

Kirtland
Community
College



Years Ended
June 30, 2019
and 2018

Financial
Statements
and
Supplementary
Information

KIRTLAND COMMUNITY COLLEGE

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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, 2019 and 2018. 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 statements of net position, the statements of revenue, expenses, and changes in net position, and the statements 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 four required supplemental schedules, the combining statement of net position (deficit) and the combining statement of revenue, expenses, transfers and changes in net position (deficit).

Financial Highlights

The College's financial position for fiscal year 2019 remained stable compared to fiscal year 2018. Net tuition and fees revenue increased by approximately \$38,000 or 0.9 percent. Operating property taxes increased by approximately \$273,000 or 3.5 percent. Pell grants decreased by approximately \$223,000 or 8.5 percent. State appropriations support remained consistent from fiscal 2018 to fiscal 2019. In fiscal year 2019 the portion of UAAL payments received subsequent to the MPSERS plan fiscal year end date of September 30, 2019 are included as deferred inflows and will be recorded as revenue in fiscal year 2020. In fiscal year 2019, operating expenses increased from fiscal year 2018 by approximately \$876,000 or 5.0 percent, due in part to some one-time investments and updates to the Gaylord campus and Grayling campuses, and the addition of some new academic programs in the health and occupational professions.

GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was effective for the College's fiscal year 2018 and established new requirements for colleges to report postemployment benefits other than pensions ("OPEB"). Colleges that maintain their own other postemployment benefit plans (either single employer or agent multiple-employer) report a liability for the difference between the total postemployment liability calculated in accordance with GASB 75 and the amount held in the OPEB trust fund. Colleges that participate in a cost sharing plan report a liability for their "proportionate share" of the "net OPEB liability" of the entire system. This standard was implemented in the fiscal year 2018 financial statements.

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 therein. 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, 2019, 2018, and 2017 is \$4.3 million, \$2.7 million, and \$6.3 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)			
	2019	2018	2017
Current assets	\$ 12,944	\$ 11,796	\$ 9,144
Noncurrent assets			
Long-term investments	1,037	2,316	2,786
Restricted cash	96	5,389	110
Capital assets, net	33,603	25,241	25,370
Total assets	47,680	44,742	37,410
Deferred outflows of resources	7,480	4,243	2,286
Current liabilities	3,482	3,241	3,062
Noncurrent liabilities			
Net pension and OPEB liabilities	26,421	24,700	19,074
Other noncurrent liabilities	13,630	14,542	9,475
Total liabilities	43,533	42,483	31,611
Deferred inflows of resources	7,338	3,831	1,804
Net position			
Net investment in capital assets	19,901	15,904	15,980
Restricted - Expendable	16	15	16
Unrestricted (deficit)	(15,628)	(13,248)	(9,715)
Total net position	\$ 4,289	\$ 2,671	\$ 6,281

Statement of Net Position

The primary changes in the assets of the College between 2019 and 2018 include an increase in total assets of approximately \$2.9 million as a result of construction in progress in the amount of approximately \$9.1 million related to the addition of the Michigan Forest Products Institute at the Kirtland Grayling campus in 2019, offset by a decrease in restricted cash of approximately \$5.3 million related to unspent bond proceeds in the prior year.

The primary changes in the assets of the College between 2018 and 2017 include an increase in total assets of approximately \$7.3 million as a result of a bond issue the College closed on in November of 2017 for approximately \$5.3 million. The purpose of the bond proceeds was to fund a portion of the construction of the Michigan Forest Products Institute at the Kirtland Grayling campus in 2019.

The primary changes in the liabilities of the College between 2019 and 2018 include an increase in total liabilities of approximately \$1.0 million as a result of increases to the net pension and OPEB liabilities.

The primary changes in the liabilities of the College between 2018 and 2017 include an increase in other noncurrent liabilities of approximately \$5.1 million as a result of a bond issue the College closed on in November of 2017 for approximately \$5.3 million. Additionally, net pension and OPEB liabilities increased approximately \$5.6 million primarily as a result of the College's implementation of GASB 75 during 2018.

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deferred Outflows

Deferred outflows of resources of approximately \$7.5 million were recorded at June 30, 2019 as a result of changes in assumptions to the net pension and OPEB liabilities and College contributions to the MPSERS plan subsequent to the plan's measurement date. This is an increase of approximately \$3.2 million from June 30, 2018 due to changes in assumptions related in the discount rates. Deferred outflows of resources of approximately \$4.2 million were recorded at June 30, 2018 as a result of changes in assumptions to the net pension and OPEB liabilities and College contributions to the MPSERS plan subsequent to the plan's measurement date.

Deferred Inflows

Deferred inflows of approximately \$7.3 million were recorded at June 30, 2019 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 and OPEB plan investments, as well as deferred amounts related to the College's construction arrangement. This is an increase of approximately \$3.5 million from June 30, 2018 due to the difference between projected and actual earnings on the pension plan. Additionally, approximately \$2.2 million relates to capital outlay funds received from the State of Michigan to help fund the construction of the Michigan Forest Products Institute, but not recognized as revenue until the years 2020 through 2040. Deferred inflows of approximately \$3.8 million were recorded at June 30, 2018 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 and OPEB plan investments.

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 year 2019 net position of approximately \$4.3 million increased by approximately \$1.6 million. The increase between 2019 and 2018 was in large part attributable to the timing of the Phase II expansion at the Grayling campus.

Fiscal year 2018 net position of approximately \$2.7 million increased by approximately \$2.6 million from the prior year balance of approximately \$107,000, as adjusted for cumulative effect of change in accounting principle. The beginning net position was decreased by approximately \$6.2 million as the result of the College recording its proportionate share of the Michigan Public School Employee's Retirement System ("MPSERS") net OPEB liability and related deferred outflows.

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 (\$225,698 and \$206,598 for 2019 and 2018, respectively), future maintenance and capital improvements (\$1,920,060 and \$2,164,622 for 2019 and 2018, respectively), and quasi-endowment (\$2,000,000 for 2019 and 2018) (Note 1).

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2019, 2018, and 2017 (in thousands):

	Operating Results for the Years Ended June 30 (in thousands)		
	2019	2018	2017
Operating Revenue			
Tuition and fees - net	\$ 4,400	\$ 4,361	\$ 4,207
Grants and contracts	456	375	342
Auxiliary activities	1,087	1,228	1,158
Miscellaneous	<u>455</u>	<u>311</u>	<u>237</u>
Total operating revenue	<u>6,398</u>	<u>6,275</u>	<u>5,944</u>
Operating Expenses			
Instruction	5,502	5,168	5,650
Public service	98	18	15
Instructional support	3,156	3,284	3,009
Student services	2,704	2,860	2,964
Institutional administration	2,095	1,751	2,151
Operation and maintenance of physical plant	2,202	1,824	2,013
Information technology	1,122	909	990
Depreciation and amortization expense	1,567	1,572	1,636
Other expenses	<u>-</u>	<u>185</u>	<u>204</u>
Total operating expenses	<u>18,446</u>	<u>17,571</u>	<u>18,632</u>
Net operating loss	<u>(12,048)</u>	<u>(11,296)</u>	<u>(12,688)</u>
Nonoperating revenue (expense)			
State appropriations	3,544	3,591	3,671
Federal Pell grant	2,389	2,611	2,547
Property tax levy	8,170	7,897	7,524
Gifts	68	87	120
Investment income	164	61	8
(Loss) gain on disposal of capital assets	(159)	1	-
Interest on capital asset related debt	<u>(510)</u>	<u>(389)</u>	<u>(355)</u>
Net nonoperating revenue	<u>13,666</u>	<u>13,859</u>	<u>13,515</u>
Other revenue			
State capital grant	<u>-</u>	<u>-</u>	<u>970</u>
Increase in net position	1,618	2,563	1,797
Net position beginning of year	2,671	6,281	4,484
Cumulative effect of change in accounting principle	<u>-</u>	<u>(6,173)</u>	<u>-</u>
Net position - beginning of year, as revised	<u>2,671</u>	<u>108</u>	<u>4,484</u>
Net position - end of year	<u>\$ 4,289</u>	<u>\$ 2,671</u>	<u>\$ 4,484</u>

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total Revenue

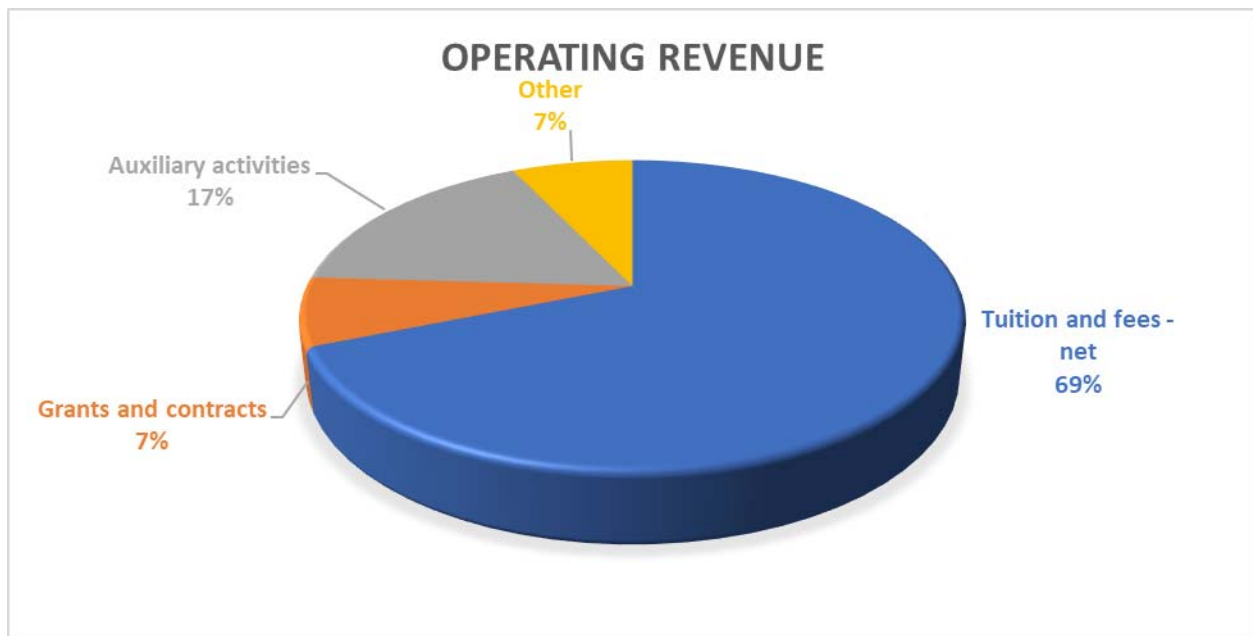
Enrollment remained stable for fiscal year 2019. A slight increase in revenue can be attributed to higher investment returns and an increase in property tax revenues.

The major changes in revenue for fiscal year 2018 were results of a third straight year of enrollment leveling off. Auxiliary activities increased as a result of a full year of operation of the new community room rentals at the College's Grayling location, as well as a full year of operational control and oversight of the Gaylord University Center.

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 2019 was as follows:



Some of the operating revenue changes for 2019 were the result of the following factors:

The financial statements reflect an increase in net student tuition and fee revenue of approximately \$38,000 related to a stabilization in enrollment, as well as an increase in tuition and fee rates. An increase in miscellaneous income of approximately \$144,000 was primarily due to reimbursement for remodeling costs to the University Center from Otsego County in the amount of \$125,000.

Some of the operating revenue changes for 2018 were the result of the following factors:

The financial statements reflect an increase in net student tuition and fee revenue of approximately \$154,000 and an increase in auxiliary activities of approximately \$70,000 related to a stabilization in enrollment, as well as an increase in tuition and fee rates. Auxiliary revenues were higher due to a full year usage of the community room rentals and catering at the Grayling campus.

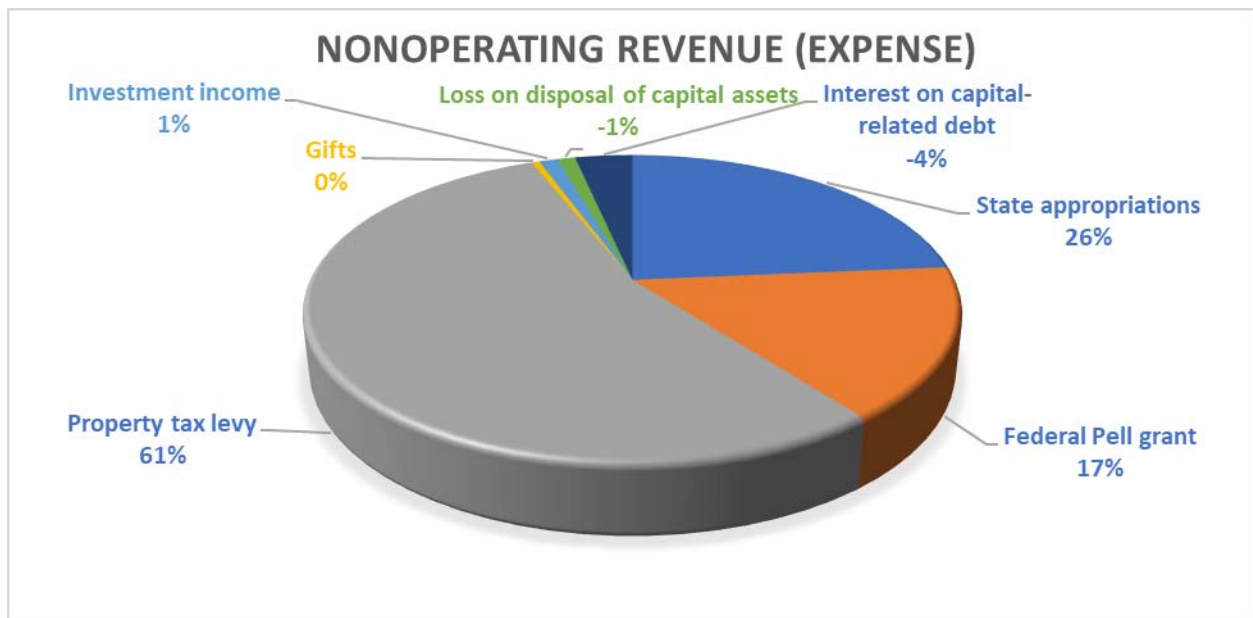
KIRTLAND COMMUNITY COLLEGE

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 year.

Nonoperating revenue (expense) for fiscal year 2019 was as follows:



Factors affecting changes in nonoperating revenue (expense) for 2019 include:

- Property taxes increased in 2019 by approximately \$273,000 or 3.5 percent.
- Pell grants decreased by approximately \$223,000 or 8.5 percent

Factors affecting changes in nonoperating revenue (expense) for 2018 include:

- Property taxes increased in 2018 by approximately \$373,000 or 5.0 percent.
- Pell grants increased by approximately \$64,000 or 2.5 percent

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

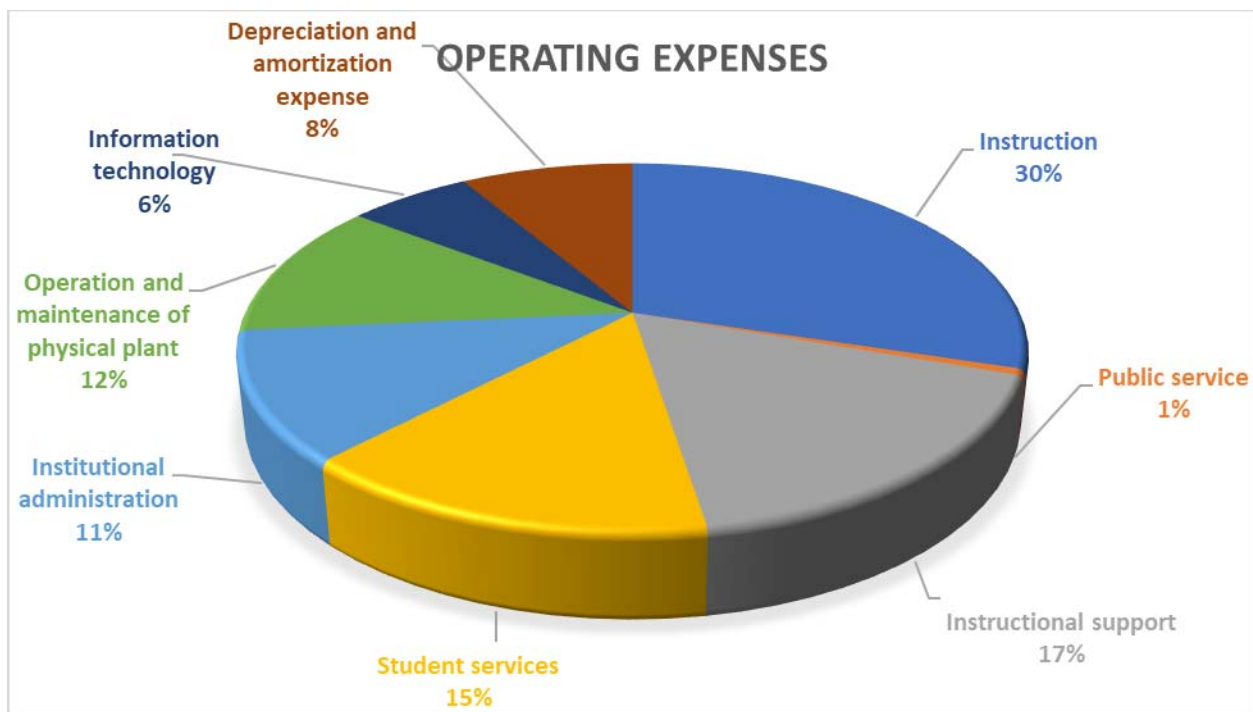
Other Revenues

Investment income was approximately \$103,000 higher in 2019 due to a shift in investment strategy and increase reserves of the college. For 2018, State capital grant decreased by approximately \$970,000 or 100.0 percent as a result of the Community College Skilled Trades Equipment Program ("CCSTEP") grant being completed in fiscal 2017.

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 \$876,000 (5.0 percent) and decreased approximately \$1,106,000 (5.9 percent) for fiscal years 2019 and 2018, 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 2019 were as follows:



Factors affecting the increase in operating expenses in 2019 were the results of increased health insurance costs, updates to the welding labs at the Gaylord campus, as well as increases in general operational costs associated with the additional square footage of the new Grayling campus.

Factors affecting the decrease in operating expenses in 2018 were the results from reductions in the operations and workforce. This initiative has been an ongoing goal for the College since 2011. In 2017 approximately \$970,000 of matching funds were spent for the CCSTEP grant.

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Cash Flows for the Year Ended June 30 (in thousands)		
	2019	2018	2017
Cash (Used in) Provided by			
Operating activities	\$ (8,451)	\$ (9,341)	\$ (10,582)
Noncapital financing activities	13,695	13,830	13,626
Capital and related financing activities	(11,165)	3,753	(6,449)
Investing activities	<u>(993)</u>	<u>(309)</u>	<u>(2,113)</u>
Net (Decrease) Increase in Cash	(6,914)	7,933	(5,629)
Cash - Beginning of year	<u>12,036</u>	<u>4,103</u>	<u>9,732</u>
Cash - End of year	<u>\$ 5,122</u>	<u>\$ 12,036</u>	<u>\$ 4,103</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 2019 and 2018, the cash used in operating activities was financed with \$13.7 million and \$13.8 million, respectively, of net cash flows from noncapital financing activities, including property taxes, Pell grants, and state appropriations.

Cash (used in) provided by capital and related financing activities for fiscal years 2019 and 2018 of approximately (\$11.2) million and \$3.8 million, respectively, was primarily related to the completion of the Grayling campus location. Capital and related financing activities during fiscal 2018 included the sale of \$5.6 million in long term bonds, to be used for the construction of the Michigan Forest Products Institute in fiscal 2019.

KIRTLAND COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019, 2018, and 2017, the College had \$33.6 million, \$25.2 million, and \$25.4 million invested in capital assets, net of accumulated depreciation of \$25.1 million, \$23.9 million, and \$22.4 million, respectively. Depreciation charges totaled approximately \$1,567,000 for the current fiscal year.

	Capital Assets as of June 30 (in thousands)		
	2019	2018	2017
Land and land improvements	\$ 2,884	\$ 2,816	\$ 2,946
Buildings and improvements	18,109	18,519	18,867
Furniture, fixtures, and equipment	2,658	3,079	3,557
Construction in progress	9,952	827	-
Total	<u>\$ 33,603</u>	<u>\$ 25,241</u>	<u>\$ 25,370</u>

Additional information about the College's capital assets is presented in Note 6 to the financial statements.

Debt

The College had \$13.1 million, \$13.95 million, and \$9.1 million in debt outstanding at June 30, 2019, 2018, and 2017, respectively. The table below summarizes this amount by type of debt instrument. See note 8 for more information.

	Debt as of June 30 (in thousands)		
	2019	2018	2017
General obligation bonds	<u>\$ 13,065</u>	<u>\$ 13,950</u>	<u>\$ 9,130</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 proposed increase in the state budget reflects a 2.1 percent increase in the College's appropriations for the 2019-2020 fiscal year as compared to the year ended June 30, 2019.

The fall 2019, 2018 and 2017 enrollments have shown a leveling off as compared to the prior three years. The College expects this stabilizing of enrollment to continue for the remainder of the 2019-2020 fiscal year and looks for small increases to occur in the coming years with the impacts of the new main campus in Grayling Michigan and the opening of the Michigan Forest Products Institute in the fall of 2019.

Property tax revenue continues to increase over the past few fiscal years, as the housing market in the College's service area continues to rebound.

The College has bolstered its cash and reserve funds over that past several years from a lower of \$4 million at the end of fiscal 2012 to its current end of year position in 2019 of \$10 million. 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

October 30, 2019

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 years ended June 30, 2019 and 2018, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 opinion.

Opinion

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, 2019 and 2018, and the respective results of their operations and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Notes 1 and 8, the College implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal 2018. Accordingly, beginning net position of business-type activities as of July 1, 2017 was restated. Our opinion is not modified with respect to this matter.

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 and other postemployment benefits ("OPEB") plans, 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The supplementary combining information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements and accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated October 30, 2019, 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.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

FINANCIAL STATEMENTS

KIRTLAND COMMUNITY COLLEGE

Statements of Net Position

	June 30, 2019		June 30, 2018	
	Primary Government	Component Unit	Primary Government	Component Unit
Assets				
Current assets				
Cash and cash equivalents	\$ 5,025,236	\$ 77,538	\$ 6,646,731	\$ 28,529
Short-term investments	5,264,867	-	2,828,668	-
Accounts receivable, net	2,179,342	64,895	1,929,980	66,000
Inventories	209,621	-	203,187	-
Prepaid expenses and other assets	264,783	3,377	187,070	1,733
Total current assets	12,943,849	145,810	11,795,636	96,262
Noncurrent assets				
Long-term investments	1,036,754	1,913,170	2,315,932	1,893,959
Restricted cash	96,415	-	5,389,212	-
Accounts receivable, net of current portion, net	-	-	-	56,711
Capital assets, net	33,603,493	-	25,241,452	-
Total noncurrent assets	34,736,662	1,913,170	32,946,596	1,950,670
Total assets	47,680,511	2,058,980	44,742,232	2,046,932
Deferred outflows of resources				
Deferred pension and OPEB amounts	7,480,226	-	4,242,736	-
Liabilities				
Current liabilities				
Accounts payable	774,092	3,107	508,893	10,376
Accrued payroll and vacation	943,688	-	921,373	-
Other accrued liabilities	585,232	-	600,611	-
Unearned revenue	409,942	-	404,263	-
Long-term obligations - current portion	769,480	-	805,986	-
Total current liabilities	3,482,434	3,107	3,241,126	10,376
Noncurrent liabilities				
Long-term obligations - net of current portion	13,629,766	-	14,542,218	-
Net pension and OPEB liabilities	26,421,027	-	24,700,326	-
Total noncurrent liabilities	40,050,793	-	39,242,544	-
Total liabilities	43,533,227	3,107	42,483,670	10,376
Deferred inflows of resources				
Construction arrangement	2,244,591	-	-	-
Deferred pension and OPEB amounts	5,093,589	-	3,830,534	-
Total deferred inflows of resources	7,338,180	-	3,830,534	-
Net position				
Net investment in capital assets	19,901,026	-	15,903,725	-
Restricted for:				
Expendable	15,578	147,499	14,647	132,213
Nonexpendable	-	619,357	-	590,922
Unrestricted (deficit)	(15,627,274)	1,289,017	(13,247,608)	1,313,421
Total net position	\$ 4,289,330	\$ 2,055,873	\$ 2,670,764	\$ 2,036,556

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, 2019		June 30, 2018	
	Primary Government	Component Unit	Primary Government	Component Unit
Operating revenue				
Tuition and fees, net of scholarship allowance of \$1,747,828 and \$1,906,453 for 2019 and 2018, respectively	\$ 4,399,776	\$ -	\$ 4,361,297	\$ -
Federal grants and contracts	316,860	-	299,616	-
State and local grants and contracts	105,513	-	30,372	-
Private grants and contracts	34,101	-	44,174	-
Auxiliary activities	1,087,436	-	1,228,182	-
Miscellaneous	454,780	-	311,127	-
Total operating revenues	6,398,466	-	6,274,768	-
Operating expenses				
Instruction	5,502,610	-	5,167,847	-
Public service	97,949	-	18,420	-
Instructional support	3,155,891	-	3,284,473	-
Student services	2,703,789	99,345	2,859,935	134,613
Institutional administration	2,095,070	101,787	1,750,866	133,294
Operation and maintenance of physical plant	2,201,761	-	1,823,537	-
Information technology	1,122,151	-	908,485	-
Depreciation and amortization	1,566,976	-	1,571,501	-
Other expenses	-	-	185,442	-
Total operating expenses	18,446,197	201,132	17,570,506	267,907
Operating loss	(12,047,731)	(201,132)	(11,295,738)	(267,907)
Nonoperating revenues (expenses)				
State appropriations	3,543,451	-	3,590,966	-
Federal Pell grant	2,389,084	-	2,611,648	-
Contributed services from the College	-	81,049	-	108,871
Property tax levy	8,170,223	-	7,897,341	-
Gifts	68,001	57,269	86,951	33,497
Investment income	164,072	82,131	60,594	108,685
(Loss) gain on disposal of capital assets	(158,916)	-	1,132	-
Interest on capital asset-related debt	(509,618)	-	(389,436)	-
Net nonoperating revenues	13,666,297	220,449	13,859,196	251,053
Increase (decrease) in net position	1,618,566	19,317	2,563,458	(16,854)
Net position, beginning of year	2,670,764	2,036,556	6,280,710	2,053,410
Cumulative effect of change in accounting principle (Note 1)	-	-	(6,173,404)	-
Adjusted net position, beginning of year	2,670,764	2,036,556	107,306	2,053,410
Net position, end of year	\$ 4,289,330	\$2,055,873	\$ 2,670,764	\$2,036,556

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

KIRTLAND COMMUNITY COLLEGE

Statements of Cash Flows

	Year Ended June 30	
	2019	2018
Cash flows from operating activities		
Tuition and fees	\$ 4,234,184	\$ 4,439,936
Grants and contracts	408,907	1,210,412
Auxiliary activities	1,087,436	1,228,182
Other receipts	539,229	267,371
Payments to suppliers	(8,555,158)	(10,698,758)
Payments to employees	(6,166,119)	(5,788,196)
Net cash used in operating activities	(8,451,521)	(9,341,053)
Cash flows from noncapital financing activities		
Direct lending receipts	2,475,880	2,716,622
Direct lending disbursements	(2,475,880)	(2,716,622)
Property tax levy	7,719,000	7,536,006
Federal Pell grants	2,389,084	2,611,648
State appropriations	3,519,249	3,595,232
Gifts for other than capital purposes	68,001	86,951
Net cash provided by noncapital financing activities	13,695,334	13,829,837
Cash flows from capital and related financing activities		
Purchase of capital assets	(10,093,733)	(1,464,404)
Proceeds from sale of capital assets	5,800	22,680
Issuance of long-term debt	-	5,649,765
Principal paid on capital debt	(885,000)	(380,000)
Debt property tax levy	360,452	358,280
Interest paid on capital asset-related debt	(552,675)	(432,493)
Net cash (used in) provided by capital and related financing activities	(11,165,156)	3,753,828
Cash flows from investing activities		
Proceeds from sale and maturities of investments, net	7,149,063	3,455,463
Purchase of short-term and long-term investments	(8,306,084)	(3,825,023)
Interest received on investments	164,072	60,594
Net cash used in investing activities	(992,949)	(308,966)
Net (decrease) increase in cash and cash equivalents	(6,914,292)	7,933,646
Cash and cash equivalents, beginning of year	12,035,943	4,102,297
Cash and cash equivalents, end of year	\$ 5,121,651	\$ 12,035,943
Reconciliation to Statements of Net Position		
Cash and cash equivalents	\$ 5,025,236	\$ 6,646,731
Restricted cash	96,415	5,389,212
Cash and cash equivalents, end of year	\$ 5,121,651	\$ 12,035,943

continued...

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

KIRTLAND COMMUNITY COLLEGE

Statements of Cash Flows (Concluded)

	Year Ended June 30	
	2019	2018
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (12,047,731)	\$ (11,295,738)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,566,976	1,571,501
Change in operating assets:		
Accounts receivable, net	(134,389)	797,101
Inventories	(6,434)	48,068
Prepaid expenses and other assets	(77,713)	(3,587)
Change in operating liabilities:		
Accounts payable	265,199	(184,150)
Accrued payroll and vacation	22,315	80,012
Unearned revenue	5,679	74,032
Change in deferred construction arrangement	2,244,591	-
Change in net pension and OPEB liabilities and deferred amounts	(253,734)	(477,902)
Other accrued liabilities	(36,280)	49,610
Net cash used in operating activities	\$ (8,451,521)	\$ (9,341,053)
		concluded

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. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Certain modifications have been made to the Foundation's financial information in the College's financial reporting entity for the presentation differences.

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 as a component of investment income. The Foundation's investment income is reported net of external investment expenses.

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 and Depreciation

Capital assets are recorded at cost. Gifts of property are recorded at estimated acquisition 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 reviews these assets to determine whether carrying values have been impaired. Management does not believe any assets are impaired in 2019 and 2018.

The following estimated useful lives are used to compute depreciation:

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

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

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 of the Foundation, 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 net assets with donor restrictions (e.g., the donor-stipulated purpose has been fulfilled) are reclassified 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.

Unearned Revenue

Tuition and fees revenue received and related to periods of instruction that will occur after June 30, 2019 and 2018, have been recorded as unearned. Grants received prior to qualifying expenses 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, and is included within long-term obligations on the accompanying statements of net position. Under the College's policy, employees earn sick time based on time of service with the College.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

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

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Foundation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” The Foundation has been classified as not a private foundation.

The Foundation considers whether it has engaged in activities that jeopardize its current tax-exempt status with the Internal Revenue Service. Furthermore, the Foundation determines whether it has any unrelated business income, which may be subject to federal and state income taxes.

The Foundation has evaluated fiscal years 2015 through 2019, the years which remain subject to examination by major tax jurisdictions as of June 30, 2019, for uncertain tax positions. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in the Foundation's financial statements. The Foundation does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2019 or 2018, and it is not aware of any claims for such amounts by federal or state income tax authorities.

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 and OPEB-related amounts, such as differences between expected and actual experience, changes in assumptions, changes in proportion and differences between employer contributions and proportionate share of contributions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 8.

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 related to the Michigan Forest Products Institute Building construction arrangement with the Michigan State Building Authority. More detailed information related to the Michigan Forest Products construction arrangement can be found in Note 11. The College also reports deferred inflows of resources for certain pension and OPEB-related amounts, such as the difference between expected and actual experience, net difference between projected and actual earnings on plan investments and state appropriations for pensions received subsequent to the measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions. More detailed information can be found in Note 8.

Pension and Other Postemployment Benefits ("OPEB")

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, pension and OPEB 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 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 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.
- *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.
- *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's unrestricted net deficit consists of the following as of June 30:

	2019	2018
Auxiliary fund working capital	\$ 225,698	\$ 206,598
Deferred maintenance and replacement	1,920,060	2,164,622
Quasi-endowment	2,000,000	2,000,000
Pension and OPEB liability fund deficit	(24,034,390)	(24,288,124)
Undesignated	4,261,358	6,669,296
Total unrestricted net deficit	<u>\$ (15,627,274)</u>	<u>\$ (13,247,608)</u>

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 and OPEB plans and the fair value of investments.

Reclassification

Certain amounts as reported in the 2018 financial statements have been reclassified to conform with the 2019 presentation.

New Accounting Pronouncements

As of July 1, 2017, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits ("OPEB") Other Than Pensions*. This statement required the College recognize a net OPEB liability on the statement of net position, equal to the College's proportionate share of the net OPEB 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 OPEB liability of \$6,662,300 and deferred outflows of resources of \$488,896, which resulted in a decrease in net position of \$6,173,404 as of July 1, 2017.

As of July 1, 2017, the Foundation adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU (1) requires the presentation of expenses by functional and natural classification in one location; (2) requires quantitative and qualitative disclosures about liquidity and availability of financial assets; and (3) requires the presentation of investment return net of external and direct internal investment expenses.

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, 2019, the most recent statement of financial position presented herein, through October 30, 2019, 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 College 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, 2019 and 2018, \$1.2657 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 \$6,528,213 and \$6,330,705 for the years ended June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, \$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 \$372,937 and \$357,985 for the years ended June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, \$0.8436 per \$1,000 of taxable property value in the M-Tec taxing district was levied for general operating purposes. Total property tax revenue was \$810,438 and \$785,277 for the years ended June 30, 2019 and 2018, respectively.

Additionally, during the year ended June 30, 2019 and 2018, \$458,635 and \$423,374, respectively, of property tax revenue was collected related to the College's new University Center.

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.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

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, 2019 or 2018.

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.

Commercial Paper: The College reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day and then follows a revised accretion schedule to determine the fair market value at period end. In the absence of any observable market transactions for a particular security, the fair market value at period end is derived by accreting from the last observable market price. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data accreted mathematically to par, and result in the classification of these securities as Level 2 of the fair value hierarchy.

Foundation

Common stock: 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 and Foundation believe their 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:

2019	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
U.S. Government Obligations	\$ 1,036,754	\$ -	\$ -	\$ 1,036,754
Certificates of Deposit	2,000,000	-	-	2,000,000
Commercial Paper	-	3,264,867	-	3,264,867
Total investments	<u>\$ 3,036,754</u>	<u>\$ 3,264,867</u>	<u>\$ -</u>	<u>\$ 6,301,621</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

2018	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
U.S. Government Obligations	\$ 1,299,645	\$ -	\$ -	\$ 1,299,645
Certificates of Deposit	2,015,257	-	-	2,015,257
Commercial Paper	-	1,829,698	-	1,829,698
Total investments	<u>\$ 3,314,902</u>	<u>\$ 1,829,698</u>	<u>\$ -</u>	<u>\$ 5,144,600</u>

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:

2019	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 269,536	\$ -	\$ -	\$ 269,536
Equity mutual funds	1,155,478	-	-	1,155,478
Bond mutual funds	488,156	-	-	488,156
Total investments	<u>\$ 1,913,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,913,170</u>

2018	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 541,169	\$ -	\$ -	\$ 541,169
Equity mutual funds	1,157,752	-	-	1,157,752
Bond mutual funds	195,038	-	-	195,038
Total investments	<u>\$ 1,893,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,893,959</u>

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, 2019, 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	\$ 1,036,754	\$ -	\$ -	\$ 215,559	\$ 821,195
Certificates of Deposit	2,000,000	2,000,000	-	-	-
Commercial Paper	3,264,867	3,264,867	-	-	-
Total	<u>\$ 6,301,621</u>	<u>\$ 5,264,867</u>	<u>\$ -</u>	<u>\$ 215,559</u>	<u>\$ 821,195</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

As of June 30, 2018, 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	\$ 1,299,645	\$ -	\$ -	\$ 268,148	\$ 1,031,497
Certificates of Deposit	2,015,257	998,970	1,016,287	-	-
Commercial Paper	1,829,698	1,829,698	-	-	-
Total	<u>\$ 5,144,600</u>	<u>\$ 2,828,668</u>	<u>\$ 1,016,287</u>	<u>\$ 268,148</u>	<u>\$ 1,031,497</u>

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, 2019, the College's deposit balances of \$7,232,050 had \$5,732,050 of bank deposits (money markets and certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. As of June 30, 2018, the College's deposit balances of \$12,581,115 had \$11,831,115 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.

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, 2019, all commercial paper held by the College had a rating of A1 or A2.

At June 30, 2019 and 2018, the College had debt securities with Federal National Mortgage Association, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation invested at Huntington Bank.

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.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consist of the following at June 30:

	2019	2018
State appropriations	\$ 759,674	\$ 735,472
Federal and state grants	795,672	759,631
Student	369,751	180,114
Property taxes	127,157	36,386
Consumer and other	160,486	233,409
Total accounts receivable	2,212,740	1,945,012
Less allowance for doubtful accounts	(33,398)	(15,032)
Net accounts receivable	\$ 2,179,342	\$ 1,929,980

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.

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. At June 30, 2019 all pledges receivable are to be collected within one year, therefore there is no present value discount at June 30, 2019. The Foundation calculated the net present 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, 2018.

	2019	2018
Receivable in less than one year	\$ 64,895	\$ 66,000
Receivable in one to five years	-	67,640
Less present value discount	-	(10,929)
Pledges receivable, net	\$ 64,895	\$ 122,711

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 695,242	\$ -	\$ -	\$ 695,242
Construction in progress	826,719	9,124,835	-	9,951,554
Subtotal nondepreciable assets	1,521,961	9,124,835	-	10,646,796
Capital assets being depreciated:				
Land improvements	4,692,389	255,011	-	4,947,400
Building and building improvements	34,099,259	422,306	(105,382)	34,416,183
Furniture, fixtures and equipment	8,811,103	291,581	(391,233)	8,711,451
Subtotal depreciable assets	47,602,751	968,898	(496,615)	48,075,034
Total depreciable and nondepreciable assets	49,124,712	10,093,733	(496,615)	58,721,830
Less accumulated depreciation:				
Land improvements	2,571,551	186,669	-	2,758,220
Building and building improvements	15,580,198	831,705	(105,382)	16,306,521
Furniture, fixtures and equipment	5,731,511	548,602	(226,517)	6,053,596
Total accumulated depreciation	23,883,260	\$ 1,566,976	\$ (331,899)	25,118,337
Capital assets, net	\$ 25,241,452			\$ 33,603,493

Construction in progress consists of construction costs for the Michigan Forest Products Institute at the Grayling Campus. The project is expected to be completed and put into service during fiscal year 2020 at an additional cost of approximately \$850,000.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Capital assets activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 695,242	\$ -	\$ -	\$ 695,242
Construction in progress	-	826,719	-	826,719
Subtotal nondepreciable assets	695,242	826,719	-	1,521,961
Capital assets being depreciated:				
Land improvements	4,610,728	81,661	-	4,692,389
Building and building improvements	33,650,269	448,990	-	34,099,259
Furniture, fixtures and equipment	8,801,470	107,034	(97,401)	8,811,103
Subtotal depreciable assets	47,062,467	637,685	(97,401)	47,602,751
Total depreciable and nondepreciable assets	47,757,709	1,464,404	(97,401)	49,124,712
Less accumulated depreciation:				
Land improvements	2,359,718	211,833	-	2,571,551
Building and building improvements	14,783,319	796,879	-	15,580,198
Furniture, fixtures and equipment	5,244,575	562,789	(75,853)	5,731,511
Total accumulated depreciation	22,387,612	\$ 1,571,501	\$ (75,853)	23,883,260
Capital assets, net	\$ 25,370,097			\$ 25,241,452

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, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Bond payable					
2017 General Obligation, Limited Bond	\$ 5,200,000	\$ -	\$ (195,000)	\$ 5,005,000	\$ 200,000
2015 General Obligation, Limited Bond	3,920,000	-	(170,000)	3,750,000	175,000
2015 General Obligation, Unlimited Bond	4,505,000	-	(195,000)	4,310,000	200,000
2010 General Obligation, Limited Bond	325,000	-	(325,000)	-	-
Total bonds payable	13,950,000	-	(885,000)	13,065,000	575,000
Deferred amounts					
Series 2017 Unamortized Bond Premium	427,276	-	(22,488)	404,788	22,488
Series 2015 Unamortized Bond Premium	349,663	-	(20,569)	329,094	20,568
Other Long-Term Obligations					
Accrued sick leave	621,265	1,793	(22,694)	600,364	151,424
Total long-term obligations	\$ 15,348,204	\$ 1,793	\$ (950,751)	\$ 14,399,246	\$ 769,480

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Long-term obligation activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Bond payable					
2017 General Obligation, Limited Bond	\$ -	\$ 5,200,000	\$ -	\$ 5,200,000	\$ 195,000
2015 General Obligation, Limited Bond	4,085,000	-	(165,000)	3,920,000	170,000
2015 General Obligation, Unlimited Bond	4,685,000	-	(180,000)	4,505,000	195,000
2010 General Obligation, Limited Bond	360,000	-	(35,000)	325,000	40,000
Total bonds payable	9,130,000	5,200,000	(380,000)	13,950,000	600,000
Deferred amounts					
Series 2017 Unamortized Bond Premium	-	449,765	(22,489)	427,276	22,488
Series 2015 Unamortized Bond Premium	370,231	-	(20,568)	349,663	20,568
Other Long-Term Obligations					
Accrued sick leave	593,595	114,099	(86,429)	621,265	162,930
Total long-term obligations	<u>\$ 10,093,826</u>	<u>\$ 5,763,864</u>	<u>\$ (509,486)</u>	<u>\$ 15,348,204</u>	<u>\$ 805,986</u>

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.

2017 General Obligation, Limited Bond

In November 2017, the College issued \$5,200,000 of 2017 community college facilities general obligation limited bonds for the purpose of funding the expansion of the Health Sciences Education and Training Center. The bonds bear interest ranging from 3.00 to 4.00 percent and require annual payments ranging from \$195,000 to \$380,000 through 2037.

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.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

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. The College paid this bond in full during 2019.

During fiscal year 2020, the College's Board of Trustees approved a resolution authorizing the issuance and delegating the sale of bonds in the amount of \$15 million to be used for erecting, furnishing and equipping a College facility; erecting additions to, remodeling, furnishing and refurnishing and equipping and re-equipping a site. The bonds are expected to be issued on or around November 7, 2019.

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, 2019 are as follows:

Year Ending June 30,	Debt Obligations		
	Principal	Interest	Total
2020	\$ 575,000	\$ 506,700	\$ 1,081,700
2021	600,000	487,450	1,087,450
2022	615,000	467,350	1,082,350
2023	640,000	446,800	1,086,800
2024	660,000	425,400	1,085,400
2025-2029	3,705,000	1,710,200	5,415,200
2030-2034	4,515,000	906,200	5,421,200
2035-2037	1,755,000	115,200	1,870,200
Totals	<u>\$ 13,065,000</u>	<u>\$ 5,065,300</u>	<u>\$18,130,300</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

8. RETIREMENT PLAN

Defined Benefit Plan

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or "MPERS"+E503) 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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 the ORS website at www.michigan.gov/orsschools.

Pension 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 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.

A DB member 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.

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Contributions

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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	29.21% - 30.46%
Member Investment Plan (MIP)	3.00% - 7.00%	29.21% - 30.46%
Pension Plus	3.00% - 6.40%	27.93% - 28.67%
Pension Plus 2	6.20%	31.06% - 31.80%
Defined Contribution	0.00%	24.86% - 25.60%

Required contributions to the pension plan from the College were \$1,793,690, \$1,906,804 and \$1,630,652 for the years ended June 30, 2019, 2018 and 2017, respectively.

The table below summarizes OPEB contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

Required contributions to the OPEB plan from the College were \$446,611, \$426,950 and \$569,834 for the years ended June 30, 2019, 2018 and 2017, respectively.

The table below summarizes defined contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the years ended June 30, 2019, 2018 and 2017, required and actual contributions from the College for those members with a defined contribution benefit were \$40,953, \$29,469 and \$21,480, respectively.

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, 2019 and 2018, the College reported a liability of \$20,915,218 and \$18,384,023, respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2017 and 2016, 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, 2018, the College's proportion was 0.06957%, which was a decrease of 0.00137% points from its proportion measured as of September 30, 2017 of 0.07094%.

For the year ended June 30, 2019, the College recognized pension expense of \$1,829,066. At June 30, 2019, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
2019			
Differences between expected and actual experience	\$ 97,051	\$ 151,987	\$ (54,936)
Changes in assumptions	4,843,947	-	4,843,947
Net difference between projected and actual earnings on pension plan investments	-	1,430,069	(1,430,069)
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,831	1,329,067	(1,322,236)
	<u>4,947,829</u>	<u>2,911,123</u>	<u>2,036,706</u>
College contributions subsequent to the measurement date	1,589,855	-	1,589,855
Pension portion of Sec 147c state aid award subsequent to the measurement date	-	789,226	(789,226)
	<u>1,589,855</u>	<u>789,226</u>	<u>800,629</u>
Total	<u>\$ 6,537,684</u>	<u>\$ 3,700,349</u>	<u>\$ 2,837,335</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

The \$1,589,855 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, 2020. The \$789,226 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ 689,816
2021	631,579
2022	472,708
2023	<u>242,603</u>
Total	<u>\$ 2,036,706</u>

For the year ended June 30, 2018, the College recognized pension expense of \$1,188,221. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
2018			
Differences between expected and actual experience	\$ 159,770	\$ 90,207	\$ 69,563
Changes in assumptions	2,014,116	-	2,014,116
Net difference between projected and actual earnings on pension plan investments	-	878,877	(878,877)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>16,613</u>	<u>1,778,750</u>	<u>(1,762,137)</u>
	<u>2,190,499</u>	<u>2,747,834</u>	<u>(557,335)</u>
College contributions subsequent to the measurement date	1,690,130	-	1,690,130
Pension portion of Sec 147c state aid award subsequent to the measurement date	<u>-</u>	<u>869,163</u>	<u>(869,163)</u>
	<u>1,690,130</u>	<u>869,163</u>	<u>820,967</u>
Total	<u>\$ 3,880,629</u>	<u>\$ 3,616,997</u>	<u>\$ 263,632</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the College reported a liability of \$5,505,809 and \$6,316,303, respectively, for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuations rolled forward from September 30, 2017 and 2016, respectively. The College's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the College's proportion was 0.06926%, which was a decrease of 0.00207% points from its proportion measured as of September 30, 2017 of 0.07133%.

For the year ended June 30, 2019, the College recognized OPEB expense of \$235,200. At June 30, 2019, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
2019			
Differences between expected and actual experience	\$ -	\$ 1,024,772	\$ (1,024,772)
Change in assumptions	583,068	-	583,068
Net difference between projected and actual earnings on OPEB plan investments	-	211,601	(211,601)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,829	156,867	(155,038)
	<u>584,897</u>	<u>1,393,240</u>	<u>(808,343)</u>
College contributions subsequent to the measurement date	357,645	-	357,645
Total	<u>\$ 942,542</u>	<u>\$ 1,393,240</u>	<u>\$ (450,698)</u>

The \$357,645 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2020	\$ (194,901)
2021	(194,901)
2022	(194,901)
2023	(151,994)
2024	<u>(71,646)</u>
Total	<u>\$ (808,343)</u>

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Notes to Financial Statements

For the year ended June 30, 2018, the College recognized OPEB expense of \$423,009. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

2018	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 67,250	\$ (67,250)
Net difference between projected and actual earnings on OPEB plan investments	-	146,287	(146,287)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,356	-	2,356
	<u>2,356</u>	<u>213,537</u>	<u>(211,181)</u>
College contributions subsequent to the measurement date	359,751		359,751
	<u>359,751</u>	<u></u>	<u>359,751</u>
Total	\$ 362,107	\$ 213,537	\$ 148,570

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.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

The total pension and OPEB liabilities in the September 30, 2017 and 2016 actuarial valuations (for the fiscal years ended June 30, 2019 and 2018) were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation	2.75% (3.50% for 2016)
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
	3.5% - 12.3%, including wage inflation at 3.5% (for 2016)
Investment rate of return	
MIP and Basic plans (non-hybrid)	7.05% (7.50% for 2016)
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15% (7.50% for 2016)
Cost of living adjustments	3.0% annual non-compounded for MIP members
Healthcare cost trend	7.5% Year 1 graded to 3.0% (3.5% for 2016) Year 12
Mortality	2017 - RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.
	2016 - RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan.
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

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, 2018 and 2017, are summarized in the following tables:

2018			
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity pools	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.91%</u>
Investment rate of return			<u>7.05%</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

2017			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		5.45%
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

Long-term Expected return on OPEB Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2018 and 2017, are summarized in the following tables:

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

2018			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.81%</u>
Investment rate of return			<u>7.15%</u>
2017			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		5.45%
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Discount Rate

A discount rate of 7.05% (7.50% for 2018) was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 7.15% (7.50% for 2018) was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 7.05% (7.50% for 2018) (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15% (7.50% for 2018), respectively. The projection of cash flows used to determine these discount rates 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 and OPEB 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher as of June 30, 2019:

	1% Decrease (6.05% / 6.00% / 5.00%)	Current Discount Rate (7.05% / 7.00% / 6.00%)	1% Increase (8.05% / 8.00% / 7.00%)
As of June 30, 2019			

College's proportionate share of the net pension liability	\$ 27,460,066	\$ 20,915,218	\$ 15,477,514
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The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher as of June 30, 2018:

	1% Decrease (6.50% / 6.00%)	Current Discount Rate (7.50% / 7.00%)	1% Increase (8.50% / 8.00%)
As of June 30, 2018			

College's proportionate share of the net pension liability	\$ 23,948,268	\$ 18,384,023	\$ 13,699,284
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KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Sensitivity of College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the College's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher as of June 30, 2019:

As of June 30, 2019	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.50%)
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College's proportionate share of the net OPEB liability	\$ 6,609,612	\$ 5,505,809	\$ 4,577,376
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The following presents the College's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher as of June 30, 2018:

As of June 30, 2018	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
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College's proportionate share of the net OPEB liability	\$ 7,398,216	\$ 6,316,303	\$ 5,398,097
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Sensitivity of College's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the College's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage higher as of June 30:

2019	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
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College's proportionate share of the net OPEB liability	\$ 4,528,467	\$ 5,505,809	\$ 6,627,019
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2018	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
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College's proportionate share of the net OPEB liability	\$ 5,349,059	\$ 6,316,303	\$ 7,414,540
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KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2019, the College reported a payable of \$206,773 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019. As of June 30, 2018, the College reported a payable of \$192,568 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2019, the College reported a payable of \$28,334 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019. At June 30, 2018, the College reported a payable of \$27,100 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

Defined Contribution Plan

Effective January 1, 1999, amended February 8, 2019, administrators and full-time faculty of the College may elect to participate in an Optional Retirement Program (ORP) in lieu of participating in the MPSERS plan. The ORP is a defined contribution plan affiliated with VALIC Retirement Services Company. As of June 30, 2019 and 2018, the plan had 5 and 4 participants, respectively. Under ORP, the College contributes 12.0 percent and the participant contributes 4.0 percent of the participant's compensation. Participants are immediately 100 percent vested in all ORP contributions. Total contributions by the College were \$44,467 and \$37,292 for the years ended June 30, 2019 and 2018, respectively. Total contributions by employees were \$14,822 and \$12,430 for the years ended June 30, 2019 and 2018, 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. Expenses related to the vision and dental plans during the years ended June 30, 2019 and 2018 totaled \$125,138 and \$109,958, respectively. Expenses related to the medical plan during the years ended June 30, 2019 and 2018 totaled \$907,935 and \$713,170, respectively, which includes an estimate of claims incurred but not reported at June 30, 2019 and 2018.

	Vision and Dental Liability		
	2019	2018	2017
Unpaid claims - beginning of year	\$ -	\$ -	\$ -
Incurred claims	125,138	109,958	111,909
Claims payments	125,138	109,958	111,909
Unpaid claims - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Health Liability		
	2019	2018	2017
Unpaid claims - beginning of year	\$ 386,806	\$ 294,107	\$ 274,112
Incurred claims	907,935	713,170	786,964
Claims payments	807,275	620,471	766,969
Unpaid claims - end of year	<u>\$ 487,466</u>	<u>\$ 386,806</u>	<u>\$ 294,107</u>

11. MICHIGAN FOREST PRODUCTS INSTITUTE BUILDING PARTNERSHIP

The College entered into an agreement in October 2017 with the Michigan State Building Authority (the "Authority") for the construction of the Michigan Forest Products Institute Building. Under the terms of the Agreement, the total authorized cost of the building is \$6,100,000, of which the Authority will provide funding of \$3,049,900 and the College must fund the remaining balance. Draws from the agreement are recorded as deferred inflows by the College and revenue will be recognized over a 20-year term per the agreement. No revenue was recognized in the current year due to timing of receipts.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

12. 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, 2019 and 2018, the stated value of the net position of the Foundation totaled \$2,055,873 and \$2,036,556, respectively.

Restricted net position consists of the following at June 30:

	2019	2018
Expendable for specified purpose:		
Scholarships and financial aid	\$ 140,605	\$ 125,319
Center for Performing Arts	6,894	6,894
	<u>147,499</u>	<u>132,213</u>
Nonexpendable endowments		
Subject to endowment spending policy and appropriation:		
Scholarships and financial aid	608,629	580,194
Center for Performing Arts	10,728	10,728
	<u>619,357</u>	<u>590,922</u>
Total restricted net position	<u>\$ 766,856</u>	<u>\$ 723,135</u>

Contributions to and payments on behalf of the College by the Foundation approximated \$99,000 and \$135,000 in the fiscal years ended June 30, 2019 and 2018, respectively.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

13. FOUNDATION LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following for the Foundation as of June 30, 2019:

Financial assets

Cash and cash equivalents	\$ 77,538
Accounts receivable, net	64,895
Investments	<u>1,913,170</u>
	2,055,603

**Less amounts unavailable for general expenditures
within one year due to:**

Net position with donor restrictions	<u>766,856</u>
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**Total financial assets available for general use
within one year**

\$ 1,288,747

The endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation has a policy of appropriating for distribution each year 2.5% of the fair value of investment holdings as of the beginning of the year for the fiscal year in which the distribution is planned. This distribution does not have to be taken if the Foundation Board of Directors determines it is not needed. Unspent 2.5% distribution funds can be used in future years if approved by the Board. If, at any time, the fair value of the endowments is less than the principal amount, the principal will be held whole.

KIRTLAND COMMUNITY COLLEGE

Notes to Financial Statements

14. FUNCTIONAL ALLOCATION OF EXPENSES - FOUNDATION

The tables below present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are generally allocated between program services and supporting services based on specific identification. The Foundation's program services and supporting services expenses are included in student services and institutional administration expenses, respectively, in the accompanying statements of revenues, expenses, and changes in net position.

	Year Ended June 30, 2019			
	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Scholarships and grants	\$ 99,345	\$ -	\$ -	\$ 99,345
Personnel services received from				
Kirtland Community College	-	81,801	-	81,801
Operations	-	264	-	264
Professional fees	-	18,075	-	18,075
Travel and meeting	-	1,470	-	1,470
Other	-	177	-	177
Total expenses	\$ 99,345	\$ 101,787	\$ -	\$ 201,132

	Year Ended June 30, 2018			
	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Scholarships and grants	\$ 134,613	\$ -	\$ -	\$ 134,613
Personnel services received from				-
Kirtland Community College	-	110,677	-	110,677
Fundraising expenses	-	-	2,258	2,258
Operations	-	1,048	-	1,048
Professional fees	-	17,700	-	17,700
Travel and meeting	-	780	-	780
Other	-	831	-	831
Total expenses	\$ 134,613	\$ 131,036	\$ 2,258	\$ 267,907

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**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 June 30,				
	2019	2018	2017	2016	2015
College's proportionate share of the net pension liability	\$20,915,218	\$18,384,023	\$19,074,343	\$18,701,369	\$18,658,349
College's proportion of the net pension liability	0.06957%	0.07094%	0.07645%	0.07657%	0.08471%
College's covered payroll	\$ 5,918,399	\$ 5,788,356	\$ 6,331,048	\$ 6,487,088	\$ 7,227,586
College's proportionate share of the net pension liability as a percentage of its covered payroll	353.39%	317.60%	301.28%	288.29%	258.15%
Plan fiduciary net position as a percentage of the total pension liability	62.36%	64.21%	63.27%	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 the College's Pension Contributions

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 1,793,690	\$ 1,906,804	\$ 1,630,652	\$ 1,730,331	\$ 1,386,796
Contributions in relation to the statutorily required contribution	<u>(1,793,690)</u>	<u>(1,906,804)</u>	<u>(1,630,652)</u>	<u>(1,730,331)</u>	<u>(1,386,796)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 5,789,037	\$ 5,915,953	\$ 5,827,938	\$ 6,166,021	\$ 6,598,213
Contributions as a percentage of covered payroll	30.98%	32.23%	27.98%	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.

KIRTLAND COMMUNITY COLLEGE

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Proportionate Share of the Net Other Postemployment Benefits Liability

	Year Ended June 30,	
	2019	2018
College's proportionate share of the net OPEB liability	\$ 5,505,809	\$ 6,316,303
College's proportion of the net OPEB liability	0.06926%	0.07133%
College's covered payroll	\$ 5,918,399	\$ 5,788,356
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	93.03%	109.12%
Plan fiduciary net position as a percentage of the total OPEB liability	42.95%	36.39%

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

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KIRTLAND COMMUNITY COLLEGE

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Other Postemployment Benefits Contributions

	Year Ended June 30,	
	2019	2018
Statutorily required contribution	\$ 446,611	\$ 426,950
Contributions in relation to the statutorily required contribution	<u>(446,611)</u>	<u>(426,950)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 5,789,037	\$ 5,915,953
Contributions as a percentage of covered payroll	7.71%	7.22%

Note: GASB 75 was implemented in fiscal year 2018. 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, 2019 (Unaudited) (with comparative totals for 2018)

	General Fund	Pension and OPEB Fund	Restricted MPSERS	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, 2019	Combined Total June 30, 2018
Assets														
Current assets														
Cash and cash equivalents	\$ 5,024,186	\$ -	\$ -	\$ -	\$ 1,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,025,236	\$ 6,646,731
Short-term investments	5,264,867	-	-	-	-	-	-	-	-	-	-	-	5,264,867	2,828,668
Accounts receivable, net	1,208,951	-	-	61,235	66,515	795,672	980	960	45,029	-	-	-	2,179,342	1,929,980
Inventories	23,071	-	-	-	186,550	-	-	-	-	-	-	-	209,621	203,187
Prepaid expenses and other assets	258,081	-	-	-	6,702	-	-	-	-	-	-	-	264,783	187,070
Due from (to) other funds	(9,585,795)	-	143,494	183,138	227,885	(659,689)	320,657	1,681,582	5,607,055	-	81,673	2,000,000	-	-
Total current assets	2,193,361	-	143,494	244,373	488,702	135,983	321,637	1,682,542	5,652,084	-	81,673	2,000,000	12,943,849	11,795,636
Noncurrent assets														
Long-term investments	1,036,754	-	-	-	-	-	-	-	-	-	-	-	1,036,754	2,315,932
Restricted cash	-	-	-	-	-	-	96,415	-	-	-	-	-	96,415	5,389,212
Capital assets:														
Land	-	-	-	-	-	-	-	-	-	695,242	-	-	695,242	695,242
Land improvements	-	-	-	-	-	-	-	-	-	4,947,400	-	-	4,947,400	4,692,389
Buildings	-	-	-	-	-	-	-	-	-	34,416,183	-	-	34,416,183	34,099,259
Equipment and books	-	-	-	-	-	-	-	-	-	8,711,451	-	-	8,711,451	8,811,103
Allowance for depreciation	-	-	-	-	-	-	-	-	-	(25,118,337)	-	-	(25,118,337)	(23,883,260)
Construction in progress	-	-	-	-	-	-	9,951,554	-	-	-	-	-	9,951,554	826,719
Total capital assets	-	-	-	-	-	-	9,951,554	-	-	23,651,939	-	-	33,603,493	25,241,452
Total noncurrent assets	1,036,754	-	-	-	-	-	10,047,969	-	-	23,651,939	-	-	34,736,662	32,946,596
Total assets	3,230,115	-	143,494	244,373	488,702	135,983	10,369,606	1,682,542	5,652,084	23,651,939	81,673	2,000,000	47,680,511	44,742,232
Deferred outflows of resources														
Deferred pension and OPEB amounts	-	7,480,226	-	-	-	-	-	-	-	-	-	-	7,480,226	4,242,736
Liabilities														
Current liabilities														
Accounts payable	503,932	-	143,494	610	6,992	119,064	-	-	-	-	-	-	774,092	508,893
Accrued payroll and vacation	914,322	-	-	6,245	21,780	1,341	-	-	-	-	-	-	943,688	921,373
Other accrued liabilities	457,024	-	-	-	4,346	-	-	-	42,189	-	81,673	-	585,232	600,611
Unearned revenue	180,056	-	-	-	229,886	-	-	-	-	-	-	-	409,942	404,263
Long-term obligations - current portion	151,424	-	-	-	-	-	-	-	618,056	-	-	-	769,480	805,986
Total current liabilities	2,206,758	-	143,494	6,855	263,004	120,405	-	-	660,245	-	81,673	-	3,482,434	3,241,126
Noncurrent liabilities														
Long-term obligations - net of current portion	-	-	-	-	-	-	-	-	13,629,766	-	-	-	13,629,766	14,542,218
Net pension and OPEB liabilities	-	26,421,027	-	-	-	-	-	-	-	-	-	-	26,421,027	24,700,326
Total noncurrent liabilities	-	26,421,027	-	-	-	-	-	-	13,629,766	-	-	-	40,050,793	39,242,544
Total liabilities	2,206,758	26,421,027	143,494	6,855	263,004	120,405	-	-	14,290,011	-	81,673	-	43,533,227	42,483,670
Deferred inflows of resources														
Construction arrangement	-	-	-	-	-	-	2,244,591	-	-	-	-	-	2,244,591	-
Deferred pension and OPEB amounts	-	5,093,589	-	-	-	-	-	-	-	-	-	-	5,093,589	3,830,534
Tota deferred inflows of resources	-	5,093,589	-	-	-	-	2,244,591	-	-	-	-	-	7,338,180	3,830,534
Net position (deficit)														
Net investment in capital assets	-	-	-	-	-	-	10,047,969	-	(13,798,882)	23,651,939	-	-	19,901,026	15,903,725
Restricted - expendable	-	-	-	-	-	15,578	-	-	-	-	-	-	15,578	14,647
Unrestricted (deficit)	1,023,357	(24,034,390)	-	237,518	225,698	-	(1,922,954)	1,682,542	5,160,955	-	-	2,000,000	(15,627,274)	(13,247,608)
Total net position (deficit)	\$ 1,023,357	\$ (24,034,390)	\$ -	\$ 237,518	\$ 225,698	\$ 15,578	\$ 8,125,015	\$ 1,682,542	\$ (8,637,927)	\$ 23,651,939	\$ -	\$ 2,000,000	\$ 4,289,330	\$ 2,670,764

KIRTLAND COMMUNITY COLLEGE

Combining Statement of Revenues, Expenses, Transfers and Changes in Net Position (Deficit) Year Ended June 30, 2019 (Unaudited) (with comparative totals for 2018)

	General Fund	Pension and OPEB 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, 2019	Combined Total June 30, 2018
Operating revenues														
Tuition and fees, net	\$ 6,147,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,747,828)	\$ 4,399,776	\$ 4,361,297
Federal grants and contracts	-	-	-	-	-	316,860	-	-	-	-	-	-	316,860	299,616
State and local grants and contracts	-	-	-	-	-	105,513	-	-	-	-	-	-	105,513	30,372
Private gifts, grants, and contracts	22,575	-	-	-	-	11,526	-	-	-	-	-	-	34,101	44,174
Auxiliary activities	-	-	-	-	1,087,436	-	-	-	-	-	-	-	1,087,436	1,228,182
Indirect cost recoveries	20,841	-	-	-	-	(4,070)	-	-	-	-	-	(16,771)	-	-
Current funds expenditures for equipment and capital improvements	-	-	-	-	-	-	-	-	-	968,898	-	(968,898)	-	-
Miscellaneous	220,337	-	-	234,443	-	-	-	-	-	-	-	-	454,780	311,127
Total operating revenues	6,411,357	-	-	234,443	1,087,436	429,829	-	-	-	968,898	-	(2,733,497)	6,398,466	6,274,768
Operating expenses														
Instruction	5,277,322	(469,439)	355,230	135,821	-	311,203	-	-	(2,286)	-	-	(105,241)	5,502,610	5,167,847
Public service	4,721	(8,030)	101,258	-	-	-	-	-	-	-	-	-	97,949	18,420
Instructional support	1,859,068	(142,051)	54,693	5,907	1,407,933	14,559	-	-	-	-	-	(44,218)	3,155,891	3,284,473
Student services	2,171,287	(217,352)	6,077	-	-	2,491,605	-	-	-	-	-	(1,747,828)	2,703,789	2,859,935
Institutional administration	2,063,791	(133,811)	164,475	-	-	615	-	-	-	-	-	-	2,095,070	1,750,866
Operation and maintenance of physical plant	1,868,408	(72,277)	107,493	-	-	-	-	1,134,347	-	-	-	(836,210)	2,201,761	1,823,537
Information technology	1,122,151	-	-	-	-	-	-	-	-	-	-	-	1,122,151	908,485
Depreciation and amortization	-	-	-	-	-	-	-	-	-	1,566,976	-	-	1,566,976	1,571,501
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	185,442
Total operating expenses	14,366,748	(1,042,960)	789,226	141,728	1,407,933	2,817,982	-	1,134,347	(2,286)	1,566,976	-	(2,733,497)	18,446,197	17,570,506
Operating (loss) income	(7,955,391)	1,042,960	(789,226)	92,715	(320,497)	(2,388,153)	-	(1,134,347)	2,286	(598,078)	-	-	(12,047,731)	(11,295,738)
Nonoperating revenues (expenses)														
State appropriations	3,543,451	(789,226)	789,226	-	-	-	-	-	-	-	-	-	3,543,451	3,590,966
Federal Pell grant	-	-	-	-	-	2,389,084	-	-	-	-	-	-	2,389,084	2,611,648
Property taxes	7,338,651	-	-	-	458,635	-	-	-	372,937	-	-	-	8,170,223	7,897,341
Gifts	-	-	-	-	-	-	68,001	-	-	-	-	-	68,001	86,951
Investment income - interest	67,699	-	-	-	-	-	1,109	41,243	(1,500)	-	55,521	-	164,072	60,594
(Loss) gain on disposal of capital assets	-	-	-	-	-	-	-	-	-	(158,916)	-	-	(158,916)	1,132
Interest on capital asset - related debt	-	-	-	-	-	-	-	-	(509,618)	-	-	-	(509,618)	(389,436)
Net nonoperating revenues (expenses)	10,949,801	(789,226)	789,226	-	458,635	2,389,084	69,110	41,243	(138,181)	(158,916)	55,521	-	13,666,297	13,859,196
Transfers (out) in	(2,953,860)	-	-	-	(119,038)	-	1,725,000	755,827	653,392	(5,800)	(55,521)	-	-	-
Increase (decrease) in net position	40,550	253,734	-	92,715	19,100	931	1,794,110	(337,277)	517,497	(762,794)	-	-	1,618,566	2,563,458
Net position (deficit), beginning of year	982,807	(24,288,124)	-	144,803	206,598	14,647	6,330,905	2,019,819	(9,155,424)	24,414,733	2,000,000	-	2,670,764	6,280,710
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,173,404)
Adjusted net position (deficit), beginning of year	982,807	(24,288,124)	-	144,803	206,598	14,647	6,330,905	2,019,819	(9,155,424)	24,414,733	2,000,000	-	2,670,764	107,306
Net position (deficit), end of year	\$ 1,023,357	\$ (24,034,390)	\$ -	\$ 237,518	\$ 225,698	\$ 15,578	\$ 8,125,015	\$ 1,682,542	\$ (8,637,927)	\$ 23,651,939	\$ 2,000,000	\$ -	\$ 4,289,330	\$ 2,670,764