to June 30, 2016, the College has made payments

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

of approximately \$4.3 million. Remaining balance of the commitment is approximately \$0.6 million as of the date of these statements.

Capital assets activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 334,342	\$ 360,900	\$ -	\$ -	\$ 695,242
Construction in progress	-	569,041	-	-	569,041
<b>Subtotal nondepreciable assets</b>	<b><u>334,342</u></b>	<b><u>929,941</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,264,283</u></b>
Capital assets being depreciated:					
Land Improvements	2,346,414	48,505	-	(71,579)	2,323,340
Building and building improvements	20,688,691	143,551	-	71,579	20,903,821
Furniture, fixtures and equipment	<u>6,103,162</u>	<u>740,552</u>	<u>(119,540)</u>	<u>-</u>	<u>6,724,174</u>
<b>Subtotal depreciable assets</b>	<b><u>29,138,267</u></b>	<b><u>932,608</u></b>	<b><u>(119,540)</u></b>	<b><u>-</u></b>	<b><u>29,951,335</u></b>
<b>Total depreciable and nondepreciable assets</b>	<b><u>29,472,609</u></b>	<b><u>1,862,549</u></b>	<b><u>(119,540)</u></b>	<b><u>-</u></b>	<b><u>31,215,618</u></b>
Less accumulated depreciation:					
Land improvements	1,216,051	156,072	-	-	1,372,123
Building and building improvements	10,828,101	559,840	-	-	11,387,941
Furniture, fixtures and equipment	<u>5,294,485</u>	<u>306,232</u>	<u>(116,381)</u>	<u>-</u>	<u>5,484,336</u>
<b>Total accumulated depreciation</b>	<b><u>17,338,637</u></b>	<b><u>\$ 1,022,144</u></b>	<b><u>\$ (116,381)</u></b>	<b><u>\$ -</u></b>	<b><u>18,244,400</u></b>
<b>Capital assets, net</b>	<b><u>\$ 12,133,972</u></b>				<b><u>\$12,971,218</u></b>

The College has some property that was financed through the issuance of bonds by the State of Michigan Building Authority (SBA). The SBA bonds are secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement entered into among the SBA, the State of Michigan, and the College. During the lease term, the SBA will hold title to the property, the State of Michigan will make all lease payments to the SBA, and the College will be responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer the title of the buildings to the College. The cost and accumulated depreciation for these facilities are included in the accompanying statement of net position.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 7. LONG-TERM OBLIGATIONS

Long-term obligation activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
<b>Bonds payable</b>					
2015 General Obligation, Limited Bond	\$ 4,415,000	\$ -	\$ (165,000)	\$ 4,250,000	\$ 165,000
2015 General Obligation, Unlimited Bond	5,025,000	-	(170,000)	4,855,000	170,000
2010 General Obligation, Limited Bond	<u>430,000</u>	<u>-</u>	<u>(35,000)</u>	<u>395,000</u>	<u>35,000</u>
Total bonds payable	9,870,000	-	(370,000)	9,500,000	370,000
<b>Deferred amounts</b>					
Series 2015 Unamortized Bond Premium	<u>411,368</u>	<u>-</u>	<u>(20,568)</u>	<u>390,800</u>	<u>20,568</u>
<b>Other Long-Term Obligations</b>					
Accrued sick leave	<u>696,647</u>	<u>20,520</u>	<u>(13,301)</u>	<u>703,866</u>	<u>287,978</u>
<b>Total long-term obligations</b>	<b><u>\$10,978,015</u></b>	<b><u>\$ 20,520</u></b>	<b><u>\$ (403,869)</u></b>	<b><u>\$10,594,666</u></b>	<b><u>\$ 678,546</u></b>

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Long-term obligation activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
<b>Bonds Payable</b>					
2015 General Obligation, Limited Bond	\$ -	\$ 4,415,000	\$ -	\$ 4,415,000	\$ 165,000
2015 General Obligation, Unlimited Bond	-	5,025,000	-	5,025,000	170,000
2010 General Obligation, Limited Bond	460,000	-	(30,000)	430,000	35,000
1995 General Obligation, Unlimited Bond	350,000	-	(350,000)	-	-
Total bonds payable	810,000	9,440,000	(380,000)	9,870,000	370,000
<b>Deferred Amounts</b>					
Series 2015 Unamortized Bond Premium	-	411,368	-	411,368	20,568
<b>Other Long-Term Obligations</b>					
Accrued sick leave	748,048	-	(51,401)	696,647	267,458
<b>Total long-term obligations</b>	<b>\$ 1,558,048</b>	<b>\$ 9,851,368</b>	<b>\$ (431,401)</b>	<b>\$10,978,015</b>	<b>\$ 658,026</b>

Bond principal and interest are payable from the proceeds of ad valorem taxes levied on all taxable properties in the College's taxing district without limitation as to rate or amount.

### 2015 General Obligation, Limited Bond

In May 2015, the College issued \$4,415,000 of 2015 community college facilities general obligation limited bonds for the purpose of funding the construction of a new Health Sciences Education and Training Center. The bonds bear interest ranging from 2.00 to 4.00 percent and require annual payments ranging from \$165,000 to \$305,000 through 2035.

### 2015 General Obligation, Unlimited Bond

In May 2015, the College issued \$5,025,000 of 2015 community college facilities general obligation unlimited bonds for the purpose of funding the construction of a new Health Sciences Education and Training Center. The bonds bear interest ranging from 2.00 to 4.00 percent and require annual payments ranging from \$170,000 to \$355,000 through 2035.

### 2010 General Obligation, Limited Bond

In July 2010, the College issued \$575,000 of 2010 community college facilities general obligation limited bonds for the purpose of funding the construction of a new Children's Learning Center. The bonds bear interest at 3.82 percent and require annual payments ranging from \$30,000 to \$55,000 through 2025.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 1995 General Obligation, Unlimited Bond

The \$4,000,000 general obligation unlimited bonds are callable, bear interest at 4.63 percent, and require annual principal and interest payments. The bond was paid in full during fiscal year 2015.

### Accrued Sick Leave

The College provides sick benefits to employees, as defined by each respective labor contract and administrative policy. The liability has been recorded based on the number of days available for each employee. Additionally, the College accrues sick days payable for those employees who, upon retirement, will have met the conditions of the age and service requirements defined by each respective contract at year end.

### Debt Maturity

Total principal and interest maturities on the bond obligations as of June 30, 2016 are as follows:

Year Ending June 30	Debt Obligations		
	Principal	Interest	Total
2017	\$ 370,000	\$ 355,589	\$ 725,589
2018	380,000	347,462	727,462
2019	405,000	335,865	740,865
2020	415,000	321,437	736,437
2021	440,000	306,659	746,659
2022-2026	2,365,000	1,297,823	3,662,823
2027-2031	2,630,000	823,000	3,453,000
2032-2035	<u>2,495,000</u>	<u>254,200</u>	<u>2,749,200</u>
<b>Totals</b>	<b><u>\$ 9,500,000</u></b>	<b><u>\$ 4,042,035</u></b>	<b><u>\$ 13,542,035</u></b>

## 8. RETIREMENT PLAN

### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### *Benefits Provided*

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

### *Contributions and Funded Status*

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization rates, ranged from 14.56 % to 23.07% of covered payroll for the College's fiscal 2016. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College's fiscal 2016.

Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization rates, ranged from 15.44% to 23.07% of covered payroll for the College's fiscal 2015. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College's fiscal 2015.

The College's contribution to MPSERS under all pension plans for the years ended June 30, 2016 and 2015 were \$1,730,331 and \$1,386,796, respectively. The College's contributions to MPSERS for all plans, including other postemployment benefits as described on page 39, for the year ended June 30, 2014 was \$1,292,610. These amounts are equal to the College's required contributions for each year.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016 and 2015, the College reported a liability of \$18,701,369 and \$18,658,349, respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014 and 2013, respectively. The College's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the College's proportion was 0.07657%, which was a decrease of 0.00814% from its proportion measured as of September 30, 2014 of 0.08471%.

For the year ended June 30, 2016, the College recognized pension expense of \$1,182,176. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 61,944	\$ (61,944)
Changes in assumptions	460,467	-	460,467
Net difference between projected and actual earnings on pension plan investments	95,455	-	95,455
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>36,263</u>	<u>1,517,220</u>	<u>(1,480,957)</u>
	592,185	1,579,164	(986,979)
Pension portion of Sec 147c state aid Award (School Year 2015-2016)	-	540,585	(540,585)
College contributions subsequent to the measurement date	<u>1,493,317</u>	<u>-</u>	<u>1,493,317</u>
<b>Total</b>	<b><u>\$ 2,085,502</u></b>	<b><u>\$ 2,119,749</u></b>	<b><u>\$ (34,247)</u></b>

The \$1,493,317 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The \$540,585 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Sec 147c of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriations revenue for the year ending June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Year Ended June 30	Amount
2017	\$ (346,012)
2018	(346,012)
2019	(371,023)
2020	<u>76,068</u>
<b>Total</b>	<b><u>\$ (986,979)</u></b>

For the year ended June 30, 2015, the College's proportionate share of pension expense was \$1,393,567. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2015	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 688,453	\$ -	\$ 688,453
Net difference between projected and actual earnings on pension plan investments		2,062,688	(2,062,688)
Changes in proportion and differences between employer contributions and proportionate share contributions	<u>797</u>	<u>-</u>	<u>797</u>
	689,250	2,062,688	(1,374,235)
College contributions subsequent to the measurement date	<u>1,159,094</u>	<u>-</u>	<u>1,159,094</u>
<b>Total</b>	<b><u>\$ 1,848,344</u></b>	<b><u>\$ 2,062,688</u></b>	<b><u>\$ (214,344)</u></b>

### *Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 and 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:



# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Actuarial cost method	Entry age, normal
Wage Inflation	3.5%
Investment rate of return	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5% for 2014 (7% for 2013)
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015 and 2014, respectively, is based on the results of an actuarial valuation date of September 30, 2014 and 2013, respectively, and rolled forward using generally accepted actuarial procedures, including the experience study for the 2014 valuation.

### ***Long-Term Expected Return on Plan Assets***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 and 2014, are summarized in the following tables:

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

2015			
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00 %	5.90 %	1.64 %
Alternative investment pools	18.00	9.20	1.66
International equity pools	16.00	7.20	1.15
Fixed income pools	10.50	0.90	0.09
Real estate and infrastructure pools	10.00	4.30	0.43
Absolute return pools	15.50	6.00	0.93
Short-term investment pools	<u>2.00</u>	0.00	<u>0.00</u>
	<u>100.00 %</u>		5.90 %
Inflation			<u>2.10</u>
<b>Investment rate of return</b>			<u><b>8.00 %</b></u>

2014			
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00 %	4.80 %	1.34 %
Alternative investment pools	18.00	8.50	1.53
International equity	16.00	6.10	0.98
Fixed income pools	10.50	1.50	0.16
Real estate and infrastructure pools	10.00	5.30	0.53
Absolute return pools	15.50	6.30	0.98
Short-term investment pools	<u>2.00</u>	-0.20	<u>-0.02</u>
	<u>100.00 %</u>		5.50 %
Inflation			<u>2.50</u>
<b>Investment rate of return</b>			<u><b>8.00 %</b></u>

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### *Discount Rate*

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *Sensitivity of College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the College as of June 30, 2016 and 2015, calculated using the discount rate of 8.0%, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
College's proportionate share of the net pension liability (2016)	\$ 24,110,858	\$ 18,701,369	\$ 14,140,947
College's proportionate share of net pension liability (2015)	\$ 25,599,408	\$ 18,658,349	\$ 13,652,919

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Payable to the Pension Plan*

At June 30, 2016, the College reported a payable of \$169,080 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016. The College reported a payable of \$108,362 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.71% to 6.83% and 2.20% to 9.11% of covered payroll for fiscal 2016 and 2015, respectively. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a U.S. Supreme Court resolution.

The College's contributions to MPSERS for other postemployment benefits amounted to \$610,208 and \$267,039 for the years ended June 30, 2016 and 2015, respectively.

## 9. CONTINGENCIES

The College receives significant financial assistance from the State and Federal agencies in the form of grants and awards. The use of these funds generally requires compliance with grantor terms and conditions and is subject to audit by the grantor agency. Disallowed expenditures resulting from grantor audits could become a liability of the College, however, management believes that any future disallowances would not have a material effect on the College's financial statements.

## 10. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The College participates in risk management pools for claims relating to auto, property, workers' compensation, errors and omissions and liability.

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### Risk-sharing Programs

The College participates in a self-insurance program through the School Employers Group. This program provides substantially all the insurance needs of the College. The possibility of additional claims exists, but the amount of liability to the College would be immaterial by the time the aggregate stop-loss coverages are triggered. There is also a possibility of a refund due to the College. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The College is self-insured for certain vision and dental benefits paid on behalf of its employees. Effective January 1, 2013, the College is also self-insured for certain medical benefits paid on behalf of its employees. Payments are made to the plan administrator based on actual claims. A startup amount is expected to cover claims which have been incurred but not reported. The College has employed an outside consultant to monitor the plan. Expenditures related to the vision and dental plans during the years ended June 30, 2016 and 2015 totaled \$136,250 and \$147,732, respectively. Expenses related to the medical plan during the years ended June 30, 2016 and 2015 totaled \$1,191,538 and \$860,326, respectively, which includes an estimate of claims incurred but not reported at June 30, 2016 and 2015.

	Vision and Dental Liability		
	2016	2015	2014
Unpaid claims - beginning of year	\$ -	\$ -	\$ -
Incurred claims	136,250	147,732	130,699
Claims payments	<u>136,520</u>	<u>147,732</u>	<u>130,699</u>
Unpaid claims - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Health Liability		
	2016	2015	2014
Unpaid claims - beginning of year	\$ 210,641	\$ 153,312	\$ 262,171
Incurred claims	1,191,538	860,326	930,007
Claims payments	<u>1,128,067</u>	<u>802,997</u>	<u>1,038,866</u>
Unpaid claims - end of year	<u>\$ 274,112</u>	<u>\$ 210,641</u>	<u>\$ 153,312</u>

# KIRTLAND COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 11. KIRTLAND COMMUNITY COLLEGE FOUNDATION

Kirtland Community College Foundation (the "Foundation") is a legally separate, tax-exempt component unit of Kirtland Community College (the "College"). The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and discretely presented in the College's financial statements.

Financial information for the Foundation is reported using accounting principles generally accepted in the United States of America for not-for-profit entities. Specific differences from the College are related to the reporting of promises to give and grants payable, which are reported when they are unconditional. At June 30, 2016 and 2015, the stated value of the net position of the Foundation totaled \$2,042,932 and \$1,737,620, respectively.

Unrestricted net position, expendable endowments, scholarships and grants, and nonexpendable endowments are available at June 30, 2016 and 2015 for the following purposes:

	Unrestricted Net Position	Expendable Endowments, Scholarships, and Grants	Nonexpendable Endowments	Total June 30, 2016
Foundation designated	\$ 1,376,105	\$ -	\$ -	\$ 1,376,105
Center for Performing Arts	-	6,894	9,397	16,291
Scholarships and financial aid	-	95,018	555,518	650,536
<b>Total</b>	<b>\$ 1,376,105</b>	<b>\$ 101,912</b>	<b>\$ 564,915</b>	<b>\$ 2,042,932</b>

	Unrestricted Net Position	Expendable Endowments, Scholarships, and Grants	Nonexpendable Endowments	Total June 30, 2015
Foundation designated	\$ 1,101,003	\$ -	\$ -	\$ 1,101,003
Center for Performing Arts	-	6,470	8,447	14,917
Scholarships and financial aid	-	107,746	513,954	621,700
<b>Total</b>	<b>\$ 1,101,003</b>	<b>\$ 114,216</b>	<b>\$ 522,401</b>	<b>\$ 1,737,620</b>

Contributions to and payments on behalf of the College by the Foundation approximated \$176,000 and \$27,000 in the fiscal years ended June 30, 2016 and 2015, respectively.



**REQUIRED SUPPLEMENTARY INFORMATION**  
**MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN**

# KIRTLAND COMMUNITY COLLEGE

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of the College's Proportionate Share of the Net Pension Liability

	Year Ended	
	2016	2015
College's proportion of the net pension liability	\$ 18,701,369	\$ 18,658,349
College's proportionate share of the net pension liability	0.07657%	0.08471%
College's covered-employee payroll	6,487,088	7,227,586
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	288.29%	258.15%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.



# KIRTLAND COMMUNITY COLLEGE

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of College Contributions

	Year Ended	
	2016	2015
Contractually required contribution	\$ 1,730,331	\$ 1,386,796
Contributions in relation to the contractually required contribution	<u>(1,730,331)</u>	<u>(1,386,796)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 6,166,021	\$ 6,598,213
Contributions as a percentage of covered employee payroll	28.06%	21.02%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## **SUPPLEMENTARY INFORMATION**

KIRTLAND COMMUNITY COLLEGE

**COMBINING STATEMENT OF NET POSITION (DEFICIT)**  
**JUNE 30, 2016**  
 (with comparative totals for 2015)

	General Fund	Pension Fund	Restricted MPERS	Designated Fund	Auxiliary Activities	Expendable Restricted Funds	Unexpended Plant Fund	Maintenance and Repair Fund	Debt Service Fund	Physical Properties Fund	Agency Fund	Quasi-Endowment Fund	Combined Total June 30, 2016	Combined Total June 30, 2015
<b>Assets</b>														
<b>Current assets</b>														
Cash and cash equivalents	\$ 8,071,978	\$ -	\$ -	\$ -	\$ 1,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,073,228	\$ 6,672,519
Accounts receivable, net (Note 4)	825,385	-	141,526	37,643	33,009	585,900	4,369	-	29,387	-	-	-	1,657,219	1,687,900
Inventories	24,112	-	-	-	346,384	-	-	-	-	-	-	-	370,496	393,599
Prepaid expenses and other assets	444,728	-	-	179,815	4,299	-	-	-	-	-	-	-	628,842	514,877
Due from (to) other funds	(8,838,520)	-	-	(60,756)	-	(567,361)	5,195,144	1,719,472	477,354	-	74,667	2,000,000	-	-
<b>Total current assets</b>	<b>527,683</b>	<b>-</b>	<b>141,526</b>	<b>156,702</b>	<b>384,942</b>	<b>18,539</b>	<b>5,199,513</b>	<b>1,719,472</b>	<b>506,741</b>	<b>-</b>	<b>74,667</b>	<b>2,000,000</b>	<b>10,729,785</b>	<b>9,268,895</b>
<b>Noncurrent assets</b>														
Long-term investments	2,661,997	-	-	-	-	-	-	-	-	-	-	-	2,661,997	3,359,545
Restricted cash	-	-	-	-	-	-	1,658,435	-	-	-	-	-	1,658,435	9,767,990
<b>Capital assets:</b>														
Land	-	-	-	-	-	-	-	-	-	695,242	-	-	695,242	695,242
Land improvements	-	-	-	-	-	-	-	-	-	2,486,760	-	-	2,486,760	2,323,340
Buildings	-	-	-	-	-	-	-	-	-	20,936,570	-	-	20,936,570	20,903,821
Equipment and books	-	-	-	-	-	-	-	-	-	8,536,509	-	-	8,536,509	6,724,174
Allowance for depreciation	-	-	-	-	-	-	-	-	-	(20,736,333)	-	-	(20,736,333)	(18,244,400)
Construction in progress	-	-	-	-	-	-	8,462,359	-	-	569,042	-	-	9,031,401	569,041
<b>Total capital assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,462,359</b>	<b>-</b>	<b>-</b>	<b>12,487,790</b>	<b>-</b>	<b>-</b>	<b>20,950,149</b>	<b>12,971,218</b>
<b>Total noncurrent assets</b>	<b>2,661,997</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,120,794</b>	<b>-</b>	<b>-</b>	<b>12,487,790</b>	<b>-</b>	<b>-</b>	<b>25,270,581</b>	<b>26,098,753</b>
<b>Total assets</b>	<b>3,189,680</b>	<b>-</b>	<b>141,526</b>	<b>156,702</b>	<b>384,942</b>	<b>18,539</b>	<b>15,320,307</b>	<b>1,719,472</b>	<b>506,741</b>	<b>12,487,790</b>	<b>74,667</b>	<b>2,000,000</b>	<b>36,000,366</b>	<b>35,367,648</b>
<b>Deferred outflows of resources</b>														
Deferred pension amounts	-	2,085,502	-	-	-	-	-	-	-	-	-	-	2,085,502	1,848,344
<b>Liabilities</b>														
<b>Current liabilities</b>														
Accounts payable	420,402	-	141,526	-	2,531	300	4,303	988	-	-	-	-	570,050	968,845
Accrued payrolls, vacation and other	855,171	-	-	3,547	20,934	-	-	-	-	-	-	-	879,652	910,258
Other accrued liabilities	464,469	-	-	-	4,700	-	-	-	30,853	-	74,667	-	574,689	617,182
Unearned revenue	161,668	-	-	-	-	-	-	-	-	-	-	-	161,668	160,127
Long-term obligations - current portion	287,978	-	-	-	-	-	-	-	390,568	-	-	-	678,546	658,026
<b>Total current liabilities</b>	<b>2,189,688</b>	<b>-</b>	<b>141,526</b>	<b>3,547</b>	<b>28,165</b>	<b>300</b>	<b>4,303</b>	<b>988</b>	<b>421,421</b>	<b>-</b>	<b>74,667</b>	<b>-</b>	<b>2,864,605</b>	<b>3,314,438</b>
<b>Noncurrent liabilities</b>														
Long-term obligations - net of current portion	-	-	-	-	-	-	-	-	9,916,120	-	-	-	9,916,120	10,319,989
Net pension liability	-	18,701,369	-	-	-	-	-	-	-	-	-	-	18,701,369	18,658,349
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>18,701,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,916,120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,617,489</b>	<b>28,978,338</b>
<b>Total liabilities</b>	<b>2,189,688</b>	<b>18,701,369</b>	<b>141,526</b>	<b>3,547</b>	<b>28,165</b>	<b>300</b>	<b>4,303</b>	<b>988</b>	<b>10,337,541</b>	<b>-</b>	<b>74,667</b>	<b>-</b>	<b>31,482,094</b>	<b>32,292,776</b>
<b>Deferred inflows of resources</b>														
Deferred pension amounts	-	2,119,749	-	-	-	-	-	-	-	-	-	-	2,119,749	2,062,688
<b>Net position (deficit)</b>														
Net investment in capital assets	-	-	-	-	-	-	10,120,794	-	(9,890,800)	12,487,790	-	-	12,717,784	12,456,850
Restricted - expendable	-	-	-	-	-	18,239	-	-	-	-	-	-	18,239	16,512
Unrestricted (deficit)	999,992	(18,735,616)	-	153,155	356,777	-	5,195,210	1,718,484	60,000	-	-	2,000,000	(8,251,998)	(9,612,834)
<b>Total net position (deficit)</b>	<b>\$ 999,992</b>	<b>\$ (18,735,616)</b>	<b>\$ -</b>	<b>\$ 153,155</b>	<b>\$ 356,777</b>	<b>\$ 18,239</b>	<b>\$ 15,316,004</b>	<b>\$ 1,718,484</b>	<b>\$ (9,830,800)</b>	<b>\$ 12,487,790</b>	<b>\$ -</b>	<b>\$ 2,000,000</b>	<b>\$ 4,484,025</b>	<b>\$ 2,860,528</b>

KIRTLAND COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION (DEFICIT)  
 YEAR ENDED JUNE 30, 2016  
 (with comparative totals for 2015)

	General Fund	Pension Fund	Restricted MPSERS	Designated Fund	Auxiliary Activities Funds	Expendable Restricted Funds	Unexpended Plant Fund	Maintenance and Repair Fund	Debt Service Fund	Physical Properties Fund	Quasi-Endowment Fund	Eliminations	Combined Total June 30, 2016	Combined Total June 30, 2015
<b>Operating revenues</b>														
Tuition and fees, net	\$ 5,657,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,848,381)	\$ 3,808,733	\$ 3,665,999
Federal grants and contracts	-	-	-	-	-	510,559	-	-	-	-	-	-	510,559	754,945
State and local grants and contracts	-	-	-	1,814,266	-	56,011	-	-	-	-	-	-	1,870,277	85,597
Private gifts, grants, and contracts	34,750	-	-	-	-	22,817	-	-	-	-	-	-	57,567	68,882
Auxiliary activities	-	-	-	-	1,128,890	-	-	-	-	-	-	-	1,128,890	1,297,934
Indirect cost recoveries	27,528	-	-	-	-	(4,950)	-	-	-	-	-	(22,578)	-	-
Current funds expenditures for equipment and capital improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	163,143	-	-	91,496	-	-	-	-	-	2,106,354	-	(2,106,354)	254,639	315,105
<b>Total operating revenues</b>	<b>5,882,535</b>	<b>-</b>	<b>-</b>	<b>1,905,762</b>	<b>1,128,890</b>	<b>584,437</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,106,354</b>	<b>-</b>	<b>(3,977,313)</b>	<b>7,630,665</b>	<b>6,188,462</b>
<b>Operating expenses</b>														
Instruction	5,281,316	(299,527)	344,044	2,336,241	-	246,039	-	-	(13,273)	-	-	(1,766,742)	6,128,098	6,723,075
Public service	32,360	(678)	778	-	-	10,875	-	-	-	-	-	-	43,335	74,298
Instructional support	2,113,628	(101,649)	116,758	23,962	1,017,496	55,675	-	-	-	-	-	(58,306)	3,167,564	3,217,161
Student services	2,320,823	(102,327)	117,535	-	-	3,000,919	-	-	-	-	-	(1,848,381)	3,488,569	3,538,882
Institutional administration	1,989,747	(115,880)	133,103	-	-	156,331	-	-	-	-	-	-	2,163,301	2,285,082
Operation and maintenance of physical plant	1,727,836	(57,601)	66,162	-	-	-	-	368,392	-	-	-	(302,309)	1,802,480	2,401,357
Depreciation and amortization	-	-	-	-	-	-	-	-	(20,568)	1,120,673	-	-	1,100,105	1,022,144
Loss on impairment of buildings	-	-	-	-	-	-	-	-	-	1,457,618	-	-	1,457,618	-
Other expenses	-	-	-	-	199,204	-	-	-	-	11,491	-	(1,575)	209,120	188,993
<b>Total operating expenses</b>	<b>13,465,710</b>	<b>(677,662)</b>	<b>778,380</b>	<b>2,360,203</b>	<b>1,216,700</b>	<b>3,469,839</b>	<b>-</b>	<b>368,392</b>	<b>(33,841)</b>	<b>2,589,782</b>	<b>-</b>	<b>(3,977,313)</b>	<b>19,560,190</b>	<b>19,450,992</b>
<b>Operating (loss) income</b>	<b>(7,583,175)</b>	<b>677,662</b>	<b>(778,380)</b>	<b>(454,441)</b>	<b>(87,810)</b>	<b>(2,885,402)</b>	<b>-</b>	<b>(368,392)</b>	<b>33,841</b>	<b>(483,428)</b>	<b>-</b>	<b>-</b>	<b>(11,929,525)</b>	<b>(13,262,530)</b>
<b>Nonoperating revenues (expenses)</b>														
State appropriations	3,240,899	(540,585)	778,380	-	-	-	-	-	-	-	-	-	3,478,694	3,829,674
Federal Pell grant	-	-	-	-	-	2,887,129	-	-	-	-	-	-	2,887,129	3,517,073
Property taxes	6,968,408	-	-	-	-	-	-	-	354,789	-	-	-	7,323,197	7,331,650
Gifts	-	-	-	-	-	-	114,874	-	-	-	-	-	114,874	15,279
Investment income - interest	21,757	-	-	-	-	-	36,721	8,798	(811)	-	13,712	-	80,177	66,586
Interest on capital asset - related debt	-	-	-	-	-	-	-	-	(331,049)	-	-	-	(331,049)	(64,471)
<b>Net nonoperating revenues (expenses)</b>	<b>10,231,064</b>	<b>(540,585)</b>	<b>778,380</b>	<b>-</b>	<b>-</b>	<b>2,887,129</b>	<b>151,595</b>	<b>8,798</b>	<b>22,929</b>	<b>-</b>	<b>13,712</b>	<b>-</b>	<b>13,553,022</b>	<b>14,695,791</b>
<b>Other revenue - contributed land</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,900</b>
<b>Transfers (out) in</b>	<b>(2,645,978)</b>	<b>-</b>	<b>-</b>	<b>365,508</b>	<b>30,642</b>	<b>-</b>	<b>697,333</b>	<b>591,629</b>	<b>974,578</b>	<b>-</b>	<b>(13,712)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>1,911</b>	<b>137,077</b>	<b>-</b>	<b>(88,933)</b>	<b>(57,168)</b>	<b>1,727</b>	<b>848,928</b>	<b>232,035</b>	<b>1,031,348</b>	<b>(483,428)</b>	<b>-</b>	<b>-</b>	<b>1,623,497</b>	<b>1,794,161</b>
Net position (deficit), beginning of year	998,081	(18,872,693)	-	242,088	413,945	16,512	14,467,076	1,486,449	(10,862,148)	12,971,218	2,000,000	-	2,860,528	19,861,069
Implementation of GASB 68	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,794,702)
<b>Adjusted net position (deficit), beginning of year</b>	<b>998,081</b>	<b>(18,872,693)</b>	<b>-</b>	<b>242,088</b>	<b>413,945</b>	<b>16,512</b>	<b>14,467,076</b>	<b>1,486,449</b>	<b>(10,862,148)</b>	<b>12,971,218</b>	<b>2,000,000</b>	<b>-</b>	<b>2,860,528</b>	<b>1,066,367</b>
<b>Net position (deficit), end of year</b>	<b>\$ 999,992</b>	<b>\$ (18,735,616)</b>	<b>\$ -</b>	<b>\$ 153,155</b>	<b>\$ 356,777</b>	<b>\$ 18,239</b>	<b>\$ 15,316,004</b>	<b>\$ 1,718,484</b>	<b>\$ (9,830,800)</b>	<b>\$ 12,487,790</b>	<b>\$ 2,000,000</b>	<b>\$ -</b>	<b>\$ 4,484,025</b>	<b>\$ 2,860,528</b>