Northwestern Michigan College

Financial Report

with Supplementary Information

June 30, 2023

Contents

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Northwestern Michigan College

Report on the Audits of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and discretely presented component unit of Northwestern Michigan College (the "College") as of and for the years ended June 30, 2023 and 2022 and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Northwestern Michigan College and its discretely presented component unit, Northwestern Michigan College Foundation (the "Foundation"), as of June 30, 2023 and 2022 and the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the College and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of Northwestern Michigan College Foundation were not audited under *Government Auditing Standards*.

Emphasis of Matter

As discussed in Note 13, the Foundation switched to reporting under requirements of the Governmental Accounting Standards Board (GASB) in accordance with the requirements under the governmental reporting model established by the GASB given that the majority of the members of the governing body are appointed by a governmental entity (Northwestern Michigan College). Our opinion is not modified with respect to this matter.

Report on Prior Year Financial Statements

In our report dated October 12, 2022, we expressed a qualified opinion that the June 30, 2022 financial statements did not fairly present the financial position, results of operations, and cash flows of the Foundation in accordance with accounting principles generally accepted in the United States of America. As described in Note 13, the Foundation has restated its 2022 financial statements to conform with GAAP reporting under GASB. Accordingly, our present opinion on the June 30, 2022 financial statements, as presented herein, is different from that expressed in our previous report.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Trustees
Northwestern Michigan College

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the basic financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the basic financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the basic financial statements.
- Obtain an understanding of internal control relevant to the audits 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the basic financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the College's proportionate share of the net pension liability, schedule of pension contributions, schedule of the College's proportionate share of the net OPEB liability, and schedule of OPEB contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 audits 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.

To the Board of Trustees
Northwestern Michigan College

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the accompanying listing of board of trustees and administrative officials, which is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Our opinion on the basic financial statements does not cover such information, and we do not express an opinion or any form of assurance thereon.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023 on our consideration of Northwestern Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of Northwestern Michigan College's 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 Northwestern Michigan College's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 18, 2023

The discussion and analysis of Northwestern Michigan College's (the "College") financial statements provide an overview of the College's financial activities for the year ended June 30, 2023. 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 administration.

Using this Report

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

Northwestern Michigan College Foundation (the "Foundation") is included within these statements as a discretely presented 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 under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

This annual financial report includes the management's discussion and analysis, the report of independent auditors, the basic financial statements, notes to the financial statements, required supplementary information, and supplementary information.

Financial Highlights

The College's net position increased by $1.1 million in fiscal year 2023 including activity recognized to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The College's net position decreased by $2.0 million before the adjustments required under those standards. The decrease in net position stems largely from the timing of $7.5 million in Federal COVID-19 revenue that the College recognized in the prior fiscal year as the final usage of those funds; this decrease in federal revenue is offset this fiscal year by increased revenues from state appropriations, property taxes, tuition, and investment income.

Operating property taxes increased 5.9% due to a 9.1% increase in taxable values, offset by tax abatements and millage rate erosion due to the Headlee Amendment. The College had no debt-related property tax revenue in fiscal years 2023 or 2022, as the College's debt millage expired in fiscal year 2020 after the underlying debt was paid. State appropriations for general operations were $10.0 million in fiscal year 2023, an increase of $0.1 million or 1.0%. State appropriations passed through the College for the MPSERS Unfunded Actuarial Accrued Liability ("UAAL") payments were $4.0 million, an increase of $1.6 million from prior year. The College received an additional $423,000 in support from the State to offset mandatory increases in MPSERS employer contribution rates in fiscal year 2023. This compares with $425,000 in fiscal year 2022, a decrease of $2,000. Also included in State appropriations is the State's payment in lieu of personal property taxes, which the State abolished as of December 31, 2015. This formula-based reimbursement was $185,000 for fiscal year 2023, a $9,000 increase from prior year. With the above, total state appropriations increased $1.8 million in fiscal year 2023 compared to prior year.

COVID-19 Relief Funding

On March 11, 2020, the World Health Organization declared a pandemic with the outbreak of a respiratory disease caused by a new coronavirus ("COVID-19"). On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES"), which included formula-based federal support for Colleges and Universities through its Higher Education Emergency Relief Fund ("HEERF I"). The Department of Education allocated $2.2 million from HEERF I to NMC. Half of these funds ("the student portion") were used to provide emergency grants to students in need, while the other half ("the institutional portion") were used to offset institutional costs directly related to changes in the delivery of instruction resulting from the COVID-19 pandemic (or to provide additional emergency grants to students).

On July 31, 2020, the State passed a retroactive 11% cut to its original 2020 community college appropriation bill in response to revenue shortfalls from the pandemic. This cut in state appropriations revenue was recognized in fiscal year 2020. However, in the same bill, the State replaced the $1.1 million cut in full with pass-through federal funding enacted under the CARES Act called the Coronavirus Relief Fund (CRF). The College incurred $900,000 of CRF expenses in fiscal year 2020, and the remaining $200,000 in fiscal year 2021. The full $1.1 million in CRF revenue was recognized in fiscal year 2021 due to the date of this legislation.

On December 27, 2020, Congress enacted the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"), which includes formula-based support for Colleges and Universities through a second round of HEERF funding ("HEERF II"). The Department of Education awarded $4.3 million from HEERF II to the College. $3.1 million of these funds ("the student portion") were used to provide emergency grants to students in need, while the remaining $1.2 million ("the institutional portion") were used to offset institutional costs or lost revenues directly resulting from the COVID-19 pandemic (or to provide additional emergency grants to students). The College utilized and distributed to students all $4.3 million from HEERF II and recognized the same in revenue in fiscal year 2021.

On March 11, 2021, Congress enacted the American Rescue Plan Act of 2021 ("ARPA"), which includes formula-based support for Colleges and Universities through a third round of HEERF funding ("HEERF III"). The Department of Education awarded $7.5 million from HEERF III to the College. Of the $7.5 million, $3.7 million ("the student portion") were used to provide emergency grants to students while $3.8 million ("the institutional portion") were used to offset institutional costs and lost revenues directly resulting from the COVID-19 pandemic. The College utilized $3.4 and $0.4 million of institutional HEERF III in fiscal years 2021 and 2022, respectively, and distributed the full $3.7 million student portion as emergency grants during fiscal year 2022. The federal COVID-19 Public Health Emergency declaration ended on May 11, 2023.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

The statements of net position and the statements of revenues, expenses, and changes in net position report information on the College's net position and changes therein. These statements include all assets, liabilities, and deferred inflows and outflows using the accrual basis of accounting.

The statements of net position include the College's net pension and other postemployment benefit (OPEB) liabilities recognized in accordance with GASB 68 and 75, respectively. The College's total net position at June 30, 2023, 2022, and 2021 without the accounting required by GASB 68 and GASB 75 was $84.9 million, $87.0 million, and $85.4 million, respectively. Summaries of the College's statements of net position at June 30, 2023, 2022, and 2021 are as follows:

	Condensed Statements of Net Position as of June 30 (in thousands)		
	2023	2022	2021
Current assets	$ 24,480	$ 24,383	$ 22,597
Noncurrent assets:			
Capital assets, net	76,107	78,218	81,035
Other noncurrent assets	17,689	18,670	20,560
Total assets	118,276	121,271	124,192
Deferred outflows of resources	20,436	10,280	15,382
Current liabilities	8,340	8,602	12,681
Noncurrent liabilities:			
Net pension liability	56,452	38,026	56,797
Net OPEB liability	3,197	2,391	8,623
Other noncurrent liabilities	25,019	25,694	26,144
Total liablities	93,008	74,713	104,245
Deferred inflows of resources	16,129	28,403	13,686
Net position:			
Net investment in capital assets	55,029	56,298	57,808
Unrestricted deficit	(25,454)	(27,863)	(36,165)
Total net position	$ 29,575	$ 28,435	$ 21,643

Statements of Net Position

The primary changes in the assets, deferred outflows, liabilities, and deferred inflows of the College between 2023 and 2022 are as follows:

- Current assets increased $0.1 million, including a $2.0 million decrease in receivables and a $1.7 million increase in cash and cash equivalents. The decrease in receivables is primarily due to a decrease of $1.4 million in receivables from the Northwestern Michigan College Foundation (Component Unit) outstanding in fiscal year 2023 compared to fiscal year 2022. This was partially offset by the timing other grant related receivables, tuition and fee receivables, and change in estimate for allowance for doubtful accounts at the end of the 2023 fiscal year. The College's increase in cash is due to an increased amount of cash in more liquid, cash equivalent investments.

- Capital asset additions totaled $2.9 million, including $526,000 for new aircraft purchases, $516,000 for a dewatering project in the Timothy J. Nelson Innovation Center, $276,000 for roof restorations, $174,000 in Milliken Auditorium lighting upgrades, and $120,000 for upgrades to Great Lakes Maritime Academy simulators. These additions were offset by current year depreciation of $5.0 million. As a result, net capital assets decreased by $2.1 million. Other noncurrent assets decreased $1.0 million primarily due to a decrease in investment of surplus cash during the year.

- Current liabilities decreased $0.3 million primarily due to the timing of year end accrued wages and benefits recognized between fiscal year 2022 and fiscal year 2023 which was impacted by the timing of payroll dates crossing over each respective fiscal year; this was partially offset by a higher accounts payable balance at the end of fiscal year 2023.

- The College’s net pension liability increased $18.4 million primarily due to the difference between the projected and actual earnings on pension plan investments based on the market as of September 30, 2022 as well as a change in the proportionate share allocated to the College. The College’s net OPEB liability increased $0.8 million due to an increase in the actuarial health care cost trends rate for members over age 65. Other noncurrent liabilities decreased due to current year payments on outstanding bond debt.

- Deferred inflows is the acquisition of net position that applies to future reporting periods. Deferred outflows is the consumption of net position that applies to future reporting periods. The College’s deferred inflows and outflows, and changes therein, stem primarily from the MPSERS plan and include changes in actuarial assumptions, differences between expected and actual experience, changes in the proportionate share of the pension and OPEB liabilities, and contributions to the plan subsequent to the measurement date.

The primary changes in the assets, deferred outflows, liabilities, and deferred inflows of the College between 2022 and 2021 are as follows:

- Current assets increased $1.8 million, including a $0.6 million decrease in receivables and a $2.2 million increase in cash. The decrease in receivables is primarily due to the fulfillment of $1.7 million in receivables from COVID funding related grants that were outstanding in fiscal year 2021. This was partially offset by the timing other grant related receivables and tuition and fee receivables at the end of the 2022 fiscal year. The College’s increase in cash is due to timing and the receipt of COVID-19 related funding.

- Capital asset additions totaled $2.2 million, $490,000 for technology upgrades to the campus network and data storage systems, $355,000 of which relates to upgrades to the campus heating and cooling systems, $272,000 in structural improvements, and $255,000 for upgrades to Great Lakes Campus parking lot. These additions were offset by current year depreciation of $5.0 million. As a result, net capital assets decreased by $2.8 million. Other noncurrent assets decreased $1.9 million primarily due to a decrease in investment of surplus cash during the year.

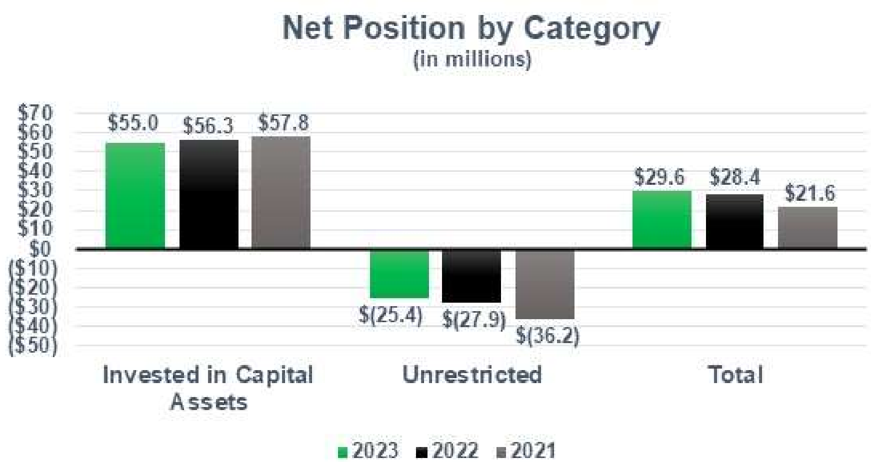
- Current liabilities decreased $4.1 million primarily due to the College’s ability in 2022 to recognize deferred federal ARPA revenue from fiscal year 2021 of $3.4 million.

- The College’s net pension liability decreased $18.8 million primarily due to the difference between the project and actual earnings on pension plan investments based on the market as of September 30, 2021 as well as a change in the proportionate share allocated to the College. The College’s net OPEB liability decreased $6.2 million due to a decrease in the actuarial health care cost trends rate for members over age 65. Other noncurrent liabilities decreased due to current year payments on outstanding bond debt.

- Deferred inflows is the acquisition of net position that applies to future reporting periods. Deferred outflows is the consumption of net position that applies to future reporting periods. The College’s deferred inflows and outflows, and changes therein, stem primarily from the MPSERS plan and include changes in actuarial assumptions, differences between expected and actual experience, changes in the proportionate share of the pension and OPEB liabilities, and contributions to the plan subsequent to the measurement date.

Net Position

The following chart provides a graphic breakdown of net position by category as of June 30, 2023, 2022, and 2021:



The College's net position was $29.6 million as of June 30, 2023, an increase of $1.2 million from prior year. Net position decreased by $2.0 million in fiscal year 2023 before the effects of GASB 68 and 75. The College's net position was $28.4 million as of June 30, 2022, an increase of $6.8 million from prior year. Net position increased by $1.6 million in fiscal year 2022 before the effects of GASB 68 and 75.

Statements of Revenues, Expenses and Changes in Net Position

Following is a comparison of the major components of the College's operating results for the years ended June 30, 2023, 2022, and 2021:

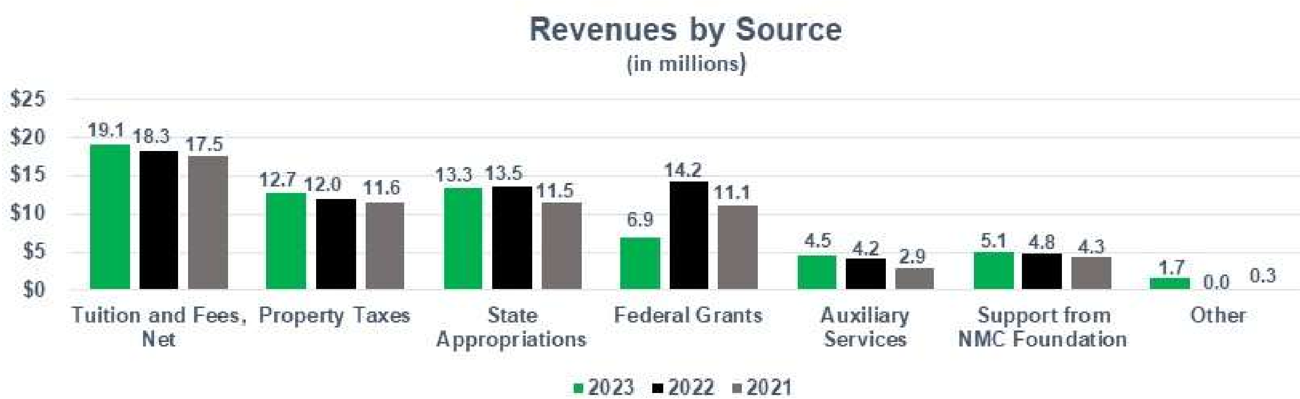
	Operating Results for the Years Ended June 30 (in thousands)		
	2023	2022	2021
Total operating revenues	$ 28,730	$ 26,753	$ 22,758
Total operating expenses	61,451	58,886	57,592
Operating loss	(32,721)	(32,133)	(34,834)
Net nonoperating revenues and capital contributions	33,861	38,925	35,851
Change in net position	1,140	6,792	1,017
Net position – beginning of year	28,435	21,643	20,626
Net position – end of year	$ 29,575	$ 28,435	$ 21,643

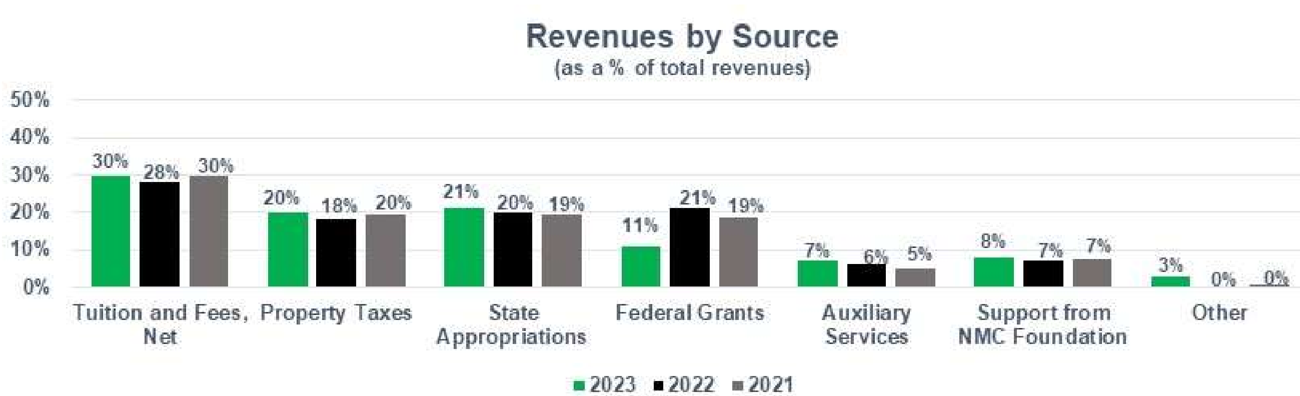
Total Revenues

Total revenues decreased $5.1 million in fiscal year 2023 primarily due to the timing of the final use and recognition of $7.5 million in federal COVID-19 funding that was recognized in fiscal year 2022; this is partially offset by a $1.8 million increase in investment income, a $0.8 million increase in tuition revenue, and a $0.7 million increase in operating property tax revenues. Operating property tax revenues increased due to increases in underlying taxable values, offset by abatements and millage reductions due to the Headlee Amendment through 2023. Debt-related property tax revenue remained at $0 in 2023 as the College made final payments on remaining debt service obligations during fiscal year 2021. Support from component unit increased by $300,000 in fiscal year 2023 due to increased scholarship support. Federal grant revenue decreased due to the final rounds of HEERF (II and III) funding recognized in fiscal year 2022.

Total revenues increased $7.1 million in fiscal year 2022 due to a $1.6 million increase in federal COVID-19 funding, $1.3 million increase in auxiliary sales, a $1.4 million increase in other federal grant funding, and a $1.3 million increase in state capital appropriations in 2022 vs. 2021 due to the Timothy J. Nelson Innovation Center building project finishing under budget. The increase in auxiliary sales was due to the resumption of operations that were limited during previous fiscal years due to the pandemic. Operating property tax revenues increased due to increases in underlying taxable values, offset by abatements and millage reductions due to the Headlee Amendment. Debt-related property tax revenue remained at $0 in 2022 as the College made final payments on remaining debt service obligations during fiscal year 2021. Support from component unit increased primarily due to additional Foundation support provided for the Dennos Museum in 2022. Federal grant revenue increased due to the additional rounds of HEERF (II and III) funding recognized in fiscal year 2022.

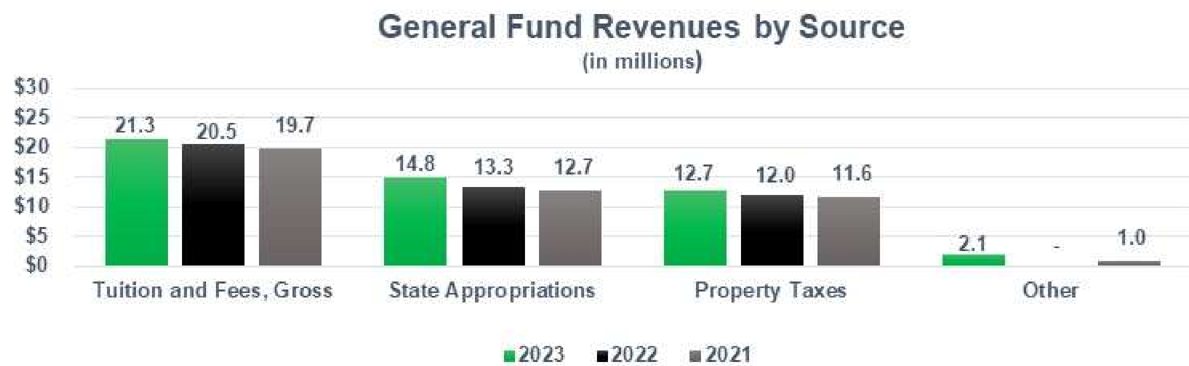
The following graphs illustrate total revenues by source, by dollars and percentages, for the years ended June 30, 2022, 2021, and 2020:

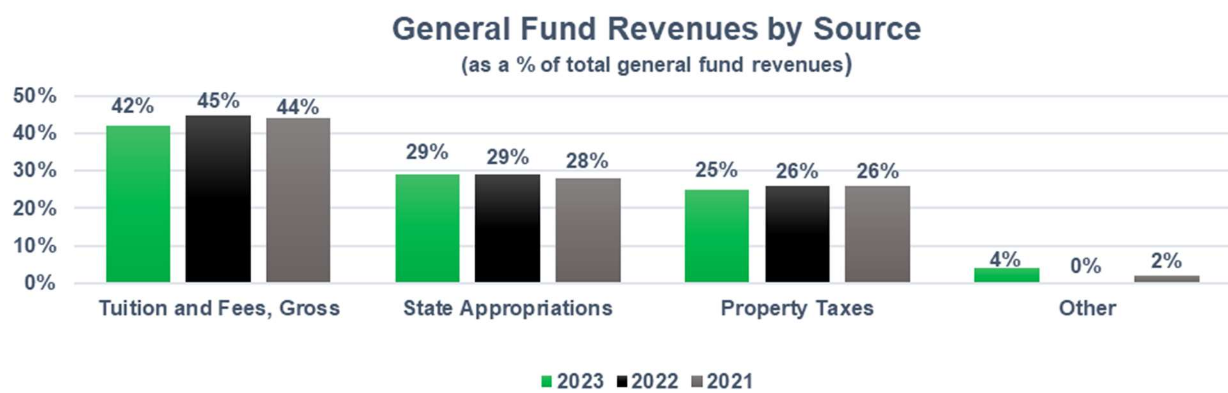




General Fund Revenues

The College accounts for its primary operations and programs within its General Fund. The primary General Fund revenue sources are tuition and fees, state appropriations, property taxes, federal grants, and support from the NMC Foundation. The following graphs illustrate total General Fund revenues by source, by dollars and percentages, for the years ended June 30, 2023, 2022, and 2021:





Operating Revenues

The College classifies as operating revenues any sales or receipts derived from primary operations of the College such as tuition, fees, housing, and other auxiliary operations. In addition, certain Federal, State, and private grants are considered operating if they are not for capital purposes and are deemed a contract for services. The following table shows the sources of operating revenues for the years ended June 30, 2023, 2022, and 2021:

	Operating Revenues by Source Years Ended June 30 (in thousands)		
	2023	2022	2021
Tuition and fees, net	$ 19,146	$ 18,259	$ 17,541
Federal grants	3,436	3,037	1,626
State grants	181	211	123
Auxiliary services	4,519	4,169	2,938
Other operating	1,448	1,077	530
Total operating revenues	$ 28,730	$ 26,753	$ 22,758

Changes in operating revenues for fiscal year 2023 were as follows:

- Tuition and fees increased $887,000 primarily due to increased aviation flight fees ($569,000) and increased offerings and related revenue for the College's non-credit enrichment program ($182,000).

- Federal grant revenue from operations increased $0.4 million due primarily to an increase in the direct support from MARAD for the Great Lakes Maritime Academy of $646,000 from the prior year.

- Auxiliary and other operating sources continue to increase due to the ability to return to the normal activities following the impacts of COVID-19 in prior years.

Changes in operating revenues for fiscal year 2022 were as follows:

- Tuition and fees increased $718,000 due to increased contact hours and rates ($717,000), increased offerings and related revenue for the College's non-credit enrichment program ($228,000), more aviation flight fees ($162,000), and the resumption of study abroad ($147,000) and aviation's summer international program ($71,000). These were partially offset by the College's elimination of its Flexible Learning Online (F.L.O.) fee for the 2021-2022 academic year. The F.L.O. fee was a per contact hour fee charged for online courses that generated $492,000 less in fiscal year 2022 revenues than the previous year.

- Federal grant revenue from operations increased $1.4 million due primarily to an increase in the direct support from MARAD for the Great Lakes Maritime Academy of $658,000 from the prior year.

- Auxiliary and other operating sources increased due to the ability to reopen and resume activities following the impacts of COVID-19 in prior years, including elimination of capacity limits on student housing and resumption of operations at the Hagerty Center and Dennos Museum.

Nonoperating Revenues and Capital Contributions

Nonoperating revenues are non-exchange in nature, meaning that the College receives value without directly giving equal value in return. Nonoperating revenues include state appropriations, Federal Pell grants, property taxes, support from component unit, and investment income. Capital contributions include state capital appropriations. The following table shows the amounts of these sources of nonoperating revenues for the years ended June 30, 2023, 2022, and 2021:

	Nonoperating Revenues and Capital Contributions by Source Years Ended June 30 (in thousands)		
	2023	2022	2021
State appropriations	$ 13,145	$ 13,100	$ 12,420
Pell grants	3,529	3,609	3,607
Federal COVID Funding	-	7,526	5,912
Property taxes	12,664	11,962	11,572
Support from the Foundation	5,124	4,758	4,338
Investment loss (income)	129	(1,705)	(338)
State capital appropriations	-	408	(893)
Total nonoperating revenues and capital contributions	$ 34,591	$ 39,658	$ 36,618

Nonoperating revenue and capital contribution changes included the following factors for fiscal year 2023:

- Federal COVID Funding decreased to $0 in fiscal year 2023 because the College disbursed and used all remaining federal COVID Funding during fiscal year 2022.

- Property tax revenue increased by $0.7 million, or 5.9%, due to a 9.1% increase in taxable values, offset by tax abatements and millage rate erosion due to the Headlee Amendment.

- Northwestern Michigan College Foundation support included $1.7 million for scholarships, an increase of $239,000 from the prior year. The remaining support of $3.4 million was for debt service payments on sponsored projects, the Dennos Museum, instructional programs, board strategic initiatives, and general support.

- Investment income increased by $1.8 million due in large to an increase in liquid investments and favorable market conditions during fiscal year 2023. The College recognized unrealized losses of $532,000 and $1.9 million in fiscal years 2023 and 2022, respectively; a net increase of $1.3 million. Increasing interest rates in the market for the majority of the fiscal year resulted in interest income of $653,000, an increase of $474,000 from prior year.

- The decrease in state capital appropriations revenue is the result of the completion of the Timothy J. Nelson Innovation Center building project in fiscal year 2022 in which funds were recognized.

Nonoperating revenue and capital contribution changes included the following factors for fiscal year 2022:

- State appropriations for general operations increased by $0.7 million, or 5.5%. State appropriations for the

MPSERS UAAL pass-through funding increased by $251,000 from the prior fiscal year. The College received additional support from the State of $425,000, a decrease of $2,000 to help offset mandatory increases in employer contribution rates. The State's payments in lieu of property taxes of $177,000 decreased by $8,000 from prior year.

- Federal COVID Funding increased largely due to the recognition of $3.4 million of revenue that was deferred from fiscal year 2021 due to the legislation date falling in fiscal year 2022 for eligible expenses and lost revenue incurred in fiscal year 2021. In addition, the College disbursed $3.7 million in student emergency grants and utilized its remaining $400,000 in institutional funding during fiscal year 2022.

- Property tax revenue increased by $0.4 million, or 3.4%, due to a 4.7% increase in taxable values, offset by tax abatements and millage rate erosion due to the Headlee Amendment.

- Northwestern Michigan College Foundation support included $1.5 million for scholarships, an increase of $8,000. The remaining support of $3.2 million was for debt service payments on sponsored projects, the Dennos Museum, instructional programs, board strategic initiatives, and general support.

- Investment income decreased by $1.4 million due in large to the market's response to the pandemic. The College recognized unrealized losses of $1.9 million and $525,000 in fiscal years 2022 and 2021, respectively; a net reduction of $1.4 million from prior year. Low interest rates in the market for the majority of the fiscal year resulted in interest income of $179,000, a decrease of $6,000 from prior year.

- The increase in state capital appropriations revenue is due to the completion of the Timothy J. Nelson Innovation Center building project, which finished under budget. The College received final payments in fiscal year 2022 for its 50% share of the project savings.

Operating Expenses

Operating expenses include all the costs necessary to perform and conduct the programs and primary functions of the College such as wages and benefits, professional services, software and technology maintenance, utilities, staff development, and depreciation expense. In the College's external financial statements, these expenses are categorized by function in accordance with the *Michigan Community College Data Inventory Report* requirements. Total operating expenses increased by $2.1 million (3.6%) for fiscal year 2023 after increasing by $1.3 million (2.2%) in fiscal year 2022. The following table summarizes operating expenses by function for the years ended June 30, 2023, 2022, and 2021:

	Operating Expenses by Function Years Ended June 30 (in thousands)		
	2023	**2022**	**2021**
Instruction	$ 18,412	$ 16,147	$ 17,518
Public service	1,979	1,541	1,508
Academic support	7,368	6,819	7,179
Student services	11,858	14,406	11,753
Institutional administration	7,463	6,460	6,316
Operation and maintenance of plant	4,998	4,633	4,940
Depreciation	5,517	5,011	4,672
Information technology	3,856	3,869	3,706
Total operating expenses	$ 61,451	$ 58,886	$ 57,592

Highlights of the major changes between fiscal years 2023 and 2022 by category are as follows:

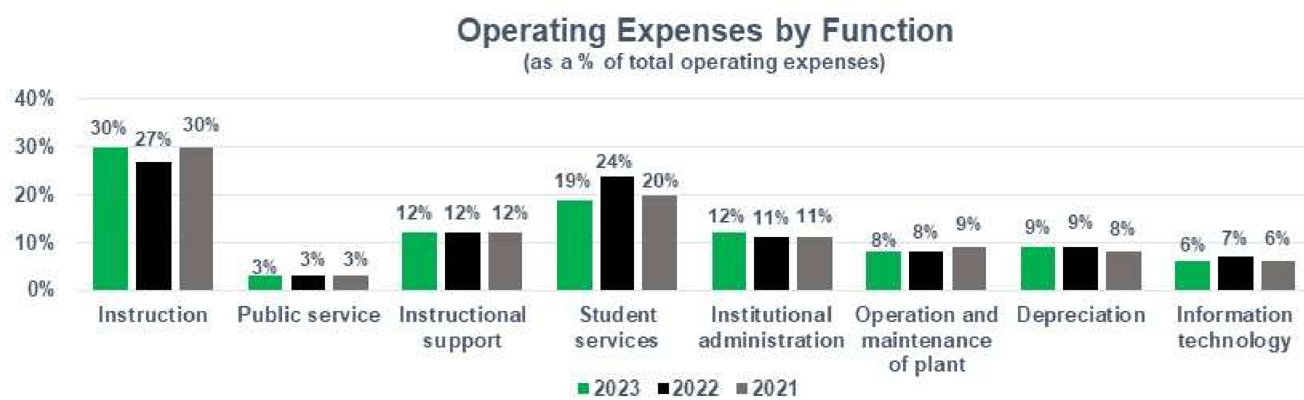
- Instruction costs increased due primarily to an increase in MPSERS UAAL activity in addition to positive adjustment for changes in OPEB liabilities and their related deferred inflows and outflows.

- Student services decreased primarily due to the timing of ARPA student awards which were fully disbursed by the end of fiscal year 2022 leaving no ARPA student awards to disburse in fiscal year 2023.

Highlights of the major changes between fiscal years 2022 and 2021 by category are as follows:

- Instruction and academic support costs decreased due primarily to negative adjustments of $2.5 million and $867,000, respectively, for changes in the net pension and OPEB liabilities and their related deferred inflows and outflows.
- Student services increased due primarily to the ARPA student awards of $3.7 million.

For external reporting purposes, the College's funds are consolidated and internal expenses are eliminated. The following graph illustrates the composition of operating expenses for the years ended June 30, 2023, 2022, and 2021:



Statements of Cash Flows

Another way to assess the College's financial health is by analyzing the statements of cash flows. This statement's primary purpose is to provide relevant information about the cash inflows and outflows of the College during a period of time. This statement also helps users assess the following:

- The College's ability to generate future cash flows
- Its ability to meet existing obligations as they come due
- Its needs for external financing

A summary of the College's cash flows for the years ended June 30, 2023, 2022, and 2021 is as follows:

	Cash Flows Years Ended June 30 (in thousands)		
	2023	2022	2021
Cash (used in) provided by:			
Operating activities	$ (31,574)	$ (32,954)	$ (28,534)
Noncapital financing activities	37,520	38,847	36,344
Capital financing activities	(4,747)	(3,831)	(1,732)
Investing activities	152	185	(5,201)
Net (decrease) increase in cash	1,351	2,247	878
Cash and cash equivalents, beginning of year	16,096	13,849	12,971
Cash and cash equivalents, end of year	$ 17,447	$ 16,096	$ 13,849

Cash inflows from operating activities include receipts for tuition and fees, grants, contracts, and auxiliary activities, which include student housing, the Dennos Museum, University Center, Hagerty Center, and the Bookstore. These cash inflows are offset by outflows for vendor and employee payroll payments. For fiscal year 2023, net cash used in operating activities decreased primarily due to increases in personnel costs and vendor expenses which was partially offset by increased receipts for tuition and fees. For fiscal year 2022, net cash used in operating activities increased primarily due to increases in personnel costs which was partially offset by increased receipts for auxiliary activities and decreased vendor expenses.

Cash inflows provided by noncapital financing activities primarily include receipts for the College's nonoperating revenues such as state appropriations, property taxes, Pell grants, and support from the Foundation for purposes other than capital. The decrease in fiscal year 2023 is due primarily to the timing of federal COVID funding which was completed in fiscal year 2022 and partially offset by increased receipts in noncapital state appropriations and noncapital gifts and contributions. The increase in fiscal year 2022 is due primarily to increased receipts in noncapital state appropriations.

Cash used in capital and related financing activities increased in fiscal year 2023 compared to fiscal year 2022 primarily due to the increase in purchased capital assets. Cash used in capital and related financing activities increased in fiscal year 2022 compared to fiscal year 2021 due to the fulfillment of capital funding from the State in 2021.

Cash provided by or used in investing activities fluctuates depending on the timing of purchases and sales of investments. Cash used by investing activities decreased slightly in 2023 due to higher investment purchase and sales activity and a more favorable investment market which resulted in higher interest revenue and lower unrealized losses. Cash used by investing activities increased in 2022 due to less investment activity and an unfavorable investment market.

Capital Assets

At June 30, 2023, the College had $176 million invested in capital assets before accumulated depreciation of $100 million. Depreciation charges totaled $5.0 million for the current fiscal year. Details of these assets are as follows:

	Capital Assets as of June 30 (in thousands)		
	2023	2022	2021
Land and land improvements	$ 10,543	$ 10,408	$ 10,366
Infrastructure	7,943	7,924	7,895
Buildings and improvements	121,200	120,096	118,420
Furniture, fixtures, and equipment	35,878	34,582	33,288
Construction in progress	324	29	876
Capital assets	$ 175,887	$ 173,039	$ 170,845

Additional information regarding capital assets can be found in Note 6 to the financial statements.

Debt Administration

The College's most recent bond rating by Standard & Poor's was AA. The College's most recent bond rating by Moody's was A1. The College had the following outstanding debt balances at June 30, 2023, 2022, and 2021:

	Debt Outstanding as of June 30 (in thousands)		
	2023	2022	2021
Bonds payable	$ 22,942	$ 24,108	$ 25,414

Additional information regarding the College's debt can be found in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The economic outlook for the College is strongly tied to national and state economic conditions. Although federal and state appropriations have been determined for the upcoming fiscal year, it is important to note that in times of financial constraint, such funding can be adversely impacted. The College currently faces uncertainty due to the impacts of the current recession in the U.S., as the Federal Reserve continue to seek to slow the economy through a potential for an additional interest rate hike during calendar year 2023 and their delay in projected decreases to interest rates in calendar year 2024. In times of increasing unemployment, community colleges often experience increased enrollment as students forgo a weak job market to seek new skills or learn a new trade. However, that traditional cycle may be counteracted by a lingering pandemic and changes in the public's perception of higher education.

Additionally, regional, state, and national data all indicate declining trends in birth rates and numbers of high school graduates. The College is combatting these trends through its strategic plan, which addresses the decline in student enrollment by investing in our distinctive programs, student success, and future focused education. The strategic plan seeks to expand flexible learning options and programs that can attract students from outside the region, such as our new Maritime Culinary Certificate program. The plan also provides a diverse learning experience for regional students, which may lead to increases in the College's market share. The College maintains adequate operating reserves to address economic volatility that could impact its operations.

The College will receive a 4.8% increase in state appropriations for general operations during fiscal year 2024 based on the baseline appropriations for fiscal year 2023. The College's fiscal year 2024 budget also includes increased property tax revenue of 8.9% for expected increases in taxable values. For tuition, the College charges rates based on the primary residence of the student, including categories for in-district, in-state, out of state, or international. Further, the College uses a tiered structure to accommodate higher-cost programs such as its maritime, culinary, automotive, audio-technology, and nursing programs. To offset inflation and rising labor costs, the Board of Trustees approved a 3.0% rate increase for in-district students and a 6.0% rate increase for all other students for the 2023-2024 academic year. The College's Fall 2023 contact hours increased 0.9% against a budgeted 1.8% decrease.

Under the guidance of GASB 68 and GASB 75, the College reports its proportionate share of the net pension and net OPEB liabilities related to the MPSERS plans on its statements of net position. While the implementation of these standards have impacted the College's net position, their application has not impacted the College's bond rating, cash position, nor its ability to meet current obligations. The State is projecting that the unfunded actuarial accrued liability will be fully-funded in approximately 25 years.

Following the private sector's adoption of balance sheet accounting for leases, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases,* in June 2017 which was effective for the College's fiscal year 2022. The statement addresses the accounting for short and long-term leases for lessors and lessees. The College did not have significant leases to record in fiscal year 2022, but adopted and recognized leases during fiscal year 2023. Additionally, the Governmental Accounting Standards Board issued GASB statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs*), which is effective for the College's fiscal year 2023. The statement addresses the accounting for subscription-based leases for lessees and this policy was implemented during fiscal year 2023.

The College is self-funded for its employee health benefit costs. Employees are required to contribute to the plan with the enactment of Public Act 152 of 2011. The College's healthcare costs have stabilized in recent years.

The College has reviewed its cash flow data and reserve funds. Northwestern Michigan College is financially positioned to continue normal operations.

Board of Trustees and Administrative Officials

June 30, 2023

Statement of Net Position

June 30, 2023 and 2022

	College		Component Unit - Foundation	
	2023	2022	2023	2022
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	$ 15,613,884	$ 13,907,368	$ 11,751,823	$ 6,950,728
Receivables - Net (Note 5)	6,668,343	8,716,535	764,988	835,266
Prepaid expenses and other assets	2,198,203	1,758,808	350	-
Total current assets	24,480,430	24,382,711	12,517,161	7,785,994
Noncurrent assets:				
Restricted cash and cash equivalents - Unspent bond proceeds (Note 3)	1,833,402	2,188,628	-	-
Receivables	-	-	1,110,506	2,251,873
Investments (Note 3)	15,854,935	16,481,943	45,119,826	47,175,891
Capital assets - Net (Note 6)	76,107,420	78,217,737	-	-
Cash surrender value - Life insurance	-	-	629,841	577,710
Total noncurrent assets	93,795,757	96,888,308	46,860,173	50,005,474
Total assets	118,276,187	121,271,019	59,377,334	57,791,468
Deferred Outflows of Resources (Note 8)	20,436,130	10,280,489	-	-
Liabilities				
Current liabilities:				
Accounts payable	1,481,790	953,180	56,100	39,819
Due to Northwestern Michigan College	-	-	1,734,435	3,202,478
Accrued liabilities and other:				
Accrued wages and benefits	2,133,241	2,896,712	-	-
Accrued interest payable	118,113	120,386	-	-
Unearned revenue	2,091,307	2,168,238	-	-
Current portion of annuity obligations	-	-	3,780	3,580
Long-term obligations - Current (Note 7)	2,515,674	2,463,074	-	-
Total current liabilities	8,340,125	8,601,590	1,794,315	3,245,877
Noncurrent liabilities:				
Annuity obligations - Net of current portion	-	-	32,825	35,275
Net pension liability (Note 8)	56,452,154	38,026,148	-	-
Net OPEB liability (Note 8)	3,196,794	2,390,998	-	-
Long-term obligations - Net of current portion (Note 7)	22,039,889	23,267,272	-	-
Deposits	2,979,383	2,426,486	-	-
Total noncurrent liabilities	84,668,220	66,110,904	32,825	35,275
Total liabilities	93,008,345	74,712,494	1,827,140	3,281,152
Deferred Inflows of Resources (Note 8)	16,128,588	28,403,470	22,091	-

	College		Component Unit - Foundation	
	2023	2022	2023	2022
Net Position				
Net investment in capital assets	$ 55,029,443	$ 56,298,239	$ -	$ -
Restricted:				
Nonexpendable - With donor restrictions	-	-	18,679,064	17,525,939
Expendable - College programs and student scholarships	-	-	34,528,641	32,666,247
Unrestricted (deficit) (Note 9)	(25,454,059)	(27,862,695)	4,320,398	4,318,130
Total net position	**$ 29,575,384**	**$ 28,435,544**	**$ 57,528,103**	**$ 54,510,316**

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2023 and 2022

	College		Component Unit - Foundation	
	2023	2022	2023	2022
Operating Revenue				
Student tuition and fees - Net of scholarship allowance of $2,190,050 and $2,448,579 for 2023 and 2022, respectively	$ 19,145,530	$ 18,259,173	$ -	$ -
Federal grants and contributions	3,436,067	3,037,004	-	-
State grants and contributions	180,785	211,470	-	-
Private gifts, grants, and contracts	68,251	103,389	-	-
Other sources	1,380,276	973,604	-	-
Sales and services of auxiliary activities	4,518,933	4,168,682	-	-
Total operating revenue	28,729,842	26,753,322	-	-
Operating Expenses				
Instruction	18,411,613	16,147,344	-	-
Public service	1,978,956	1,540,998	-	-
Academic support	7,367,940	6,819,324	-	-
Student services	11,858,321	14,405,963	-	-
Institutional administration	7,462,851	6,460,406	58,067	55,511
Operation and maintenance of plant	4,998,417	4,632,834	-	-
Depreciation	5,516,552	5,010,890	-	-
Information technology	3,856,246	3,868,454	-	-
Fundraising expense	-	-	534,742	1,067,192
Total operating expenses	61,450,896	58,886,213	592,809	1,122,703
Operating Loss	(32,721,054)	(32,132,891)	(592,809)	(1,122,703)
Nonoperating Revenue (Expense)				
State appropriations	13,145,162	13,100,187	-	-
Federal Pell grants	3,529,096	3,609,493	-	-
Federal COVID-19 funding	-	7,526,225	-	-
Property taxes	12,663,865	11,961,680	-	-
Support from component unit	5,123,637	4,757,638	(4,298,421)	(3,982,552)
Contributions and special event revenue	-	-	1,843,428	2,992,168
Investment income (loss)	129,156	(1,705,334)	4,982,578	(5,593,166)
Bond issuance and amortization costs	30,374	28,374	-	-
Interest expense on capital-related debt	(760,396)	(761,020)	-	-
Total nonoperating revenue (expense)	33,860,894	38,517,243	2,527,585	(6,583,550)
Income (Loss) - Before capital contributions - State capital appropriations	1,139,840	6,384,352	1,934,776	(7,706,253)
Capital Contributions - State capital appropriations	-	408,097	-	-
Additions to Permanent Endowments	-	-	1,083,011	1,073,801
Change in Net Position	1,139,840	6,792,449	3,017,787	(6,632,452)
Net Position - Beginning of year	28,435,544	21,643,095	54,510,316	61,142,768
Net Position - End of year	**$ 29,575,384**	**$ 28,435,544**	**$ 57,528,103**	**$ 54,510,316**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2023 and 2022

	College 2023	College 2022	Component Unit - Foundation 2023	Component Unit - Foundation 2022
Cash Flows from Operating Activities				
Tuition and fees	$ 19,892,910	$ 18,447,593	$ -	$ -
Grants and contracts	3,839,815	3,529,707	-	-
Payments to suppliers	(32,339,699)	(31,767,385)	(576,178)	(1,214,166)
Payments to employees	(29,079,485)	(27,978,276)	-	-
Auxiliary activities receipts	4,518,933	4,168,682	-	-
Other	1,593,449	645,597	-	-
Federal direct lending receipts	5,596,125	5,178,834	-	-
Federal direct lending disbursements	(5,596,125)	(5,178,834)	-	-
Net cash and cash equivalents used in operating activities	(31,574,077)	(32,954,082)	(576,178)	(1,214,166)
Cash Flows from Noncapital Financing Activities				
Property taxes	12,663,865	11,961,680	-	-
Gifts and contributions for other than capital purposes	6,520,741	4,353,970	2,886,473	3,105,939
State appropriations	14,717,968	13,206,933	-	-
Pell grants	3,529,096	3,609,493	-	-
Federal COVID-19 funding	88,284	5,715,209	-	-
Payments to annuitants	-	-	(3,580)	(3,580)
Other receipts	-	-	168,600	293,305
Gifts and grants to Northwestern Michigan College	-	-	(5,766,464)	(3,563,730)
Net cash and cash equivalents provided by (used in) noncapital financing activities	37,519,954	38,847,285	(2,714,971)	(168,066)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(2,848,682)	(2,194,176)	-	-
Principal paid on capital debt	(1,135,000)	(1,275,000)	-	-
Interest paid on capital debt	(763,169)	(769,966)	-	-
Capital appropriations	-	408,097	-	-
Contributions for endowment purposes	-	-	1,083,011	1,073,801
Net cash and cash equivalents (used in) provided by capital and related financing activities	$ (4,746,851)	$ (3,831,045)	$ 1,083,011	$ 1,073,801

See notes to financial statements.

Years Ended June 30, 2023 and 2022

	College		Component Unit - Foundation	
	2023	2022	2023	2022
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investments	$ 20,776,912	$ 18,198,083	$ 12,582,683	$ 5,301,359
Interest and investment (loss) gain - Net	(401,266)	(3,595,814)	919,051	1,295,095
Purchase of investments - Net	(20,223,382)	(14,417,224)	(6,492,501)	(6,806,127)
Net cash and cash equivalents provided by (used in) investing activities	152,264	185,045	7,009,233	(209,673)
Net Increase (Decrease) in Cash and Cash Equivalents	1,351,290	2,247,203	4,801,095	(518,104)
Cash and Cash Equivalents - Beginning of year	16,095,996	13,848,793	6,950,728	7,468,832
Cash and Cash Equivalents - End of year	**$ 17,447,286**	**$ 16,095,996**	**$ 11,751,823**	**$ 6,950,728**
Classification of Cash and Cash Equivalents				
Cash and cash equivalents	$ 15,613,884	$ 13,907,368	$ 11,751,823	$ 6,950,728
Restricted cash and cash equivalents	1,833,402	2,188,628	-	-
Total cash and cash equivalents	**$ 17,447,286**	**$ 16,095,996**	**$ 11,751,823**	**$ 6,950,728**
Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities				
Operating loss	$ (32,721,054)	$ (32,132,891)	$ (592,809)	$ (1,122,703)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:				
Depreciation	5,516,552	5,010,890	-	-
Loss on disposal of assets	24,386	-	-	-
Changes in assets and liabilities:				
Receivables	639,299	(512,041)	-	-
Prepaid expenses and other assets	(439,395)	(193,816)	350	(6,106)
Deferred outflows of resources	(10,155,641)	5,101,420	-	-
Accounts payable	528,610	(484,860)	16,281	(85,357)
Accrued liabilities and other	(763,471)	275,188	-	-
Unearned revenue	475,966	550,298	-	-
Compensated absences	13,052	(124,541)	-	-
Net pension liability	18,426,006	(18,771,242)	-	-
Net OPEB liability	805,796	(6,231,823)	-	-
Deferred inflows of resources	(13,924,183)	14,559,336	-	-
Net cash and cash equivalents used in operating activities	**$ (31,574,077)**	**$ (32,954,082)**	**$ (576,178)**	**$ (1,214,166)**

See notes to financial statements.

Note 1 - Significant Accounting Policies

Reporting Entity

Northwestern Michigan College (the "College") is a Michigan community college whose financial statements have been prepared in accordance with generally accepted accounting principles, 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 accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include 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 relationship with the College.

Northwestern Michigan College Foundation (the “Foundation”) is a separate legal entity established as a 501(c)(3) corporation to solicit, collect, hold, and invest donations made for the promotion of educational activities at the College and to augment the facilities of the College. Although the College does not necessarily control the timing or amount of receipts from the Foundation, the majority of resources, or income earned thereon, and the Foundation’s holdings and investments are restricted by the donors for the activities of the College. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the College, the Foundation is considered a component unit of the College.

The Foundation follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. Other organizations, including not-for-profit organizations, are considered governmental and are required to comply with GASB if one or more of the following characteristics are met: (i) popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments, (ii) the potential for unilateral dissolution by a government with the net assets reverting to a government, or (iii) the power to enact and enforce a tax levy. Separate financial statements of the Foundation may be obtained by contacting Northwestern Michigan College Foundation, 1701 East Front Street, Traverse City, MI 49686.

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

Basis of Accounting

The financial statements of the College use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less when acquired.

<u>Investments</u>

Investments are reported at fair value. Realized and unrealized gains and losses are reflected in the statement of revenue, expenses, and changes in net position as investment income. During fiscal years 2023 and 2022, there was $(530,422) and $(1,890,480), respectively, of unrealized losses on investments the College recognized. The Foundation recognized unrealized gains (losses) of $4,063,527 and $(6,888,261) during fiscal years 2023 and 2022, respectively.

Note 1 - Significant Accounting Policies (Continued)

Restricted Cash and Cash Equivalents

The proceeds of the 2016 Community College Facilities Bonds are held in cash and investments and restricted for capital projects.

Capital Assets

Capital assets are recorded at cost or, if donated, the acquisition value at the time of donation. Expenses for maintenance and repairs are charged to current expenses as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land and the art collection. Expenses for major renewals and betterments that extend the useful lives of the assets are capitalized. Interest incurred during the construction of capital assets of business-type activities is expensed as incurred. Management reviews capital assets for impairment annually.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings/Building improvements	30-40
Land improvements and Infrastructure	15
Furniture, fixtures, and equipment	4-10
Docks	10

Deferred Outflows of Resources

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

Unearned Revenue

Revenue received prior to year end that is related to the next fiscal period is recorded as unearned revenue or deposits. The balance consists of approximately $150,000 and $157,000 for the 2023 and 2022 fall semester, respectively, and approximately $936,000 and $894,000 for the 2023 and 2022 summer semesters, respectively. Grants received prior to qualifying expenses of approximately $1,005,000 and $1,117,000 for 2023 and 2022, respectively, 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.

Pension

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from the MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Note 1 - Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs

For the purpose of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the MPSERS and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, MPSERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity of one year or less at the time of purchase, which are reported at cost.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue or expense reduction) until that time. The College reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments. More detailed information can be found in Note 8. The Foundation has deferred inflows of resources related to future revenue streams related to charitable gift annuities.

Net Position

Net position is classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the board, including amounts that the board has agreed to set aside under contractual agreements with third parties. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available. Unrestricted net position represents 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. Net investment in capital assets consists of capital assets, net of accumulated depreciation and net of related debt.

Tuition and Fees

The academic programs are offered in traditional fall and spring semesters. Revenue from tuition and student fees is recognized during the academic term. Revenue from the summer semester, which commences in May and ends in August, is split and recognized proportionally to the number of days of the semester within the fiscal year. Tuition revenue is reported at established rates net of institutional financial aid and discounts provided by the College to the students.

Scholarship Discounts and Allowances

Student tuition, fee revenue, and certain other revenue from students are reported net of scholarship discounts and allowances in the statement of revenue, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by 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 discount and allowance.

Note 1 - Significant Accounting Policies (Continued)

Grants and Contributions

The College is often awarded grants from the federal government, the State of Michigan, and other agencies. Revenue from grants is recognized when all eligibility requirements, including time requirements, are met. Grants may be restricted for specific operating or capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Federal Financial Assistance Programs

The College participates in federally funded Pell grants, Federal Supplemental Educational Opportunity Grants (SEOG) grants, Federal Work-Study, and Federal Direct Lending programs. Federal programs are audited in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the compliance supplement.

During the years ended June 30, 2023 and 2022, the College distributed $5,596,125 and $5,178,834, respectively, for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures on the accompanying financial statements.

Sales and Services of Auxiliary Activities

Auxiliary activities primarily represent revenue generated from housing, dining, conferences, and various other departmental activities that provide services to the student body, faculty, staff, and general public.

Operating and Nonoperating Revenue and Expenses

Revenue and expense transactions are normally classified as operating revenue and expenses when such transactions are generated by the College’s principal ongoing operations. However, revenue that is considered to be nonexchange, such as property tax revenue, state appropriations, federal COVID-19 funding, and Pell grants, is classified as nonoperating revenue.

Internal Service Activities

Revenue and expenses related to internal service activities, including conference services, postage, and telecommunications, have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2025.

Note 1 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

During the current year, the College adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The College obtains the right to use vendors' information technology software through various long-term contracts. At June 30, 2023, the College recognized a subscription liability of $286,761 and an intangible right-of-use subscription asset (the "subscription asset") recorded net of accumulated amortization of $312,723.

At the commencement of a subscription, the College initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus initial implementation costs. Subsequently, the subscription asset is depreciated on a straight-line basis over its useful life. The College uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the College generally uses its estimated incremental borrowing rate as the discount rate for subscriptions, which was 7 percent at June 30, 2023.

Subscription assets are reported with other assets, and subscription liabilities are reported with accounts payable on the statement of net position.

Note 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 and cities within the College's taxing district, are collected through February 28. Uncollected real property taxes of the College are turned over to the county in which the district is located for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the county's tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the years ended June 30, 2023 and 2022, 2.0574 mills and 2.0935 mills, respectively, of tax per $1,000 of taxable property value in the College's taxing district were levied for general operating purposes on all property. Total operating property tax revenue was $12,663,865 and $11,961,680 for the years ended June 30, 2023 and 2022, respectively.

The College's property tax revenue is affected by tax abatements entered into by other governments. The College's property tax revenue was reduced as follows for the years ended June 30, 2023 and 2022:

	2023	2022
City of Traverse City, Michigan	$ 166,435	$ 164,689
Blair Township	8,687	7,011
East Bay Township	1,634	1,938
Fife Lake Township	1,063	524
Garfield Township	84,825	73,417
Green Lake Township	3,864	5,686
Acme Township	411	407
Paradise Township	728	729
Long Lake Township	3,022	2,964
Peninsula Township	1,089	1,108
Total	$ 271,758	$ 258,473

Note 3 - Deposits and Investments

Deposits and investments of the College and Foundation are reported in the financial statements as follows:

	College		Foundation	
	2023	2022	2023	2022
Cash and cash equivalents	$ 15,613,884	$ 13,907,368	$ 11,751,823	$ 6,950,728
Investments	15,854,935	16,481,943	45,119,826	47,175,891
Restricted cash and cash equivalents	1,833,402	2,188,628	-	-
Total	$ 33,302,221	$ 32,577,939	$ 56,871,649	$ 54,126,619

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, state obligations, commercial paper of corporations located in this state rated prime at the time 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 Huntington Bank and Chase Bank for the deposit of its funds.

The College's cash and investments are subject to several types of risk, which are examined in more detail below:

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 returned to it. 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. The College thoroughly examines the banks with which it chooses to deposit funds for the following qualifications: federally chartered, State of Michigan qualified depository, Federal Reserve System, FDIC member, compliance with Community Reinvestment Act, Bauer bank rating of adequate to good, and Bankrate rating of sound to performing. As of June 30, 2023, the College's operations and debt deposit balances of $6,697,898 had bank deposits of $6,197,898 (checking and savings accounts) that were uninsured and uncollateralized. As of June 30, 2022, the College's operations and debt deposit balances of $4,379,508 had bank deposits of $3,879,508 (checking and savings accounts) that were uninsured and uncollateralized.

Deposits of the Foundation were reflected in the accounts of the banks at $11,751,823 and $6,950,728 as of June 30, 2023 and 2022, respectively. The Foundation had $11,501,823 and $6,450,728 exposed to custodial credit risk because the deposits were uninsured or uncollateralized as of June 30, 2023 and 2022, respectively.

The College and the Foundation believe that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

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 investment securities that are uninsured and unregistered are held by counterparties.

Note 3 - Deposits and Investments (Continued)

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 and Foundation policy's minimize 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.

Credit Risk

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

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.

At year end, the College had the following investments and maturities:

	2023			
Description	Carrying Value	Less Than 1 Year	1-5 Years	6-10 Years
Money market accounts	$ 4,220,034	$ 4,220,034	$ -	$ -
Commercial paper	6,615,993	6,615,993	-	-
U.S. government agency securities	15,854,935	-	8,656,050	7,198,885
Certificates of deposit	250,000	250,000	-	-
Total	$ 26,940,962	$ 11,086,027	$ 8,656,050	$ 7,198,885

	2022			
	Carrying Value	Less Than 1 Year	1-5 Years	6-10 Years
Money market accounts	$ 359,582	$ 359,582	$ -	$ -
Commercial paper	10,340,946	10,340,946	-	-
U.S. government agency securities	16,481,943	-	4,620,650	11,861,293
Total	$ 27,182,471	$ 10,700,528	$ 4,620,650	$ 11,861,293

At year end, the Foundation had the following investments and maturities:

	2023			
Description	Carrying Value	Less Than 1 Year	1-5 Years	6-10 Years
Mutual funds - Fixed income	$ 3,607,887	$ 3,607,887	$ -	$ -

	2022			
	Carrying Value	Less Than 1 Year	1-5 Years	6-10 Years
U.S. Treasurys	$ 922,836	$ 124,727	$ 798,109	$ -
Mutual funds - Fixed income	3,457,145	3,457,145	-	-
Corporate bonds	6,338,769	594,838	5,063,292	680,639
Total	$ 10,718,750	$ 4,176,710	$ 5,861,401	$ 680,639

Note 3 - Deposits and Investments (Continued)

At June 30, 2023 and 2022, the College's investments (commercial paper and U.S. government agency securities) subject to credit risk (interest rate fluctuations) and related ratings consisted of the following:

	June 30, 2023 S&P Quality Ratings				
Investment	Aaa	AA+	A1+	A1	A2
U.S. government agency securities	$ 3,104,985	$ 12,749,950	$ -	$ -	$ -
Commercial paper	-	-	3,319,262	1,145,601	2,331,129
Total	$ 3,104,985	$ 12,749,950	$ 3,319,262	$ 1,145,601	$ 2,331,129

	June 30, 2022 S&P Quality Ratings			
Investment	Aaa	AA+	A1	A2
U.S. government agency securities	$ 3,242,343	$ 13,239,600	$ -	$ -
Commercial paper	-	-	7,149,083	3,193,863
Total	$ 3,242,343	$ 13,239,600	$ 7,149,083	$ 3,193,863

The nationally recognized statistical rating organization (NRSRO) utilized by the College is primarily Standard & Poor's Rating Services.

At June 30, 2023, the Foundation had no investments subject to credit risk. At June 30, 2022, the Foundation's investments (U.S. Treasurys and corporate bonds) subject to credit risk (interest rate fluctuations) and related ratings consisted of the following:

	June 30, 2022 Moody's Quality Rating						
Investment	AAA	AA	A+	A	A-	BBB+	BBB
U.S. Treasurys	$ 922,836	$ -	$ -	$ -	$ -	$ -	$ -
Corporate bonds	235,465	248,894	1,492,775	1,513,431	1,986,584	245,782	615,841
Total	$ 1,158,301	$ 248,894	$ 1,492,775	$ 1,513,431	$ 1,986,584	$ 245,782	$ 615,841

The nationally recognized statistical rating organization utilized by the Foundation is primarily Moody's Rating Services.

More than 5 percent of the College's investments at June 30 were invested as follows:

	2023	2022
Federal Home Loan Mortgage Corporation Term Notes	12.00 %	12.00 %
Federal National Mortgage Association Bonds	48.00	50.00
DNB Bank ASA Commercial Paper	6.00	-
Johnson & Johnson Commercial Paper	6.00	-
LMA S A/LMA Americas LLC Commercial Paper	-	7.00
Mountcliff Funding LLP Commercial Paper	-	8.00
Regatta Funding LLC Commercial Paper	-	7.00
TransCanada Pipelines Ltd Commercial Paper	-	8.00

More than 5 percent of the Foundation's investments at June 30 were invested as follows:

	2023	2022
Vanguard Institutional Index	40.00 %	32.00 %
Vanguard Total International Stock Index	11.00	12.00
iShares Russell 250 ETF	7.00	-

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. All of the College's and Foundation's foreign investments at June 30, 2023 and 2022 are valued in U.S. dollars; therefore, they are not subject to foreign currency risk.

Note 4 - Fair Value Measurements

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The College’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

U.S. government agency securities totaling $15,854,935 and $16,481,943, commercial paper totaling $6,615,993 and $10,340,946, and certificates of deposit totaling $250,000 and $0 for June 30, 2023 and 2022, respectively, are valued on a recurring basis using quoted market prices (Level 1 inputs). Money market accounts totaling $4,220,034 and $359,582 for June 30, 2023 and 2022, respectively, are valued at amortized cost and are not subject to fair value measurements.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2023 and 2022:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2023
Assets				
Mutual funds:				
Domestic equity	$ 35,636,249	$ -	$ -	$ 35,636,249
Fixed income	3,607,887	-	-	3,607,887
Total	$ 39,244,136	$ -	$ -	39,244,136
Investments measured at NAV:				
Private equity				3,912,550
Real estate				983,858
Multistrategy				979,282
Total investments measured at NAV				5,875,690
Total assets				$ 45,119,826

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2022
Assets				
Mutual funds:				
Domestic equity	$ 30,746,271	$ -	$ -	$ 30,746,271
Fixed Income	3,457,145	-	-	3,457,145
Total mutual funds	34,203,416	-	-	34,203,416
Fixed income:				
U.S. Treasury securities	-	922,836	-	922,836
Corporate bonds	-	6,338,769	-	6,338,769
Total fixed income	-	7,261,605	-	7,261,605
Total	$ 34,203,416	$ 7,261,605	$ -	41,465,021
Investments measured at NAV:				
Private equity				3,718,951
Real estate				967,195
Multistrategy				1,024,724
Total investments measured at NAV				5,710,870
Total assets				$ 47,175,891

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the following table.

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies whereby the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

As of June 30, 2023 and 2022, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2023	June 30, 2022	June 30, 2023		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity funds	$ 3,912,550	$ 3,718,951	$ 527,037	Monthly or quarterly	Quarterly
Real estate fund	983,858	967,195	-	Monthly	Monthly
Multistrategy hedge fund	978,454	1,024,724	-	Monthly	Semiannual
Total investments measured at NAV	$ 5,874,862	$ 5,710,870	$ 527,037		

Note 4 - Fair Value Measurements (Continued)

The private equity funds class includes several private equity funds that invest in a diverse portfolio of companies. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The multistrategy funds class invests in funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this in this class have been estimated using net asset value per share of the investments.

The real estate fund invests directly into a diverse portfolio of private real estate. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

Note 5 - Accounts and Contributions Receivable

The following is the detail of accounts and contributions receivable:

	College		Foundation	
	2023	2022	2023	2023
Student	$ 2,320,646	$ 2,480,135	$ -	$ -
Grants and contracts	389,213	744,134	-	-
State appropriations	2,392,078	2,315,583	-	-
Foundation	1,745,493	3,142,597	-	-
Third-party and other	534,766	585,216	-	-
Contributions	-	-	2,053,468	3,316,599
Gross accounts receivable	7,382,196	9,267,665	2,053,468	3,316,599
Allowance for doubtful accounts	(713,853)	(551,130)	(25,000)	(25,000)
Allowance for net present value discount	-	-	(152,974)	(204,460)
Total accounts receivable - Net	$ 6,668,343	$ 8,716,535	$ 1,875,494	$ 3,087,139

The contributions receivable for the Foundation are due to be received as follows:

	2023	2022
Current receivables	$ 764,988	$ 820,767
Noncurrent receivables	1,110,506	2,266,372
Total	$ 1,875,494	$ 3,087,139

Note 6 - Capital Assets

Capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

	Balance July 1, 2022	Additions	Disposals	Transfers	Balance June 30, 2023
Capital assets not being depreciated:					
Land	$ 4,626,042	$ -	$ -	$ -	$ 4,626,042
Construction in progress	28,806	322,010	(24,386)	(2,890)	323,540
Art collection	1,848,766	14,775	-	-	1,863,541
Subtotal	6,503,614	336,785	(24,386)	(2,890)	6,813,123
Capital assets being depreciated:					
Infrastructure	7,923,604	19,790	-	-	7,943,394
Buildings and improvements	120,095,539	1,104,020	-	-	121,199,559
Docks	2,359,401	-	-	-	2,359,401
Furniture, fixtures, and equipment	30,374,380	1,280,178	-	-	31,654,558
Land improvements	5,781,976	135,184	-	-	5,917,160
Subtotal	166,534,900	2,539,172	-	-	169,074,072
Accumulated depreciation:					
Infrastructure	7,275,452	114,703	-	-	7,390,155
Buildings and improvements	54,329,521	3,159,689	-	-	57,489,210
Docks	2,023,292	51,709	-	-	2,075,001
Furniture, fixtures, and equipment	25,901,801	1,550,489	-	-	27,452,290
Land improvements	5,290,711	82,408	-	-	5,373,119
Subtotal	94,820,777	4,958,998	-	-	99,779,775
Net capital assets being depreciated	71,714,123	(2,419,826)	-	-	69,294,297
Capital assets - Net	$ 78,217,737	$ (2,083,041)	$ (24,386)	$ (2,890)	$ 76,107,420

Note 6 - Capital Assets (Continued)

	Balance July 1, 2021	Additions	Disposals	Transfers	Balance June 30, 2022
Capital assets not being depreciated:					
Land	$ 4,626,042	$ -	$ -	$ -	$ 4,626,042
Construction in progress	876,146	4,420	-	(851,760)	28,806
Art collection	1,704,379	144,387	-	-	1,848,766
Subtotal	7,206,567	148,807	-	(851,760)	6,503,614
Capital assets being depreciated:					
Infrastructure	7,894,779	28,825	-	-	7,923,604
Buildings and improvements	118,419,648	824,132	-	851,760	120,095,540
Docks	2,359,401	-	-	-	2,359,401
Furniture, fixtures, and equipment	29,224,361	1,150,018	-	-	30,374,379
Land improvements	5,739,582	42,394	-	-	5,781,976
Subtotal	163,637,771	2,045,369	-	851,760	166,534,900
Accumulated depreciation:					
Infrastructure	7,138,629	136,823	-	-	7,275,452
Buildings and improvements	51,169,146	3,160,375	-	-	54,329,521
Docks	1,961,614	61,678	-	-	2,023,292
Furniture, fixtures, and equipment	24,335,208	1,566,593	-	-	25,901,801
Land improvements	5,205,290	85,421	-	-	5,290,711
Subtotal	89,809,887	5,010,890	-	-	94,820,777
Net capital assets being depreciated	73,827,884	(2,965,521)	-	851,760	71,714,123
Capital assets - Net	$ 81,034,451	$ (2,816,714)	$ -	$ -	$ 78,217,737

Note 7 - Long-term Obligations

Long-term debt activity for the years ended June 30, 2023 and 2022 can be summarized as follows:

	2023				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
2016 Community College Facilities Bonds	$ 17,415,000	$ -	$ (840,000)	$ 16,575,000	$ 870,000
2018 Community College Facilities Bonds	6,215,000	-	(295,000)	5,920,000	305,000
Total principal outstanding	23,630,000	-	(1,135,000)	22,495,000	1,175,000
Unamortized bond premiums	478,126	-	(30,873)	447,253	30,874
Total bonds payable	24,108,126	-	(1,165,873)	22,942,253	1,205,874
Accrued vacation and sick leave	1,570,220	1,332,750	(1,310,460)	1,592,510	1,289,000
Voluntary separation plan	52,000	-	(31,200)	20,800	20,800
Total long-term obligations	$ 25,730,346	$ 1,332,750	$ (2,507,533)	$ 24,555,563	$ 2,515,674

Note 7 - Long-term Obligations (Continued)

	2022				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
2012 Community College Refunding Bonds	$ 180,000	$ -	$ (180,000)	$ -	$ -
2016 Community College Facilities Bonds	18,225,000	-	(810,000)	17,415,000	840,000
2018 Community College Facilities Bonds	6,500,000	-	(285,000)	6,215,000	295,000
Total direct borrowings and direct placements principal outstanding	24,905,000	-	(1,275,000)	23,630,000	1,135,000
Unamortized bond premiums	509,000	-	(30,874)	478,126	30,874
Total bonds payable	25,414,000	-	(1,305,874)	24,108,126	1,165,874
Accrued vacation and sick leave	1,632,361	1,230,171	(1,292,312)	1,570,220	1,266,000
Voluntary separation plan	114,400	-	(62,400)	52,000	31,200
Total long-term debt	$ 27,160,761	$ 1,230,171	$ (2,660,586)	$ 25,730,346	$ 2,463,074

Community College Refunding Bonds, 2012

The College issued $1,620,000 in General Obligation - Limited Tax Refunding Bonds with an interest rate of 2.05 percent to refund $1.635 million of outstanding 2002 Series Bonds with an interest rate of 4.625 to 5.15 percent, maturing in 2022. The 2012 bonds are payable from operating revenue of the College in installments ranging from $165,000 to $180,000, are callable at a premium, and mature at varying amounts through 2022. As of June 30, 2022, the 2012 Series Bonds are considered defeased, and the liability has been removed from the statement of net position. At June 30, 2022, no amounts remain in escrow, and the defeased bonds have been paid in full. The bonds were paid off during the fiscal year ended June 30, 2022.

Community College Facilities Bonds, 2016

The College issued $20,890,000 in Limited Tax General Obligation Bonds with an interest rate of 2.78 percent. The 2016 bonds are payable from operating revenue of the College in installments ranging from $405,000 to $1,405,000 and mature at varying amounts through 2038. The net proceeds of $20,788,154 (after payment of $101,846 in underwriting fees and other issuance cost) are being used to construct residence housing, renovations to the museum, a new library, and various other campus infrastructure projects.

Community College Facilities Bonds, 2018

The College issued $7,300,000 in Limited Tax General Obligation Bonds with an interest rate of 3.25 percent to 3.50 percent. The 2018 bonds are payable from operating revenue of the College in installments ranging from $260,000 to $495,000 and mature at varying amounts through 2038. The net proceeds of $7,130,750 (after payment of $169,250 in underwriting fees and other issuance cost) were used to finance the West Hall Innovation Center renovation.

Note 7 - Long-term Obligations (Continued)

Accrued Vacation and Sick Leave

The College provides vacation 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 unused sick days for those union employees who have met the conditions of the plan at year end.

Voluntary Separation Plan

During 2018, the College offered a voluntary separation plan to certain employees. The liability and expense was recognized when the employee accepts the offer and the amounts can be estimated.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2024	$ 1,175,000	$ 695,425	$ 1,870,425
2025	1,215,000	659,413	1,874,413
2026	1,265,000	622,175	1,887,175
2027	1,310,000	583,400	1,893,400
2028	1,360,000	543,250	1,903,250
2029-2032	5,955,000	1,740,763	7,695,763
2033-2037	8,780,000	1,069,050	9,849,050
2038	1,435,000	45,525	1,480,525
Total	$ 22,495,000	$ 5,959,001	$ 28,454,001

Note 8 - Retirement Plans

Plan Description

The College participates in the Michigan Public School Employees' Retirement System (the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the College. Certain college employees also receive defined contribution retirement and health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The System, and all assumptions therein, is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at http://www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment health care 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 pension plan and the postemployment health care plan.

Note 8 - Retirement Plans (Continued)

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced to 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member’s date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years in which investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree health care recipient. Depending on the member’s date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the College to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

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

Note 8 - Retirement Plans (Continued)

The College's contributions are determined based on employee elections. There are multiple pension and health care benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The ranges of rates are as follows:

	Pension	OPEB
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%
October 1, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The College's required and actual pension contributions to the plan for the years ended June 30, 2023 and 2022 were $6,948,497 and $5,275,923, respectively, which include the College's contributions required for those members with a defined contribution benefit. The College's required and actual pension contributions include an allocation of $4,022,754 and $2,373,453 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the years ended June 30, 2023 and 2022, respectively.

The College's required and actual OPEB contributions to the plan for the years ended June 30, 2023 and 2022 were $1,323,949 and $1,303,094, respectively, which include the College's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2023 and 2022, the College reported a liability of $56,452,154 and $38,026,148, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021 and 2020, which used update procedures to roll forward the estimated liability to September 30, 2022 and 2021. The College's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2022, 2021, and 2020, the College's proportion was 0.150104 percent, 0.160615 percent, and 0.165340 percent, respectively, representing a change of (6.543998) and (2.858044) percent, respectively.

Net OPEB Liability

At June 30, 2023 and 2022, the College reported a liability of $3,196,794 and $2,390,998, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021 and 2020, which used update procedures to roll forward the estimated liability to September 30, 2022 and 2021. The College’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2022, 2021, and 2020, the College’s proportion was 0.150930 percent, 0.156645 percent, and 0.160956 percent, respectively, representing a change of (3.648473) and (2.677975) percent, respectively.

Note 8 - Retirement Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2023 and 2022, the College recognized pension expense of $4,783,253 and $2,640,876, respectively, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2023 and 2022, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 564,719	$ (126,221)	$ 589,041	$ (223,929)
Changes in assumptions	9,700,503	-	2,397,032	-
Net difference between projected and actual earnings on pension plan investments	132,380	-	-	(12,225,284)
Changes in proportion and differences between the College's contributions and proportionate share of contributions	310	(4,261,929)	-	(3,270,695)
The College's contributions to the plan subsequent to the measurement date	6,040,156	-	4,406,386	-
Total	$ 16,438,068	$ (4,388,150)	$ 7,392,459	$ (15,719,908)

The $4,022,754 and $2,373,453 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the years ended June 30, 2023 and 2022, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2024	$ 1,153,843
2025	868,912
2026	1,022,848
2027	2,964,159
Total	$ 6,009,762

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the years ended June 30, 2023 and 2022, the College recognized OPEB recovery of $1,738,919 and $1,776,582, respectively.

Note 8 - Retirement Plans (Continued)

At June 30, 2023 and 2022, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (6,261,294)	$ -	$ (6,824,934)
Changes in assumptions	2,849,405	(232,015)	1,998,756	(299,089)
Net difference between projected and actual earnings on OPEB plan investments	249,855	-	-	(1,802,138)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	13,007	(1,224,375)	15,259	(1,383,948)
Employer contributions to the plan subsequent to the measurement date	885,795	-	874,015	-
Total	$ 3,998,062	$ (7,717,684)	$ 2,888,030	$ (10,310,109)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future pension expense):

Years Ending	Amount
2024	$ (1,652,172)
2025	(1,411,424)
2026	(1,218,647)
2027	(190,226)
2028	(121,100)
Thereafter	(11,848)
Total	$ (4,605,417)

Note 8 - Retirement Plans (Continued)

Actuarial Assumptions

The total pension and OPEB liabilities as of September 30, 2022 and 2021 are based on the results of an actuarial valuation as of September 30, 2021 and 2020, respectively, and rolled forward. The total liabilities were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.00%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate	5.25% - 7.75%	Year 1 graded to 3.5% in year 15, 3.0% in year 12
Mortality basis		RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation.

Significant assumption changes since the measurement date, September 30, 2021, for both the pension and OPEB plan include a reduction of both plans' discount rates to 6.0 percent.

Significant assumption changes since the measurement date, September 30, 2022, for both the pension and OPEB plan include a decrease in discount rate used in the September 30, 2022 actuarial valuation by 0.80 percentage points in the pension plan and 0.95 percentage points in the OPEB plan. The investment rate of return used in the September 30, 2022 actuarial valuation decreased by 0.80 percentage points in the pension plan and 0.95 percentage points in the OPEB plan. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2021.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent as of September 30, 2022 and 6.00 to 6.80 percent as of September 30, 2021. The discount rate used to measure the total OPEB liability was 6.00 and 6.95 percent as of September 30, 2022 and 2021, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

Note 8 - Retirement Plans (Continued)

The long-term expected rate of return on pension plan and 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 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	2023		2022	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.10 %	25.00 %	5.40 %
Private equity pools	16.00	8.70	16.00	9.10
International equity pools	15.00	6.70	15.00	7.50
Fixed-income pools	13.00	(0.20)	10.50	(0.70)
Real estate and infrastructure pools	10.00	5.30	10.00	5.40
Absolute return pools	9.00	2.70	9.00	2.60
Real return/Opportunistic pools	10.00	5.80	12.50	6.10
Short-term investment pools	2.00	(0.50)	2.00	(1.30)

Long-term rates of return are net of administrative expense and inflation of 2.25 percent.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the College, calculated using the discount rate depending on the plan option. The following also reflects what the College's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2023		
	1.00 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1.00 Percentage Point Increase (7.00%)
Net pension liability of the College	$ 74,495,872	$ 56,452,154	$ 41,583,319

	2022		
	1.00 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1.00 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the College	$ 54,367,079	$ 38,026,148	$ 24,478,444

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the College, calculated using the current discount rate. It also reflects what the College's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2023		
	1.00 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1.00 Percentage Point Increase (7.00%)
Net OPEB liability of the College	$ 5,362,314	$ 3,196,794	$ 1,373,157

Note 8 - Retirement Plans (Continued)

	2022		
	1.00 Percentage Point Decrease (5.95%)	Current Discount Rate (6.95%)	1.00 Percentage Point Increase (7.95%)
Net OPEB liability of the College	$ 4,442,906	$ 2,390,998	$ 649,661

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB liability of the College, calculated using the current health care cost trend rate. It also reflects what the College's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2023		
	1.00 Percentage Point Decrease	Current Rate	1.00 Percentage Point Increase
Net OPEB liability of the College	$ 1,338,664	$ 3,196,794	$ 5,282,581

	2022		
	1.00 Percentage Point Decrease	Current Rate	1.00 Percentage Point Increase
Net OPEB liability of the College	$ 581,950	$ 2,390,998	$ 4,426,395

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2023, the College reported a payable of $679,422 and $99,854 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2023.

At June 30, 2022, the College reported a payable of $638,559 and $89,005 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2022.

Note 9 - Unrestricted Net Deficit

The College, through application of the board-approved resources guidelines, reserved the use of unrestricted net deficit as follows at June 30:

	2023	2022
Reserved for General Operating Fund	$ 11,692,916	$ 11,697,703
Reserved for maintenance and replacement after bond commitments	4,889,048	5,749,504
Reserved for auxiliary expenses	10,052,594	9,723,088
Reserved for GLMA equipment and vessel	512,401	512,401
Reserved for transformation	1,405,660	1,586,740
Reserved for strategic projects	970,614	1,203,865
Reserved for wellness initiatives	364,114	364,114
Total reserves before pension and OPEB liabilities	27,089,036	30,837,418
Reserved for OPEB liability fund deficit	(6,916,416)	(9,813,077)
Reserved for pension liability fund deficit	(48,424,990)	(48,727,050)
Total	$ (25,454,059)	$ (27,702,712)

Note 10 - Risk Management

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

Risk-sharing Programs

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk management pool for auto, property, and liability claims and in the SET-SEG risk management pool for workers' compensation claims, errors, and omissions coverage. Both programs operate as claims servicing pools for amounts up to member retention limits and operate as common risk-sharing management programs for losses in excess of member retention amounts. Although premiums are paid annually to the pools, which the pools use to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Self-insurance

The College is self-insured for unemployment compensation and health benefits. The College estimates the liability for self-insured claims that have been incurred through the end of the fiscal year, including both those claims that have been reported and those that have not yet been reported. The estimated liabilities for unemployment compensation for the fiscal years ended June 30, 2023 and 2022 were insignificant. Changes in the estimated liability for the fiscal years ended June 30, 2023 and 2022 for health benefits were as follows:

	Medical Claims		
	2023	2022	2021
Unpaid claims - Beginning of year	$ 129,486	$ 240,813	$ 332,800
Incurred claims, including claims incurred but not reported	3,367,391	3,032,430	3,209,461
Claim payments	(3,338,548)	(3,143,757)	(3,301,448)
Unpaid claims - End of year	$ 158,329	$ 129,486	$ 240,813

Note 11 - Contingent Liabilities

The College is subject to various legal proceedings and claims that arise in the ordinary course of its activities. The College believes that the amount, if any, of ultimate liability with respect to legal actions will be insignificant or will be covered by insurance.

Note 12 - Dennos Museum Center

Dennos Museum Center operates as an auxiliary function of the College. Revenue and expenses for Dennos Museum Center for the years ended June 30 were as follows:

	2023	2022
Revenue		
Sales and services	$ 337,127	$ 419,245
Federal grants and contracts	11,800	-
State grants and contracts	26,250	16,550
Support from component unit	622,344	907,320
Other sources	35,530	20,497
Total revenue	1,033,051	1,363,612
Operating and Capital Expenses		
Public service	978,057	855,258
Operations and maintenance of plant	104,824	109,779
Total operating and capital expenses	1,082,881	965,037
Change in Net Position before Transfers	(49,830)	398,575
Transfers Out	(127,867)	(133,429)
Change in Net Position	(177,697)	265,146
Net Position (Deficit) - Beginning of year	198,163	(66,983)
Net Position - End of year	$ 20,466	$ 198,163

Note 13 - Change in Reporting Framework

The Foundation's financial statements for the year ended June 30, 2021 were reported under the not-for-profit reporting model established by the Financial Accounting Standards Board (FASB). The fund is required to report under the governmental reporting model established by the Governmental Accounting Standards Board given that the majority of the members of the board of directors appointed are approved by Northwestern Michigan College's board of trustees. As a result, the Foundation adopted the GASB reporting effective July 1, 2021. There was no impact to beginning net position as a result of the adoption.

Required Supplementary Information

Required Supplementary Information
Schedule of the College's Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System

Last Nine Plan Years

Plan Years Ended September 30

	2022	2021	2020	2019	2018	2017	2016	2015	2014
College's proportion of the net pension liability	0.15010 %	0.16061 %	0.16534 %	0.17481 %	0.18127 %	0.18535 %	0.18849 %	0.18036 %	0.17962 %
College's proportionate share of the net pension liability	$ 56,452,154	$ 38,026,148	$ 56,797,390	$ 57,892,016	$ 54,492,788	$ 48,031,699	$ 47,027,079	$ 44,052,461	$ 39,564,005
College's covered payroll	$ 14,902,492	$ 14,371,428	$ 14,416,413	$ 15,079,019	$ 15,354,013	$ 15,460,385	$ 16,077,647	$ 15,446,667	$ 15,420,406
College's proportionate share of the net pension liability as a percentage of its covered payroll	378.81 %	264.60 %	393.98 %	383.92 %	354.91 %	310.68 %	292.50 %	285.19 %	256.57 %
Plan fiduciary net position as a percentage of total pension liability	60.77 %	72.32 %	59.49 %	60.08 %	62.12 %	63.96 %	63.01 %	63.17 %	66.20 %

Note: GASB Statement No. 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Benefit changes - There were no changes of benefit terms for the plan years ended September 30.

Changes in assumptions - There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

2022 - The discount rate used in the September 30, 2022 actuarial valuation decreased by 0.80 percentage points.

2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.

2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.

2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

Required Supplementary Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

Last Nine Fiscal Years

Years Ended June 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 6,711,860	$ 5,070,861	$ 4,818,835	$ 4,571,582	$ 4,688,968	$ 4,683,462	$ 4,397,619	$ 4,112,085	$ 4,726,013
Contributions in relation to the contractually required contribution	6,711,860	5,070,861	4,818,835	4,571,582	4,688,968	4,683,462	4,397,619	4,112,085	4,726,013
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
College's Covered Payroll	$ 15,286,828	$ 14,879,380	$ 14,250,782	$ 14,429,193	$ 15,279,724	$ 15,376,191	$ 15,454,034	$ 15,593,732	$ 15,479,214
Contributions as a Percentage of Covered Payroll	43.91 %	34.08 %	33.81 %	31.68 %	30.69 %	30.46 %	28.46 %	26.37 %	30.53 %

Note: GASB Statement No. 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information
Schedule of the College's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement System

Last Six Plan Years

Plan Years Ended September 30

	2022	2021	2020	2019	2018	2017
College's proportion of the net OPEB liability	0.15093 %	0.15665 %	0.16096 %	0.17119 %	0.17928 %	0.18655 %
College's proportionate share of the net OPEB liability	$ 3,196,794	$ 2,390,998	$ 8,622,821	$ 12,287,488	$ 14,250,585	$ 16,520,072
College's covered payroll	$ 14,902,492	$ 14,371,428	$ 14,416,413	$ 15,079,019	$ 15,354,013	$ 15,460,385
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	21.45 %	16.64 %	59.81 %	81.49 %	92.81 %	106.85 %
Plan fiduciary net position as a percentage of total OPEB liability	83.09 %	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented. There were no changes of benefit terms for the plan years ended September 30.

Changes in assumptions - There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

2022 - The discount rate and investment rate of return used in the September 30, 2022 actuarial valuation decreased by 0.95 percentage points. This resulted in a lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional $1.1 billion in 2022.

2021 - The health care cost trend rate used in the September 30, 2020 actuarial valuation increased by 0.75 percentage points for members under 65 and decreased by 1.75 percentage points for members over 65. In addition, actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by $1.3 billion in 2021.

2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points, and actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by $1.8 billion in 2020.

2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional $1.4 billion in 2019.

2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by $1.4 billion in 2018.

Required Supplementary Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

Last Six Fiscal Years

Years Ended June 30

	2023	2022	2021	2020	2019	2018
Statutorily required contribution	$ 1,181,825	$ 1,178,001	$ 1,164,378	$ 1,148,856	$ 1,192,398	$ 1,109,834
Contributions in relation to the statutorily required contribution	1,181,825	1,178,001	1,164,378	1,148,856	1,192,398	1,109,834
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
College's Covered Payroll	$ 15,286,828	$ 14,879,380	$ 14,250,782	$ 14,429,193	$ 15,279,724	$ 15,376,191
Contributions as a Percentage of Covered Payroll	7.73 %	7.92 %	8.17 %	7.96 %	7.80 %	7.22 %

GASB Statement No. 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Other Supplementary Information

Other Supplementary Information
Combining Statement of Net Position

June 30, 2023

(with comparative totals for 2022)

	Current Funds									
	General Fund	Board-designated Fund	Auxiliary Fund	Pension and OPEB Liability Fund	Restricted Fund	Plant Fund	Loan Fund	Agency Fund	2023	2022
Assets										
Current assets:										
Cash and cash equivalents	$ 15,860,385	$ -	$ (246,701)	$ -	$ 200	$ -	$ -	$ -	$ 15,613,884	$ 13,907,368
Receivables - Net	5,987,533	-	321,062	-	335,861	-	13,021	10,866	6,668,343	8,716,535
Prepaid expenses and other assets	1,351,580	-	536,621	-	2,175	307,827	-	-	2,198,203	1,758,808
Due (to) from other funds	(23,341,522)	4,462,671	9,927,916	-	2,603,850	4,826,976	(13,021)	1,533,130	-	-
Total current assets	(142,024)	4,462,671	10,538,898	-	2,942,086	5,134,803	-	1,543,996	24,480,430	24,382,711
Noncurrent assets:										
Restricted cash and cash equivalents	-	-	-	-	-	1,833,402	-	-	1,833,402	2,188,628
Investments	15,854,935	-	-	-	-	-	-	-	15,854,935	16,481,943
Capital assets - Net	-	-	-	-	-	76,107,420	-	-	76,107,420	78,217,737
Total noncurrent assets	15,854,935	-	-	-	-	77,940,822	-	-	93,795,757	96,888,308
Total assets	15,712,911	4,462,671	10,538,898	-	2,942,086	83,075,625	-	1,543,996	118,276,187	121,271,019
Deferred Outflows of Resources	-	-	-	20,436,130	-	-	-	-	20,436,130	10,280,489
Liabilities										
Current liabilities:										
Accounts payable	1,058,369	-	118,125	-	145,564	131,105	-	28,627	1,481,790	953,180
Accrued liabilities and other:										
Accrued wages and benefits	1,146,443	-	-	-	-	-	-	986,798	2,133,241	2,896,712
Accrued interest payable	3,462	-	-	-	-	114,651	-	-	118,113	120,386
Unearned revenue	959,907	-	126,076	-	1,005,294	-	-	30	2,091,307	2,168,238
Long-term obligations - Current	1,309,800	-	-	-	-	1,205,874	-	-	2,515,674	2,463,074
Total current liabilities	4,477,981	-	244,201	-	1,150,858	1,451,630	-	1,015,455	8,340,125	8,601,590
Noncurrent liabilities:										
Net pension liability	-	-	-	56,452,154	-	-	-	-	56,452,154	38,026,148
Net OPEB liability	-	-	-	3,196,794	-	-	-	-	3,196,794	2,390,998
Long-term obligations - Net of current portion	303,510	-	-	-	-	21,736,379	-	-	22,039,889	23,267,272
Deposits	370,689	-	266,789	-	1,813,364	-	-	528,541	2,979,383	2,426,486
Total noncurrent liabilities	674,199	-	266,789	59,648,948	1,813,364	21,736,379	-	528,541	84,668,220	66,110,904
Total liabilities	5,152,180	-	510,990	59,648,948	2,964,222	23,188,009	-	1,543,996	93,008,345	74,712,494
Deferred Inflows of Resources	-	-	-	16,128,588	-	-	-	-	16,128,588	28,403,470
Net Position (Deficit)										
Net investment in capital assets	-	-	-	-	-	55,029,443	-	-	55,029,443	56,298,239
Unrestricted	10,560,731	4,462,671	10,027,908	(55,341,406)	(22,136)	4,858,173	-	-	(25,454,059)	(27,862,695)
Total net position (deficit)	**$ 10,560,731**	**$ 4,462,671**	**$ 10,027,908**	**$ (55,341,406)**	**$ (22,136)**	**$ 59,887,616**	**$ -**	**$ -**	**$ 29,575,384**	**$ 28,435,544**

Other Supplementary Information
Combining Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2023
(with comparative totals for 2022)

	Current Funds								
	General Fund	Board-designated Fund	Auxiliary Fund	Pension and OPEB Liability Fund	Restricted Fund	Plant Fund	Eliminations	2023	2022
Operating Revenue									
Student tuition and fees	$ 21,323,999	$ -	$ 11,581	$ -	$ -	$ -	$ (2,190,050)	$ 19,145,530	$ 18,259,173
Federal grants and contributions	9,200	-	11,800	-	3,415,067	-	-	3,436,067	3,037,004
State grants and contributions	-	-	26,250	-	154,535	-	-	180,785	211,470
Private gifts, grants, and contracts	53,320	-	-	-	14,931	-	-	68,251	103,389
Expended for plant facilities	-	-	-	-	-	2,553,947	(2,553,947)	-	-
Sales and services of auxiliary activities	22,990	-	4,495,943	-	-	-	-	4,518,933	4,168,682
Other sources	652,157	-	703,246	-	7,956	16,917	-	1,380,276	973,604
Total operating revenue	22,061,666	-	5,248,820	-	3,592,489	2,570,864	(4,743,997)	28,729,842	26,753,322
Operating Expenses									
Instruction	20,092,675	239,640	48	(2,280,190)	656,034	825,955	(1,122,549)	18,411,613	16,147,344
Public service	198,879	-	1,845,429	(173,784)	200,676	-	(92,244)	1,978,956	1,540,998
Academic support	7,662,705	9,895	-	(808,203)	503,543	-	-	7,367,940	6,819,324
Student services	5,143,015	494	3,025,135	(688,260)	6,578,925	-	(2,200,988)	11,858,321	14,405,963
Institutional administration	7,094,442	432,303	179,748	(287,123)	18,590	24,891	-	7,462,851	6,460,406
Operation and maintenance of plant	4,835,970	-	361,604	(381,557)	1,600	1,402,837	(1,222,037)	4,998,417	4,632,834
Depreciation	557,554	-	-	-	-	4,958,998	-	5,516,552	5,010,890
Information technology	3,548,997	-	108	(228,905)	48,750	593,475	(106,179)	3,856,246	3,868,454
Total operating expenses	49,134,237	682,332	5,412,072	(4,848,022)	8,008,118	7,806,156	(4,743,997)	61,450,896	58,886,213
Operating (Loss) Income	(27,072,571)	(682,332)	(163,252)	4,848,022	(4,415,629)	(5,235,292)	-	(32,721,054)	(32,132,891)
Nonoperating Revenue (Expense)									
State appropriations	14,794,463	-	-	(1,649,301)	-	-	-	13,145,162	13,100,187
Federal Pell grants	-	-	-	-	3,529,096	-	-	3,529,096	3,609,493
Federal COVID-19 funding	-	-	-	-	-	-	-	-	7,526,225
Property taxes	12,663,865	-	-	-	-	-	-	12,663,865	11,961,680
Support from component unit	1,280,297	-	783,889	-	1,893,822	1,165,629	-	5,123,637	4,757,638
Investment income (loss)	49,439	-	-	-	-	79,717	-	129,156	(1,705,334)
Bond issuance and amortization costs	-	-	-	-	-	30,374	-	30,374	28,374
Interest expense on capital-related debt	(35,918)	-	-	-	-	(724,478)	-	(760,396)	(761,020)
Total nonoperating revenue (expense)	28,752,146	-	783,889	(1,649,301)	5,422,918	551,242	-	33,860,894	38,517,243
Capital Contributions	-	-	-	-	-	-	-	-	408,097
Transfers (Out) In	(1,446,681)	268,000	(315,817)	-	(1,029,425)	2,523,923	-	-	-
Change in Net Position	232,894	(414,332)	304,820	3,198,721	(22,136)	(2,160,127)	-	1,139,840	6,792,449
Net Position (Deficit) - Beginning of year	10,327,837	4,877,003	9,723,088	(58,540,127)	-	62,047,743	-	28,435,544	21,643,095
Net Position (Deficit) - End of year	**$ 10,560,731**	**$ 4,462,671**	**$ 10,027,908**	**$ (55,341,406)**	**$ (22,136)**	**$ 59,887,616**	**$ -**	**$ 29,575,384**	**$ 28,435,544**