Northwestern Michigan College

Financial Report
with Supplemental Information
June 30, 2017

Contents

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Independent Auditor's Report

To the Board of Trustees
Northwestern Michigan College

Report on the Financial Statements

We have audited the accompanying financial statements of Northwestern Michigan College (the "College") and its discretely presented component unit as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Northwestern Michigan College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the 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 as of June 30, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The basic financial statements of Northwestern Michigan College and its discretely presented component unit as of and for the year ended June 30, 2016 were audited by a predecessor auditor, which expressed an unmodified opinion on the College and discretely presented component unit. The predecessor auditor's report was dated October 14, 2016.

To the Board of Trustees
Northwestern Michigan College

Other Matters

Required Supplemental 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, and schedule of College's pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northwestern Michigan College's basic financial statements. The other supplemental 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.

The other supplemental information, as identified in the table of contents, 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. Such 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Michigan College's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 11, 2017

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, 2017. 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 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* and the *State of Michigan Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001.*

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 financial position for fiscal year 2017 increased approximately $706,000 before posting the GASB 68 pension affect and a $73,000 decrease after posting GASB 68 as compared to fiscal year 2016. There was an increase in net tuition and fees of approximately $1,025,000 based on a 7.60 percent increase in tuition rates for in-district, out-of-district and out-of-state partially offset by a 4.10 percent decrease in contact hours. Operating property taxes increased approximately 2.2 percent due to a 2.4 percent increase in real property tax values. The bond millage collections increased 1 percent due to a 2.40 percent increase in real property tax values partially offset by .01 millage reduction for less required for bond debt service. State appropriations for general operations increased 2.76 percent, or $251,626. State appropriations passed through to the College for Michigan Public School Employees Retirement System (MPSERS) Unfunded Actuarial Accrued Liability (UAAL) payments were $2,027,948 for fiscal year 2017 compared to $1,853,443 for fiscal year 2016.

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 positions and their changes. These statements include all assets, liabilities, and deferred inflows and outflows using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions.

Total net position at June 30, 2017, 2016 and 2015, excluding the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), was $66.1 million, $65.4 million, and $64.5 million, respectively. The effect of implementing GASB 68 resulted in a decrease in net position of approximately $39.1 million as of July 1, 2014 and a total net position as of June 30, 2015 of $26.2 million, June 30, 2016 of $24.8 million and $24.8 million for June 30, 2017.

The College's statements of net position at June 30 are summarized as follows:

	Condensed Statements of Net Position as of June 30 (in thousands)		
	2017	2016	2015
Current assets	$ 10,633	$ 13,008	$ 10,559
Noncurrent assets			
Capital assets, net	68,982	60,640	63,346
Other noncurrent assets	27,306	33,445	13,249
Total assets	106,921	107,093	87,154
Deferred outflows of resources	7,390	4,930	5,638
Current liabilities	11,076	9,015	8,895
Noncurrent liabilities			
Net pension liability	47,027	44,053	39,564
Other noncurrent liabilities	29,739	32,677	13,763
Total liabilities	87,842	85,745	62,222
Deferred inflows of resources	1,702	1,438	4,374
Net position			
Net investment in capital assets	51,109	48,780	48,056
Unrestricted (deficit)	(26,342)	(23,940)	(21,860)
Total net position	$ 24,767	$ 24,840	$ 26,196

Statements of Net Position

The primary changes in the assets, deferred outflows, liabilities and deferred inflows of the College between 2017 and 2016 are as follows:

- Decrease in current assets and in other noncurrent assets is due to cash from the 2016 bond proceeds being invested in noncurrent investments and being utilized for North Hall construction, Dennos renovation and infrastructure upgrades.

- Increase in net capital assets is a result of expenses related to building projects recorded as construction in progress at June 30. Construction in progress and other capital asset additions exceeded depreciation expense during fiscal year 2017.

- Increase in current liabilities is related to payments due to vendors for building projects and technology purchases at year end and for retainage recorded on North Hall and Dennos Museum progress billings. The increase in the current portion of long-term debt is attributable to the scheduled pay down of debt. The decrease in accrued payroll is the result of timing of payments to employees.

- A net pension liability of approximately $39 million was recorded in 2015 in compliance with GASB 68. Deferred outflows of resources of approximately $2.5 million were recorded as a result of changes in assumptions to the net pension liability and College contributions to the MPSERS plan subsequent to the plan's measurement date. Deferred inflows of approximately $.3 million were recorded as a result of the difference between projected and actual earnings on pension plan investments. See note 9 for more information.

- Other noncurrent liabilities decreased due to 2017 payments and for recording 2018 scheduled payments in current liabilities.

The primary changes in the assets, deferred outflows, liabilities and deferred inflows of the College between 2016 and 2015 are as follows:

- Increase in current assets is primarily due to more cash being held and not invested in long term investments at year end as well as an increase in accounts receivable for the Michigan Community College Skilled Trades Program grant. The increase in other noncurrent assets is due to cash reserved for building projects.

- Capital assets include significant furniture and equipment purchases, retirements, and annual depreciation. Decrease in net capital assets is a result of depreciation expense during fiscal year 2016 exceeding capital asset additions.

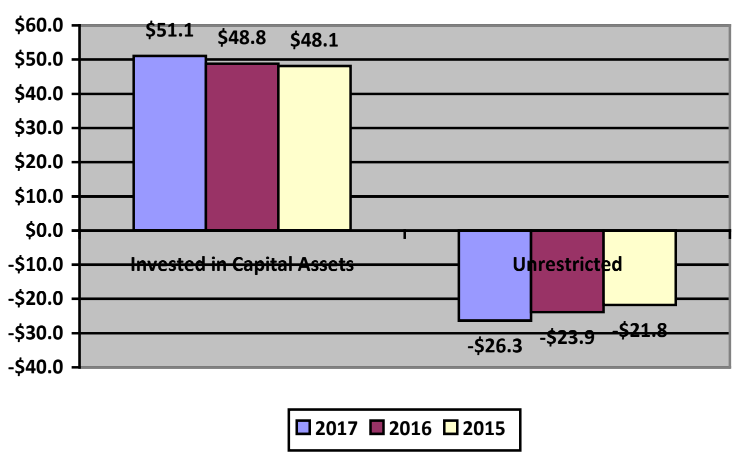
- Increase in current liabilities is due to an increase in the current portion of long-term debt and accrued payroll partially offset by a decrease in accounts payable. The increase in the current portion of long-term debt is attributable to the scheduled pay down of debt. The increase in accrued payroll is the result of timing of payments to employees.

- Deferred outflows of resources of approximately $4.9 million were recorded as a result of changes in assumptions to the net pension liability and College contributions to the MPSERS plan subsequent to the plan's measurement date. Deferred inflows of approximately $1.4 million were recorded as a result of the pension portion of Section 147c state aid awarded subsequent to the measurement date and the difference between projected and actual earnings on pension plan investments. See note 8 for more information.

- Noncurrent liabilities increased due to new 2016 bonds being issued in the amount of $20.9 million for construction projects of residence halls, museum renovations, new library and various campus infrastructure projects.

The following chart provides a graphic breakdown of net position by category as of June 30, 2017, 2016 and 2015:

Breakdown of Net Position – By Category (in millions)



Net Position

Fiscal year 2017 net position increased approximately $706,000 before posting the GASB 68 pension effect and decreased by approximately $73,000 or .3 percent after posting GASB 68 as compared to fiscal year 2016. Capital purchases of $13 million offset depreciation expense of $4.6 million. Investments in bonds were written down by an unrealized loss of $199,659 during fiscal year 2017 while realized gains on bond calls were $2,000. As the College holds its bonds until the bonds are called by the issuer or the bonds mature, the College will receive par value for the bonds.

Fiscal year 2016 net position decreased by approximately $1.4 million or 5.2 percent. Depreciation of $4.8 million was offset by capital purchases of $2.2 million. Investments in bonds were written up by an unrealized gain of $322,176 during fiscal year 2016 while realized gains on bonds calls were $99,921. As the College holds its bonds until the bonds are called by the issuer or the bonds mature, the College will receive par value for the bonds.

Statements of Revenues, Expenses and Changes in Net Position

Following is a comparison of the major components of operating results of the College for the years ended June 30, 2017, 2016 and 2015:

	Operating Results for the Years Ended June 30 (in thousands)		
	2017	2016	2015
Total operating revenues	$ 28,177	$ 28,464	$ 28,478
Total operating expenses	59,512	60,617	57,970
Operating loss	(31,335)	(32,153)	(29,492)
Net nonoperating revenues	31,261	30,797	32,254
(Decrease)/Increase in net position	(73)	(1,356)	2,762
Net position – beginning of year	24,840	26,196	62,495
Implementation of GASB 68	-	-	(39,061)
Net position – end of year	$ 24,767	$ 24,840	$ 26,196

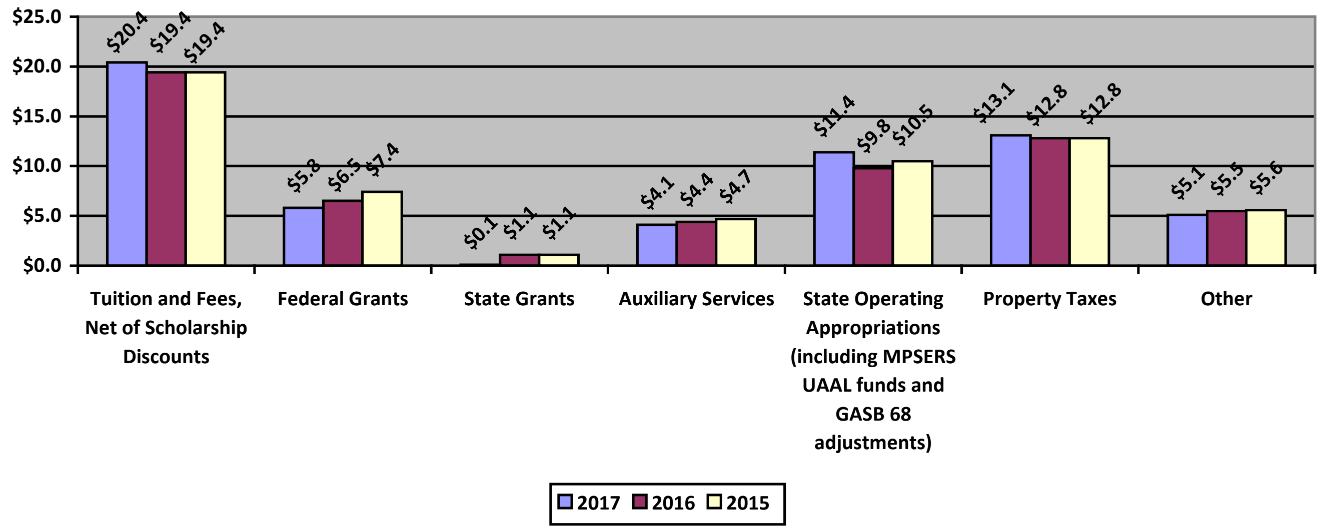
Total Revenue

The changes in revenue for fiscal year 2017 resulted from an increase in tuition and fees, support from component unit and federal grants partially offset with decreases in auxiliary sales, Federal Pell grant and state grants. The decrease in state grant revenue was related to completion of the Michigan Community College Skilled Trades Program. The changes in revenue for fiscal year 2016 resulted from a slight decrease in tuition and fees, with other changes coming from auxiliary sales, Federal Pell grants, state appropriations and support from component unit partially offset by increases in federal and state grants, property taxes and investment income.

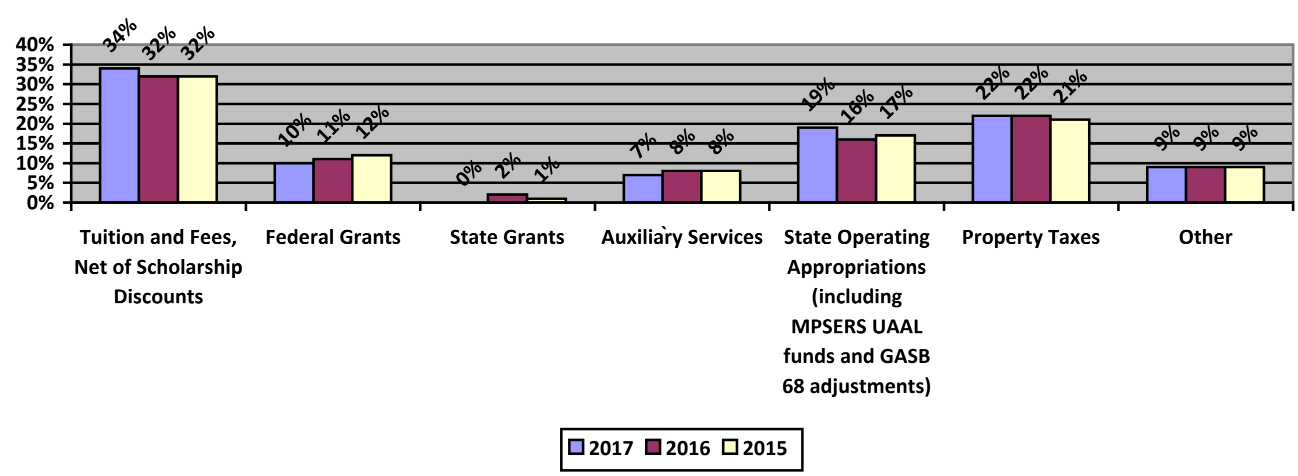
Beginning with fiscal year 2017, GASB 77 requires local governments in conformity with generally accepted accounting principles to disclose in their notes to the financial statements all tax abatements affecting the property tax revenue of the College. Tax abatements are entered into to encourage economic development, wherein the government agrees to forgo property tax revenue in return for specific action by the taxpayer that benefits the community or its citizens. GASB 77 entails describing the government that entered into the agreement, the specific major tax programs being abated and the dollar amount of taxes abated. The College does not directly enter into any tax abatement agreements, however, any tax abatements entered into by Grand Traverse County, the City of Traverse City or any of the thirteen townships within Grand Traverse County does affect the College's property tax revenues collected. Approximately $192,000 of property taxes of the college were abated for fiscal year 2017. See note 2 for the College's compliance with GASB 77.

The following are graphic illustrations of total revenue by source by percentage and dollars for the years ended June 30, 2017, 2016 and 2015:

Revenue Source (in millions) – All Funds



Revenue Source as a Percent of Total Revenue – All Funds

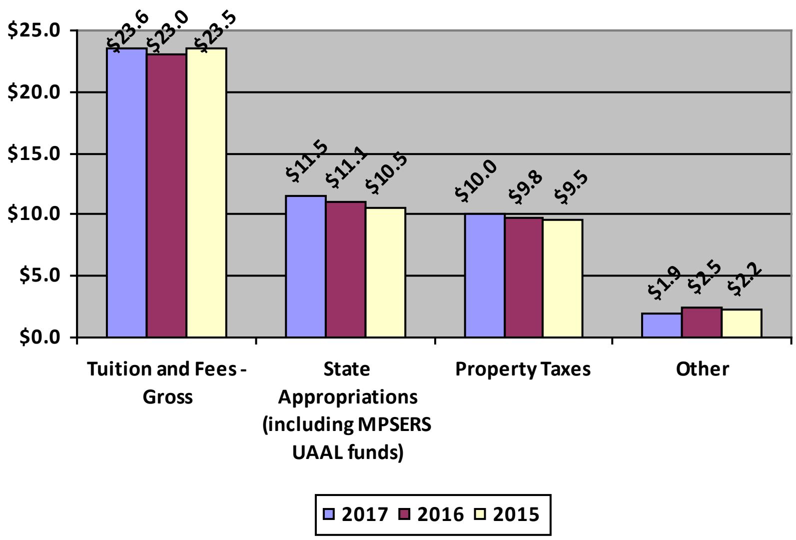


General Fund Revenue

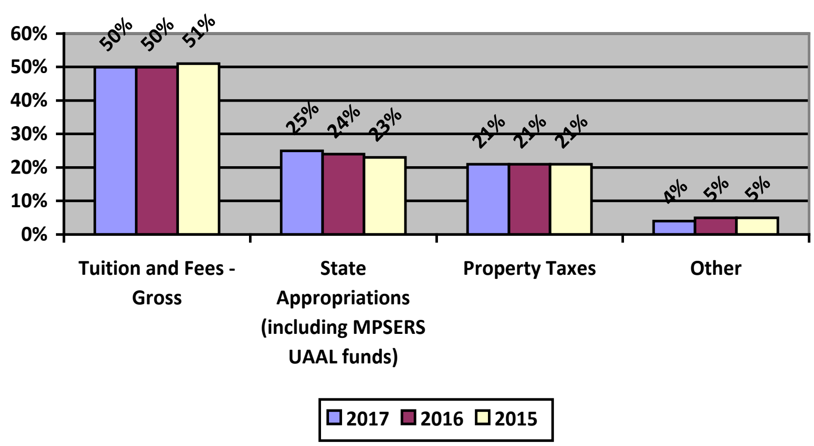
Internally, the College prepares its financial statements using fund accounting, which is then reorganized into operating and nonoperating components for the audited financial statements. The College accounts for its primary programs and operations in its General Fund. The General Fund is financed primarily through four sources of revenue — tuition and fees, state appropriations, property taxes, and other. For this report, these sources of revenue are classified as either operating or nonoperating.

The following are graphic illustrations of total General Fund revenue by source, by percentage and dollars, for the years ended June 30, 2017, 2016 and 2015:

General Fund Revenue – By Source (in millions)



General Fund Revenue – By Source



Operating Revenues

For the College as a whole, operating revenues include all transactions that result in the sales and/or receipts from goods and services 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 considered a contract for services.

The following chart shows the amounts of these sources of operating revenues for the years ended June 30, 2017, 2016 and 2015:

	Total Operating Revenues – By Source for the year ended June 30 (in thousands)		
	2017	**2016**	**2015**
Tuition and fees, net	$ 20,387	$ 19,362	$ 19,419
Federal grants	1,291	1,226	1,189
State grants	130	1,137	1,092
Auxiliary services	4,118	4,442	4,711
Other operating	2,251	2,297	2,067
Total operating revenues – by source	$ 28,177	$ 28,465	$ 28,478

Changes in operating revenues for fiscal year 2017 were as follows:

- Net tuition and fee revenue increased approximately $1 million due to a 7.60 percent increase in tuition rates for in-district, out-of-district and out-of-state partially offset by a 4.10 percent decrease in contact hours.
- Federal grants and contracts from MARAD for maritime operations increased approximately $65,000 or 5 percent.
- State grants and contracts decreased approximately $1 million or 89 percent due to completion of State of Michigan for Michigan Community College Skilled Trades equipment grant.
- Auxiliary revenue decreased approximately $325,000 or 7 percent due to a decrease in sales of the Bookstore and Hagerty Conference Center partially offset by an increase in housing revenue.

Changes in operating revenues for fiscal year 2016 were as follows:

- Net tuition and fee revenue decreased approximately $57,000 due to a 6 percent decrease in contact hours. Tuition rates increased 6 percent for in-district, out-of-district and out-of-state students.
- Federal grants and contracts from MARAD for maritime operations increased approximately $100,000 or 17 percent while Perkins funding decreased $89,000 or 36 percent.
- State grants and contracts increased approximately $45,000 or 4 percent due to grants from the State of Michigan for the Dennos Museum Center, Fostering Futures and Nursing Scholarships.
- Auxiliary revenue decreased approximately $268,000 or 6 percent due to a decrease in sales of the Bookstore partially offset by an increase in housing revenue and Hagerty conference sales.

Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, Federal Pell grant funding, property taxes, support from component unit, and investment income.

The following chart shows the amounts of these sources of nonoperating revenues for the years ended June 30, 2017, 2016 and 2015:

	Nonoperating Revenues – By Source for the years ended June 30 (in thousands)		
	2017	2016	2015
State appropriations	$ 11,379	$ 9,813	$ 10,497
Pell grants	4,474	5,312	6,224
Property taxes	13,080	12,832	12,799
Support from the Foundation	2,750	2,520	2,882
Investment Income	348	393	294
Unrealized gain or (loss) on investments	(200)	322	335
Total nonoperating revenues – by source	$ 31,831	$ 31,192	$ 33,031

Nonoperating revenues changes included the following factors for fiscal year 2017:

- State appropriations for general operations increased by approximately $295,000, or 3 percent. A portion of this increase is from an approximately $175,000 reimbursement from the state for personal property taxes. State appropriations for MPSERS UAAL increased by approximately $175,000, or 9.4%. The UAAL payments were passed through by the College towards the MPSERS pension liability. The College recorded a corresponding retirement expense. Therefore, the MPSERS UAAL revenue and expense had no effect on the College's net position. This increase was offset by a decrease resulting from a $190,000 non-cash adjustment in the Pension Liability Fund, which defers recognition of a portion of the pass-through money until Fiscal 2018.

- Federal Pell grants decreased $838,000, or 15.8 percent, due to a decline in the number of eligible students and number of contact hours generated.

- Overall, local property tax revenue increased 2 percent, or $250,000. The operating property tax portion increased $218,000 or 2.2 percent due to the increase in real property tax values of 2.4%. The bond millage property tax increased $32,000 or 1 percent due to increase in real property tax values offset in part by .01 millage reduction due to less funds required for bond payments.

- Investment values recognized unrealized losses of $200,000 during fiscal year 2017 due to market fluctuations in bond holdings. As the College holds its bonds until the bonds are called by the issuer or the bonds mature, the College will receive par value for the bonds. Several bonds were called during fiscal year 2017 resulting in realized gains of $2,000.

- Northwestern Michigan College Foundation support includes $1,175,459 for scholarships, with the remaining $1,574,990 supporting Dennos Museum, Osterlin library, other instructional programs and general fund support.

Nonoperating revenues changes included the following factors for fiscal year 2016:

- State appropriations for general operations increased by approximately $121,000, or 1.3 percent while the pension fund state appropriations decreased by $1.3 million. State appropriations for MPSERS UAAL increased by approximately $481,000, or 35.0%. The UAAL payments were passed through by the College towards the MPSERS pension liability. The College recorded a corresponding retirement expense. Therefore, the MPSERS UAAL revenue and expense had no effect on the College's net position. This increase was offset by a decrease resulting from a $1.3 million non-cash adjustment in the Pension Liability Fund, which defers recognition of a portion of the pass-through money until Fiscal 2017.

- Federal Pell grants decreased $912,000, or 14.6 percent, due to a decline in the number of eligible students and number of contact hours generated.

- Overall, local property tax revenue increased .3 percent, or $33,000. The operating property tax portion increased $287,000 or 3 percent due to the increased property tax values of 3%. The bond millage property tax decreased $255,000 or 8 percent due to less funds required for bond payments.

- Investment values recognized unrealized gains of $322,176 during fiscal year 2016 due to market fluctuations in bond holdings. The $322,176 represents unrealized gains. As the College holds its bonds until the bonds are called by the issuer or the bonds mature, the College will receive par value for the bonds. Several bonds were called during fiscal year 2016 resulting in realized gains of $99,921.

- Northwestern Michigan College Foundation support includes $1,142,717 for scholarships, with the remaining $1,377,456 supporting Dennos Museum, Osterlin library, other instructional programs and general fund support.

Operating Expenses

Operating expenses include all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries, benefits, utilities, supplies, services, and depreciation and are then categorized by function. Overall, total operating expenses decreased approximately $1.1 million (1.8 percent) for fiscal year 2017 and increased $2.6 million (4.6 percent) for fiscal year 2016. For the purpose of the audit, operating expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

The following chart shows the amounts of these functions of operating expenses for the years ended June 30, 2017, 2016, and 2015:

	Operating Expenses – By Function for the years ended June 30 (in thousands)		
	2017	2016	2015
Physical plant operations	$ 10,546	$ 10,443	$ 10,415
Direct and indirect instructional costs	39,241	40,729	38,804
Institutional administration	6,913	6,683	6,217
Public service	2,812	2,762	2,534
Total operating expenses – by function	$ 59,512	$ 60,617	$ 57,970

Highlights of the major changes between fiscal year 2017 and fiscal year 2016 by category are as follows:

- Salaries and wages increased $300,000 or 1.2 percent while benefits decreased 3.3 percent or $443,000 due to decreases in medical, workers compensation and unemployment claims. A portion of the increase in pension costs was due to an approximately $175,000 increase in required MPSERS UAAL pension liability payments and is offset by a $175,000 increase in revenue from the state.

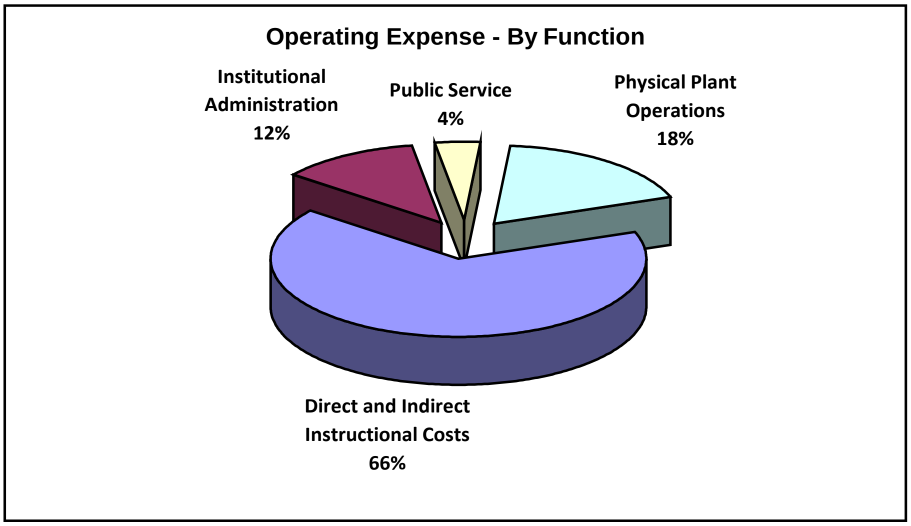
- The operating expense ACS categories of instruction and student services decreased due to decreases in salaries, wages and benefits due to reduced student contact hours while plant operations and maintenance, institutional administration, and public service increased.

Highlights of the major changes between fiscal year 2016 and fiscal year 2015 by category are as follows:

- Salaries and wages increased $890,000 or 3.8 percent while benefits increased 15 percent due to increases in pension costs, including MPSERS UAAL and GASB 68 adjustments. A portion of the increase in pension costs was due to an approximately $481,000 increase in required MPSERS UAAL pension liability payments and is offset by a $481,000 increase in revenue from the state.

- The operating expense ACS categories of instruction, instructional support and institutional administration all increased due to the increases in salaries, wages, and benefits as noted above.

For this financial report, the different funds of the College are netted and internal expenses are eliminated. The following is a graphic illustration of operating expenses by function for the institution for the year ended June 30, 2017:



Statements of Cash Flows

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

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

	Cash Flows for the Years Ended June 30 (in thousands)		
	2017	2016	2015
Cash (used in) provided by			
Operating activities	$ (21,796)	$ (25,615)	$ (25,775)
Noncapital financing activities	28,686	27,471	28,710
Capital and related financing activities	(13,435)	19,147	(3,072)
Investing activities	(3,244)	(3,887)	167
Net (decrease) increase in cash	(9,789)	17,116	30
Cash and cash equivalents			
- Beginning of year	20,542	3,426	3,396
Cash and cash equivalents			
- End of year	$ 10,753	$ 20,542	$ 3,426

Major sources of cash from operations came from tuition and fees, grants, contracts, and auxiliary activities, which include student housing, the Dennos Museum, University Center, Hagerty Center, and the bookstore. These sources were offset by cash used in operations for payments to employees and suppliers. For fiscal year 2017 cash inflows increased compared to fiscal year 2016 for tuition and fees and grants/contracts and due to decreased payments to employees and decreased payments to suppliers. There was less net cash used in operating activities during fiscal year 2017 as compared to 2016. For fiscal year 2016 cash inflows decreased compared to fiscal year 2015 for tuition and fees and auxiliary activities offset by increased payments to employees and decreased payments to suppliers. There was less net cash used in operating activities during fiscal year 2016 as compared to 2015.

The increases in cash provided by noncapital financing activities for fiscal year 2017 compared to 2016 resulted from an increase in state appropriations and property taxes partially offset by a decrease in Pell grants.

Capital and related financing activities for fiscal year 2017 included cash uses for expenditures related to the Dennos Museum, North Hall, and infrastructure projects.

During fiscal year 2017, there were substantially more sales and maturities of long-term investments than the previous year, as well as purchases, including the investment of a portion of the 2016 bond proceeds for building projects. During fiscal year 2016, there were substantially more sales and maturities of long-term investments than the previous year, as well as purchases, including the investment of a portion of the 2016 bond proceeds for building projects.

Capital Assets

At June 30, 2017, the College had $150.5 million invested in capital assets, before accumulated depreciation of $81.5 million. Depreciation charges totaled $4.6 million for the current fiscal year. Details of these assets are shown below.

	Capital Assets at June 30 (in thousands)		
	2017	**2016**	**2015**
Land and land improvements	$ 10,660	$ 10,519	$ 10,365
Infrastructure	7,923	7,923	7,952
Buildings and improvements	87,201	86,574	86,149
Furniture, fixtures and equipment	33,476	32,388	30,853
Construction in progress	11,257	189	349
Total	$ 150,518	$ 137,593	$ 135,668

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

Debt Administration

The College had $30.3 million, $33.3 million, and $15.3 million in debt outstanding at June 30, 2017, 2016 and 2015, respectively. Fiscal year 2016 includes new debt that closed on June 1 in the amount of $20,890,000 for planned construction projects. The table below summarizes this amount by type of debt instrument. 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.

	Debt Outstanding at June 30 (in thousands)		
	2017	2016	2015
Bonds payable	$ 30,345	$ 33,295	$ 15,290

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

Economic Factors That Will Affect the Future

The economic outlook for the College is tied heavily 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 has responded to increased uncertainty by becoming more efficient by restructuring departments within the College, streamlining processes and sending out numerous requests for proposals for many vendor contracts.

The College will receive a 1.3 percent increase in community college appropriations for general operations during fiscal year 2018 from the state. The fiscal year 2018 budget includes increased property tax revenue of 3.2 percent due to increases in taxable values. The Board of Trustees approved tuition increases of 5 percent for out-of-district and out-of-state effective for fiscal year 2018. Increases in fees for all categories resulted in another 5 percent increase. An international tuition rate has been established and will also increase by 5 percent for the next fiscal year. There are differential tuition charges for high-cost programs such as automotive, audio-technology, nursing, culinary and maritime programs.

The College's strategic plan addresses the decline in student enrollment by investing in select programs that will attract students from outside the region. The plan will provide a diverse learning experience for regional students along with increases in the College's market share.

The College has contractual wage and benefit commitments with maintenance and custodial personnel through December 31, 2019. During fiscal year 2015, faculty and academic chair employee groups voted to belong to the Michigan Employees Association (MEA) union representation, those new contracts are in effect through December 31, 2018. Employee wage and salary increases have not yet been determined for the increase that will be effective January 1, 2018 for non-union employees. The 2018 fiscal year budget includes employee salary increases, the actual allocations will be determined in the fall after fall enrollment is known. The College recently revised their classification and compensation system. Approximately 85 percent of College employees participate in the Michigan Public School Employees' Retirement System (MPSERS) with employer contributions mandated by the State. Contribution rates have risen in recent years to fund retiree healthcare benefits and the unfunded pension liability. There are various MPSERS plans, but contributions for the plan with the majority of the College's employees has been set at 25.56 percent for fiscal year 2018 with rates for future years yet unknown.

GASB 68 was effective for the College's fiscal year 2015 and establishes new requirements for colleges to report a "net pension liability" for the unfunded portion of its pension plan. Since the College participates in the MPSERS plan, it reported a liability for its "proportionate share" of the "net pension liability" of the MPSERS plan. The College recorded a net pension liability of $39,564,005 as of June 30, 2015 and $2,974,518 for fiscal year 2017 for the College's proportionate share and an increase of pension expense of $588,363 related to GASB 68 reporting requirements. We expect these amounts to change annually based on actuarial calculations and updating of related assumptions. The retirement plans available to new participants has been revised in recent years. This change in accounting is expected to be taken into consideration by the bond rating agencies. It is important to note that while this new standard raises awareness of potential future obligations of the College, its implementation has no immediate impact on the cash position of the College or its ability to meet current obligations. The State is projecting that the unfunded actuarial accrued liability will be fully funded in approximately 25 years.

In fiscal 2018, GASB 75, *Postemployment Benefits Other than Pensions*, will be effective for the College. The College will be required to recognize its proportionate share of the OPEB/healthcare liability on its statement of net position as a result of its participation in the MPSERS OPEB plan. While the exact amount of the impact on the College is not yet determinable, it is expected to be significant based on the high-level data shared by MPSERS to date.

The College is self-funded for its employee health benefit costs. While healthcare costs continue to increase, the College looks at various plan options in order to reduce costs. Additionally, employee contributions towards healthcare have increased over the past few years with the enactment of Public Act 152 of 2011.

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

Board of Trustees

June 30, 2017

Statement of Net Position

June 30, 2017 and 2016

	2017	2016 (as restated)
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 4,773,810	$ 5,039,411
Receivables - Net (Note 5)	4,837,916	6,834,013
Prepaid expenses and other assets	1,021,289	1,134,963
Total current assets	10,633,015	13,008,387
Noncurrent assets:		
Restricted cash and investments - Unspent bond proceeds: (Note 3)		
Restricted cash and cash equivalents	5,979,588	15,502,547
Restricted investment securities	6,491,820	5,929,980
Investments (Note 3)	14,821,389	11,991,718
Capital assets - Net (Note 6)	68,982,482	60,639,629
Bond insurance costs	13,548	20,324
Total noncurrent assets	96,288,827	94,084,198
Total assets	106,921,842	107,092,585
Deferred Outflows of Resources (Note 9)	7,389,600	4,930,475
Liabilities		
Current liabilities:		
Accounts payable	3,281,797	1,413,217
Accrued liabilities and other:		
Accrued salaries and wages	2,618,127	2,671,733
Accrued interest payable	148,553	106,330
Unearned revenue	1,002,120	1,242,868
Long-term obligations - Current (Note 7)	4,025,875	3,580,874
Total current liabilities	11,076,472	9,015,022
Noncurrent liabilities:		
Net pension liability (Note 9)	47,027,079	44,052,561
Long-term obligations - Net of current portion (Note 7)	28,250,022	31,580,913
Deposits	1,488,821	1,095,889
Total noncurrent liabilities	76,765,922	76,729,363
Total liabilities	87,842,394	85,744,385
Deferred Inflows of Resources (Note 9)	1,701,898	1,438,175
Net Position		
Net investment in capital assets	51,108,890	48,780,462
Unrestricted (Note 10)	(26,341,740)	(23,939,962)
Total net position	**$ 24,767,150**	**$ 24,840,500**

See notes to financial statements.

Northwestern Michigan College

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenue		
Student tuition and fees - Net of scholarship allowance of $3,256,187 and $3,690,483 for 2017 and 2016, respectively	$ 20,387,093	$ 19,362,192
Federal grants and contracts	1,291,139	1,226,062
State grants and contracts	130,380	1,137,118
Private gifts, grants, and contracts	72,903	172,152
Sales and services of auxiliary activities	4,117,688	4,442,517
Other sources	2,177,726	2,124,464
Total operating revenue	28,176,929	28,464,505
Operating Expenses		
Instruction	19,970,772	20,091,810
Public service	2,812,319	2,762,287
Instructional support	7,942,418	7,842,101
Student services	11,327,175	12,794,785
Institutional administration	6,912,675	6,683,273
Operation and maintenance of plant	5,917,049	5,651,646
Depreciation	4,629,154	4,791,426
Total operating expenses	59,511,562	60,617,328
Operating Loss	(31,334,633)	(32,152,823)
Nonoperating Revenue (Expense)		
State appropriations	11,378,664	9,812,927
Federal Pell grants	4,473,960	5,312,273
Property taxes	13,079,855	12,831,611
Support from component unit	2,750,448	2,520,173
Investment income	147,968	715,194
Bond insurance amortization	28,745	(109,943)
Interest expense on capital-related debt	(598,357)	(285,075)
Total nonoperating revenue	31,261,283	30,797,160
Change in Net Position	(73,350)	(1,355,663)
Net Position - Beginning of year	24,840,500	26,196,163
Net Position - End of year	**$ 24,767,150**	**$ 24,840,500**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Tuition and fees	$ 20,759,418	$ 19,211,278
Grants and contracts	3,421,544	1,559,241
Payments to suppliers	(31,735,173)	(32,870,833)
Payments to employees	(20,338,087)	(20,637,634)
Loans issued to students - Net	-	(1,506)
Auxiliary activities receipts	4,117,688	4,442,517
Other	1,978,463	2,682,217
Net cash and cash equivalents used in operating activities	(21,796,147)	(25,614,720)
Cash Flows from Noncapital Financing Activities		
Property taxes	10,034,788	9,817,953
Gifts and contributions for other than capital purposes	2,851,652	2,636,914
State appropriations	11,325,557	9,703,404
Pell grants	4,473,960	5,312,273
Federal direct lending receipts	9,611,548	10,582,669
Federal direct lending disbursements	(9,611,548)	(10,582,669)
Net cash and cash equivalents provided by noncapital financing activities	28,685,957	27,470,544
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(12,973,262)	(2,232,275)
Principal paid on capital debt	(2,950,000)	(2,885,000)
Proceeds from capital debt	-	21,558,513
Capital property taxes	3,045,067	3,013,658
Interest paid on capital debt	(556,632)	(308,037)
Net cash and cash equivalents (used in) provided by capital and related financing activities	(13,434,827)	19,146,859
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	34,393,037	8,180,000
Interest and investment (loss) income - Net	(51,691)	393,018
Purchase of investments - Net	(37,584,889)	(12,460,109)
Net cash and cash equivalents used in investing activities	(3,243,543)	(3,887,091)
Net (Decrease) Increase in Cash and Cash Equivalents	(9,788,560)	17,115,592
Cash and Cash Equivalents - Beginning of year	20,541,958	3,426,366
Cash and Cash Equivalents - End of year	**$ 10,753,398**	**$ 20,541,958**
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 4,773,810	$ 5,039,411
Restricted cash and cash equivalents	5,979,588	15,502,547
Total cash and cash equivalents	**$ 10,753,398**	**$ 20,541,958**

See notes to financial statements.

Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities		
Operating loss	$ (31,334,633)	$ (32,152,823)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Depreciation	4,629,154	4,791,426
Loss (gain) on disposal of capital assets	1,255	(4,436)
Changes in assets and liabilities:		
Receivables	1,948,000	(831,755)
Prepaid expenses and other assets	113,674	(7,644)
Student loans receivable	-	(1,506)
Deferred outflows of resources	(2,459,125)	707,081
Accounts payable	1,868,580	(235,795)
Accrued liabilities and other	(53,606)	214,256
Unearned revenue	152,184	262,500
Compensated absences	100,129	91,155
Net pension liability	2,974,518	4,488,556
Deferred inflows of resources	263,723	(2,935,735)
Net cash and cash equivalents used in operating activities	**$ (21,796,147)**	**$ (25,614,720)**

Discretely Presented Component Unit
Statement of Financial Position - Northwestern Michigan College Foundation

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 1,837,781	$ 1,146,628
Investments	36,480,841	34,047,791
Pledges receivable - Net of allowance	3,075,375	2,761,024
Cash surrender value of life insurance	376,805	352,571
Prepaid expenses and other assets	16,487	8,833
Total assets	**$ 41,787,289**	**$ 38,316,847**
Liabilities		
Accounts payable	$ 32,041	$ 30,743
Deferred revenue	50,562	47,319
Payable to Northwestern Michigan College	875,213	801,472
Split-interest agreements payable	55,049	43,092
Total liabilities	1,012,865	922,626
Net Assets		
Unrestricted net assets	4,143,281	3,591,694
Temporarily restricted net assets	24,491,986	22,014,630
Permanently restricted net assets	12,139,157	11,787,897
Total net assets	40,774,424	37,394,221
Total liabilities and net assets	**$ 41,787,289**	**$ 38,316,847**

See notes to financial statements.

Discretely Presented Component Unit
Statement of Activities - Northwestern Michigan College Foundation

Years Ended June 30, 2017 and 2016

	2017	2016
Revenue, Gains, and Other Support		
Contributions	$ 2,914,717	$ 4,483,366
Special event revenue	242,902	295,085
Net realized and unrealized gains and losses on investments	2,599,455	(760,661)
Investment income	778,112	757,971
Change in value of split-interest agreements	(9,483)	4,230
Total revenue, gains, and other support	6,525,703	4,779,991
Expenses		
Program expenses - Distributions to College	1,945,422	1,871,577
Management and general	713,935	555,903
Fundraising	486,143	437,854
Total expenses	3,145,500	2,865,334
Increase in Net Assets	3,380,203	1,914,657
Net Assets - Beginning of year	37,394,221	35,479,564
Net Assets - End of year	**$ 40,774,424**	**$ 37,394,221**

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.

The 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 is restricted by the donors to 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 is a discretely presented component unit of the College because the Foundation’s board of directors does not consist substantially of members who are also the College's board of trustees as well as meeting other accounting criteria. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation's financial information included in the College's financial report to account for these differences. Separate financial statements of the Foundation may be obtained by contacting Northwestern Michigan College Foundation,1701 East Front Street, Traverse City, Michigan 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 have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents

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

Restricted Cash and Investments

Cash and investments that were received from the issuance of the 2016 Community College Facilities Bonds are restricted for the use of capital projects.

Note 1 - Significant Accounting Policies (Continued)

Investments

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. Realized and unrealized gains and losses from securities in the investment accounts are allocated monthly based on the relationship of the market value of each account to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts. Realized gains were $2,000 and $99,921 for fiscal years 2017 and 2016, respectively. Due to the recording of bonds at fair market value, during fiscal year 2017, there was $199,659 of unrealized losses, and during fiscal year 2016, there was $322,176 of unrealized gains on investments held by the College.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair 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 included as part of the capitalized value of the assets constructed. Management annually reviews capital assets for impairment. The following estimated lives are used to compute depreciation:

	Depreciable Life - Years
Buildings/building improvements	30-40 years
Land improvements and infrastructure	15 years
Furniture, fixtures, and equipment	4-10 years
Docks	10 years

Unearned Revenue

Revenue received prior to year end that is related to the next fiscal period is recorded as unearned revenue. It consists of approximately $72,000 and $79,000 for the 2017 and 2016 fall semesters, respectively, approximately $770,000 and $696,000 for the 2017 and 2016 summer semesters, respectively, approximately $338,000 and $322,000 for 2017 and 2016 unearned flight fees for the College’s aviation program, respectively, and approximately $129,000 and $121,000 for 2017 and 2016 housing payable for the Maritime program, respectively. Grants received prior to qualifying expenses of approximately $13,000 and $25,000 for 2017 and 2016, 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 purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (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. 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)

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

The College reports deferred outflows of resources for certain pension-related amounts, such as 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 9.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes 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(s) and will not be recognized as an inflow of resources (revenue) until that time.

The College reports deferred inflows of resources for certain pension-related amounts, such as the difference between projected and actual earnings of the pension plan’s investments. More detailed information can be found in Note 9.

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)

Federal Financial Assistance Programs

The College participates in federally funded Pell 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*.

During the years ended June 30, 2017 and 2016, the College distributed $9,611,548 and $10,582,669, respectively, for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures on the accompanying financial statements.

Operating 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, and Pell grants, is classified as nonoperating revenue.

Internal Service Activities

Both 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.

Restatement

The 2016 restricted cash and cash equivalents and restricted investment securities balances have been restated to reflect the maturities of these assets. The effect on the 2016 balances was to reclassify $21,432,527 from current to noncurrent assets. There was no effect on net position or change in net position resulting from this restatement. Other minor reclassifications were made to the 2016 financial statements to conform to the 2017 presentation.

Adoption of New Accounting Pronouncements

For the year ended June 30, 2017, the College implemented GASB Statement No. 77, *Tax Abatement Disclosures,* which improves disclosure of tax abatement information, such as how the tax abatements affect the College's financial statements, operations, and ability to raise resources in the future, by reporting (1) the College's own tax abatement agreements, and (2) those entered into by other governments that reduce the College's tax revenue. See Note 2 regarding the effect of this pronouncement on the College.

Note 1 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the College to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan Public School Employees' Retirement System (MPSERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2018.

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 district boundaries, 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, 2017 and 2016, 2.1692 mills 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 $10,034,788 and $9,817,953 for the years ended June 30, 2017 and 2016, respectively.

During the years ended June 30, 2017 and 2016, .65 mills and .66 mills, respectively, of tax per $1,000 of taxable property value in the College's taxing district were levied for debt retirement purposes. Total property tax revenue was $3,045,067 and $3,013,658 for the years ended June 30, 2017 and 2016, respectively, for retirement of debt related to the 2009 and 2015 bond issues.

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, 2017 and 2016:

	2017	2016
City of Traverse	$ 108,794	$ 83,609
Blair Township	364	385
East Bay Township	3,382	1,873
Fife Lake Township	967	960
Garfield Township	64,813	72,282
Green Lake Township	11,479	25,106
Acme Township	387	350
Paradise Township	282	270
Peninsula Township	1,492	1,450
Total	$ 191,960	$ 186,285

Note 3 - Deposits and Investments

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

	2017	2016
Cash and cash equivalents	$ 4,773,810	$ 5,039,411
Investments	14,821,389	11,991,718
Restricted cash and investments	5,979,588	15,502,547
Restricted investment securities	6,491,820	5,929,980
Total deposits and investments	$ 32,066,607	$ 38,463,656

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 Fifth Third Bank, Chemical Bank, Huntington Bank, and Chase Bank for the deposit of its funds. The College's cash and investments are subject to custodial credit

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 are 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, 2017, the College's operations and debt deposit balances of $4,347,156 had $676,682 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. For June 30, 2016, the College's deposit balances of $2,493,889 had no bank deposits that were uninsured and uncollateralized. The College believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the College evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying 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's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market. See the tables in the concentration of credit risk section for investment maturities.

At year end, the College had the following investments and maturities, which include debt securities (other than the U.S. government) held by counterparties that possess Moody's quality ratings of Aaa:

	2017				
Description	Fair Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Ford Motor Credit Corp	$ 3,996,720	$ 3,996,720	$ -	$ -	$ -
VW Credit Inc	2,495,100	2,495,100	-	-	-
Federal Home Loan Mortgage Step	1,292,785	-	1,292,785	-	-
Federal National Mortgage Assoc Step	998,640	-	998,640	-	-
Federal Home Loan Mortgage Step	994,980	-	994,980	-	-
Federal Home Loan Bank Step	1,494,810	-	1,494,810	-	-
Federal Home Loan Bank Step	989,960	-	989,960	-	-
Federal Home Loan Mortgage Step	1,998,320	-	1,998,320	-	-
Federal Home Loan Bank Step	962,660	-	-	962,660	-
Federal Home Loan Bank Step	974,480	-	-	-	974,480
Federal Home Loan Bank Step	983,470	-	-	-	983,470
Federal National Mortgage Assoc Step	1,964,520	-	-	-	1,964,520
Federal Home Loan Bank Step	1,423,965	-	-	-	1,423,965
Total investments in debt securities	20,570,410	6,491,820	7,769,495	962,660	5,346,435
Certificates of deposit	742,799	-	-	-	-
Total	$ 21,313,209	$ 6,491,820	$ 7,769,495	$ 962,660	$ 5,346,435

	2016				
Description	Fair Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Ford Motor Credit Corp	$ 5,929,980	$ 5,929,980	$ -	$ -	$ -
Federal National Mortgage Assoc Step	1,000,170	-	1,000,170	-	-
Federal Home Loan Mortgage Step	1,000,280	-	1,000,280	-	-
Federal Home Loan Bank Step	1,502,200	-	1,502,200	-	-
Federal National Mortgage Assoc Step	1,000,370	-	-	-	1,000,370
Federal National Mortgage Assoc Step	890,187	-	-	-	890,187
Federal National Mortgage Assoc Step	950,561	-	-	-	950,561
Federal National Mortgage Assoc Step	997,910	-	-	-	997,910
Federal Home Loan Bank Step	1,398,740	-	-	-	1,398,740
Federal National Mortgage Assoc Step	2,003,260	-	-	-	2,003,260
Federal National Mortgage Assoc Step	998,040	-	-	-	998,040
Total investments in debt securities	17,671,698	5,929,980	3,502,650	-	8,239,068
Certificate of deposit	250,000	-	-	-	-
Total	$ 17,921,698	$ 5,929,980	$ 3,502,650	$ -	$ 8,239,068

Note 3 - Deposits and Investments (Continued)

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. Furthering the College’s safety in investments is the federal government’s guarantee of the Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation’s bond debt. The Standard and Poor's credit ratings for these investments are AA+.

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; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby 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 or liability.

The College has the following recurring fair value measurements as of June 30, 2017:

Assets Measured at Fair Value on a Recurring Basis

		Fair Value Measurement Using		
	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government obligations	$ 14,078,590	$ 14,078,590	$ -	$ -
Corporate bonds	6,491,820	6,491,820	-	-
Total investments measured at fair value	$ 20,570,410	$ 20,570,410	$ -	$ -

Note 4 - Fair Value Measurements (Continued)

The College has the following recurring fair value measurements as of June 30, 2016:

Assets Measured at Fair Value on a Recurring Basis

		Fair Value Measurement Using		
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government obligations	$ 11,741,718	$ 11,741,718	$ -	$ -
Corporate bonds	5,929,980	5,929,980	-	-
Total investments measured at fair value	$ 17,671,698	$ 17,671,698	$ -	$ -

Money market accounts totaling $7,688,989 and $18,358,552 and certificate of deposit accounts totaling $742,799 and $250,000 for 2017 and 2016, respectively, are not included in the totals above.

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Note 5 - Accounts Receivable

The following is the detail of accounts receivable:

	2017	2016
Student	$ 1,256,924	$ 1,477,065
Grants and contracts	470,859	2,397,981
State appropriations	2,062,919	2,009,812
Foundation	846,575	947,779
Third party and other	730,894	526,479
Gross accounts receivable	5,368,171	7,359,116
Allowance for doubtful accounts	(530,255)	(525,103)
Total accounts receivable - Net	$ 4,837,916	$ 6,834,013

Note 6 - Capital Assets

Capital asset activity for the years ended June 30, 2017 and 2016 was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 4,626,042	$ -	$ -	$ 4,626,042
Construction in progress	189,494	11,067,529	-	11,257,023
Art collection	1,079,465	25	-	1,079,490
Subtotal	5,895,001	11,067,554	-	16,962,555
Capital assets being depreciated:				
Infrastructure	7,923,216	-	-	7,923,216
Buildings and improvements	86,574,212	627,117	-	87,201,329
Docks	1,842,308	-	-	1,842,308
Furniture, fixtures, and equipment	29,465,276	1,136,791	(47,781)	30,554,286
Land improvements	5,892,544	141,800	-	6,034,344
Subtotal	131,697,556	1,905,708	(47,781)	133,555,483
Accumulated depreciation:				
Infrastructure	6,357,378	160,097	-	6,517,475
Buildings and improvements	40,070,656	2,392,863	-	42,463,519
Docks	1,765,093	14,081	-	1,779,174
Furniture, fixtures, and equipment	23,851,976	1,865,629	(46,526)	25,671,079
Land improvements	4,907,825	196,484	-	5,104,309
Subtotal	76,952,928	4,629,154	(46,526)	81,535,556
Net capital assets being depreciated	54,744,628	(2,723,446)	(1,255)	52,019,927
Capital assets - Net	$ 60,639,629	$ 8,344,108	$ (1,255)	$ 68,982,482

Note 6 - Capital Assets (Continued)

Governmental Activities (Continued)

	Balance July 1, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	$ 4,626,042	$ -	$ -	$ -	$ 4,626,042
Construction in progress	349,079	163,431	-	(323,016)	189,494
Art collection	1,069,465	10,000	-	-	1,079,465
Subtotal	6,044,586	173,431	-	(323,016)	5,895,001
Capital assets being depreciated:					
Infrastructure	7,951,977	-	(28,761)	-	7,923,216
Buildings and improvements	86,149,166	329,437	-	95,609	86,574,212
Docks	1,842,308	-	-	-	1,842,308
Furniture, fixtures, and equipment	27,940,851	1,575,755	(278,737)	227,407	29,465,276
Land improvements	5,738,892	153,652	-	-	5,892,544
Subtotal	129,623,194	2,058,844	(307,498)	323,016	131,697,556
Accumulated depreciation:					
Infrastructure	6,158,294	199,084	-	-	6,357,378
Buildings and improvements	37,684,866	2,385,792	-	-	40,070,658
Docks	1,595,296	169,797	-	-	1,765,093
Furniture, fixtures, and equipment	22,193,973	1,818,302	(160,297)	-	23,851,978
Land improvements	4,689,370	218,451	-	-	4,907,821
Subtotal	72,321,799	4,791,426	(160,297)	-	76,952,928
Net capital assets being depreciated	57,301,395	(2,732,582)	(147,201)	323,016	54,744,628
Capital assets - Net	$ 63,345,981	$ (2,559,151)	$ (147,201)	$ -	$ 60,639,629

Note 7 - Long-term Obligations

Long-term debt activity for the years ended June 30, 2017 and 2016 can be summarized as follows:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
2009 Community College Refunding Bonds	$ 1,565,000	$ -	$ (365,000)	$ 1,200,000	$ 380,000
2012 Community College Refunding Bonds	1,015,000	-	(160,000)	855,000	165,000
2015 Community College Refunding Bonds	9,825,000	-	(2,425,000)	7,400,000	2,445,000
2016 Community College Bonds	20,890,000	-	-	20,890,000	405,000
Total principal outstanding	33,295,000	-	(2,950,000)	30,345,000	3,395,000
Unamortized bond premiums	668,513	-	(36,019)	632,494	30,875
Total bonds payable:	33,963,513	-	(2,986,019)	30,977,494	3,425,875
Accrued vacation and sick leave	1,198,274	1,114,931	(1,014,802)	1,298,403	600,000
Total long-term obligations	$ 35,161,787	$ 1,114,931	$ (4,000,821)	$ 32,275,897	$ 4,025,875

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
2009 Community College Refunding Bonds	$ 1,920,000	$ -	$ (355,000)	$ 1,565,000	$ 365,000
2012 Community College Refunding Bonds	1,170,000	-	(155,000)	1,015,000	160,000
2015 Community College Refunding Bonds	12,200,000	-	(2,375,000)	9,825,000	2,425,000
2016 Community College Bonds	-	20,890,000	-	20,890,000	-
Total principal outstanding	15,290,000	20,890,000	(2,885,000)	33,295,000	2,950,000
Unamortized bond premiums	-	668,513	-	668,513	30,874
Total bonds payable:	15,290,000	21,558,513	(2,885,000)	33,963,513	2,980,874
Compensated absences	1,107,119	618,625	(527,470)	1,198,274	600,000
Total long-term obligations	$ 16,397,119	$ 22,177,138	$ (3,412,470)	$ 35,161,787	$ 3,580,874

Principal and interest on the 2015 and 2009 bonds are payable from the proceeds of ad valorem taxes levied on all taxable properties in the college taxing district without limitation as to rate or amount.

Note 7 - Long-term Obligations (Continued)

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, 2017 and 2016, the 2002 Series Bonds are considered defeased and the liability has been removed from the statement of net position. At June 30, 2017 and 2016, no amounts remain in escrow and the defeased bonds have been paid in full.

Community College Refunding Bonds, 2009

The College issued $3,645,000 in Unlimited Tax General Obligation Refunding Bonds with an interest rate of 2.5 percent to 4.25 percent to refund $3.795 million of outstanding 1999 Series Bonds with an interest rate of 4.92 to 5.75 percent, maturing in 2020. The bonds are payable from tax revenue of the College in installments ranging from $380,000 to $420,000, are callable at a premium, and mature at varying amounts through 2020. As of June 30, 2017 and 2016, the 1999 Series Bonds are considered defeased and the liability has been removed from the statement of net position. At June 30, 2017 and 2016, no amounts remain in escrow and the defeased bonds have been paid in full.

Community College Refunding Bonds, 2015

The College issued $12,200,000 in Unlimited Tax General Obligation Refunding Bonds with an interest rate of 0.7 percent to 1.80 percent to refund $12.1 million of outstanding 2005 Series Bonds with an interest rate of 5.00 percent, maturing in 2020. The bonds are payable from tax revenue of the College in installments ranging from $2,445,000 to $2,485,000, are callable at a premium, and mature at varying amounts through 2020. As of June 30, 2017 and 2016, the 2005 Series Bonds are considered defeased and the liability has been removed from the statement of net position. At June 30, 2017 and 2016, no amounts remain in escrow and the defeased bonds have been paid in full.

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) will be used to construct residence housing, renovations to the museum, a new library, and various other campus infrastructure projects. Bond issuance costs of $101,846 are included as expenses in the accompanying financial statements for the year ended June 30, 2016.

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.

Note 7 - Long-term Obligations (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds payable are as follows:

Years Ending June 30	Principal	Interest	Total
2018	$ 3,395,000	$ 803,113	$ 4,198,113
2019	3,760,000	743,040	4,503,040
2020	3,830,000	665,093	4,495,093
2021	955,000	577,428	1,532,428
2022	990,000	550,440	1,540,440
2023-2027	4,515,000	2,351,100	6,866,100
2028-2032	5,430,000	1,620,900	7,050,900
2033-2037	6,530,000	743,100	7,273,100
2038	940,000	28,200	968,200
Total	$ 30,345,000	$ 8,082,414	$ 38,427,414

Note 8 - Line of Credit

Under a line of credit agreement with a bank, the College has available borrowings of $2,000,000. Interest is payable monthly at a rate of 1.75 percent above the LIBOR established by the lender. The line of credit expires on April 5, 2018. There was no balance on the line of credit as of June 30, 2017 and 2016.

Note 9 - Retirement Plans

Plan Description

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

The System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at http://www.michigan.gov/orsschools, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service 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 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.

Note 9 - Retirement Plans (Continued)

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. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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 college district's contribution is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

College contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates are as follows:

October 1, 2014 - September 30, 2015	15.44% - 18.34%
October 1, 2015 - September 30, 2016	18.76% - 23.07%
October 1, 2016 - June 30, 2017	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The College's required and actual contributions to the plan for the years ended June 30, 2017 and 2016 were $4,471,306 and $4,112,085, respectively. Contributions include $1,477,969 and $1,287,216 in revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the years ended June 30, 2017 and 2016, respectively.

Net Pension Liability

At June 30, 2017 and 2016, the College reported a liability of $47,027,079 and $44,052,561 for its proportionate share of the net pension liability. The net pension liability for fiscal year 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The net pension liability for fiscal year 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used updated procedures to roll forward the estimated liability to September 30, 2015. 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, 2016, the College's proportion was 0.18849 percent of MPSERS in total, an increase of 0.00813 percent from its proportion measured as of September 30, 2015. At September 30, 2015, the College's proportion was 0.18036 percent of MPSERS in total, an increase of 0.00074 percent from its proportion measured as of September 30, 2014.

Note 9 - Retirement Plans (Continued)

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

For the years ended June 30, 2017 and 2016, the College recognized pension expense of $4,905,773 and $3,758,862, respectively.

At June 30, 2017 and 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 586,082	$ (111,455)	$ -	$ (145,915)
Changes in assumptions	735,232	-	1,084,667	-
Net difference between projected and actual earnings on pension plan investments	781,590	-	224,853	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	1,616,125	(112,474)	136,867	(5,044)
Employer contributions to the plan subsequent to the measurement date	3,670,571	(1,477,969)	3,484,088	(1,287,216)
Total	$ 7,389,600	$ (1,701,898)	$ 4,930,475	$ (1,438,175)

The $1,477,969 and $1,287,216 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 147c of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriations revenue for the years ended June 30, 2017 and 2016, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and therefore will not be included in future pension expense):

Years Ending June 30	Amount
2018	$ 793,840
2019	732,375
2020	1,544,530
2021	424,355
Total	$ 3,495,100

Note 9 - Retirement Plans (Continued)

Actuarial Assumptions

The total pension liability as of September 30, 2016 and 2015 is based on the results of an actuarial valuation date of September 30, 2015 and 2014, rolled forward, and was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost actuarial cost method
Assumed rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Rate of pay increases	3.50 percent
Mortality rates	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used in the September 30, 2015 and 2014 actuarial valuation date valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 to 8.00 percent, depending on the plan option. 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 College contributions will be made at contractually required rates.

Based on those assumptions, the pension plan's fiduciary net position was 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of the September 30, 2016 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.90 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.90
Real estate and infrastructure pools	10.00	4.30
Real return, opportunistic, and absolute pools	15.50	6.00
Short-term investment pools	2.00	-

Note 9 - Retirement Plans (Continued)

Best estimates of arithmetic real rates of return as of the September 30, 2015 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.90 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.90
Real estate and infrastructure pools	10.00	4.30
Real return, opportunistic, and absolute pools	15.50	6.00
Short-term investment pools	2.00	-

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

The following presents the net pension liability of the College as of June 30, 2017, calculated using the discount rate of 7.00 percent to 8.00 percent, depending on the plan option, as well as what the College’s net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent/6.00 percent) or 1.00 percentage point higher (9.00 percent/8.00 percent) than the current rate:

	1 Percent Decrease (7.00/6.00%)	Current Discount Rate (8.00/7.00%)	1 Percent Increase (9.00/8.00%)
Net pension liability of the Michigan Public School Employees' Retirement System	$ 60,559,041	$ 47,027,079	$ 35,618,335

The following presents the net pension liability of the College as of June 30, 2016, calculated using the discount rate of 7.00 percent to 8.00 percent, depending on the plan option, as well as what the College’s net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent/6.00 percent) or 1.00 percentage point higher (9.00 percent/8.00 percent) than the current rate:

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability of the Michigan Public School Employees' Retirement System	$ 56,795,043	$ 44,052,561	$ 33,310,126

Pension Plan Fiduciary Net Position

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

Changes Since the Measurement Date

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation by 0.5 percent. The actuarial computed employer contributions and the net pension liability for the measurement period ending September 30, 2017 will increase as a result of this change.

Note 9 - Retirement Plans (Continued)

Payable to the Pension Plan

At June 30, 2017, the College reported a payable of $407,025 for the outstanding amount of contributions to the pension plan required including the UAAL payments for July and August 2017. At June 30, 2016, the College reported a payable of $495,356 for the outstanding amount of contributions to the pension plan required including the UAAL payments for July and August 2016.

Postemployment Benefits Other Than Pensions (OPEB)

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. All healthcare benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69 percent to 6.83 percent and 2.71 percent to 6.83 percent of covered payroll for fiscal 2017 and 2016, respectively. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80 percent of cost.

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

The College's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were $927,822, $938,793, and $507,374, respectively.

Defined Contribution Plan

Effective January 1, 1995, the College adopted a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt-status employees can elect to participate with the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). As of June 30, 2017 and 2016, the plan had 118 and 112 participants, respectively.

The TIAA-CREF plan is a defined contribution retirement plan whereby benefits vest immediately. The College contributes a specified percentage of employee wages and has no liability beyond its own contribution. For the years ended June 30, 2017 and 2016, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing $929,156 and $878,725 for the years ended June 30, 2017 and 2016, respectively, to the plan.

The board of trustees reserves the right to amend or terminate the plan at any time subject to certain provisions.

Note 10 - 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:

	2017	2016
Reserved for General Fund program specific	$ 815,917	$ 626,778
Reserved for General Fund state appropriations	2,359,806	2,329,522
Reserved for General Fund medical insurance	470,000	470,000
Reserved for General Fund working capital	1,482,760	1,262,929
Reserved for maintenance and replacement after bond commitments	2,494,089	4,800,921
Reserved for auxiliary expenses	4,648,399	4,151,228
Reserved for unemployment insurance	108,082	108,082
Reserved for medical insurance	181,000	181,000
Reserved for energy contingency	200,000	200,000
Reserved for MPSERS	506,000	506,000
Reserved for transformation	1,279,097	1,305,910
Reserved for strategic projects	383,013	608,455
Reserved for insurance liability	69,474	69,474
Reserved for pension liability fund deficit	(41,339,377)	(40,560,261)
Total	$ (26,341,740)	$ (23,939,962)

Note 11 - 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 as well as those that have not yet been reported. The estimated liabilities for unemployment compensation for the fiscal years ended June 30, 2017 and 2016 were insignificant. Changes in the estimated liability for the fiscal years ended June 30, 2017 and 2016 for health benefits were as follows:

	Medical Claims		
	2017	2016	2015
Unpaid claims - Beginning of year	$ 142,290	$ 125,000	$ 250,000
Incurred claims, including claims incurred but not reported	3,064,393	3,334,461	3,607,768
Claim payments	(3,037,873)	(3,317,171)	(3,732,768)
Unpaid claims - End of year	$ 168,810	$ 142,290	$ 125,000

Note 12 - Contingent Liabilities

The College is subject to various legal proceedings and claims which 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 13 - Dennos Museum

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

	2017	2016
Revenue		
Sales and services	$ 371,072	$ 413,822
Federal grants and contracts	2,668	3,562
State grants and contracts	20,632	20,178
Support from component unit	585,920	573,881
Other sources	79,874	79,207
Total revenue	1,060,166	1,090,650
Operating and Capital Expenses		
Public service	903,158	954,745
Operations and maintenance of plant	156,529	171,861
Total operating and capital expenses	1,059,687	1,126,606
Change in Net Position Before Transfers	479	(35,956)
Transfers In	-	38,198
Change in Net Position	479	2,242
Total Fund Balance/Net Position - Beginning of year	1,750	(492)
Total Fund Balance/Net Position - End of year	$ 2,229	$ 1,750

Required Supplemental Information

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

Last Three Fiscal Years

Amounts Were Determined as of September 30 of Each Year

	2017	2016	2015
College's proportion of the net pension liability	0.18849 %	0.18036 %	0.17962 %
College's proportionate share of the net pension liability	$ 47,027,079	$ 44,052,561	$ 39,564,005
College's covered employee payroll	$ 16,077,647	$ 15,446,667	$ 15,420,406
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	292.50 %	285.19 %	256.57 %
Plan fiduciary net position as a percentage of total pension liability	63.01 %	63.17 %	66.20 %

Note: GASB 68 was implemented in fiscal year 2015. 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, 2016 and 2015. There were no changes to assumptions for the plan year ended September 30, 2016 and 2015.

Required Supplemental Information
Schedule of College's Pension Contributions
Michigan Public School Employees' Retirement System

Last Three Fiscal Years

Amounts Were Determined as of September 30 of Each Year

	2017	2016	2015
Contractually required contribution	$ 4,397,619	$ 4,112,085	$ 4,726,013
Contributions in relation to the contractually required contribution	4,397,619	4,112,085	4,726,013
Contribution deficiency (excess)	$ -	$ -	$ -
College's covered employee payroll	$ 15,454,034	$ 15,593,732	$ 15,479,214
Contributions as a percentage of covered employee payroll	28.46 %	26.37 %	30.53 %

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

Other Supplemental Information

Other Supplemental Information
Combining Statement of Net Position

June 30, 2017

(with comparative totals for 2016)

	Current Funds									
	General Fund	Board-designated Fund	Auxiliary Fund	Pension Liability Fund	Restricted Fund	Plant Fund	Loan Fund	Agency Fund	2017	2016
Assets										
Current assets:										
Cash and cash equivalents	$ 2,661,084	$ -	$ 3,750	$ -	$ 770,272	$ 345,002	$ (85,406)	$ 1,079,108	$ 4,773,810	$ 5,039,411
Receivables - Net	3,764,513	15,373	447,553	-	517,745	2,255	85,406	5,071	4,837,916	6,834,013
Prepaid expenses and other assets	378,371	20,019	491,400	-	-	131,499	-	-	1,021,289	1,134,963
Total current assets	6,803,968	35,392	942,703	-	1,288,017	478,756	-	1,084,179	10,633,015	13,008,387
Noncurrent assets:										
Restricted cash and investments:										
Restricted cash and cash equivalents	-	-	-	-	-	5,979,588	-	-	5,979,588	15,502,547
Restricted investment securities	-	-	-	-	-	6,491,820	-	-	6,491,820	5,929,980
Investments	2,887,757	2,701,050	4,109,983	-	-	5,122,596	-	3	14,821,389	11,991,718
Capital assets - Net	-	-	-	-	-	68,982,482	-	-	68,982,482	60,639,629
Bond insurance costs	-	-	-	-	-	13,548	-	-	13,548	20,324
Total noncurrent assets	2,887,757	2,701,050	4,109,983	-	-	86,590,034	-	3	96,288,827	94,084,198
Total assets	9,691,725	2,736,442	5,052,686	-	1,288,017	87,068,790	-	1,084,182	106,921,842	107,092,585
Deferred Outflows of Resources	-	-	-	7,389,600	-	-	-	-	7,389,600	4,930,475
Liabilities										
Current liabilities:										
Accounts payable	735,683	9,777	106,988	-	48,047	2,339,765	-	41,537	3,281,797	1,413,217
Accrued liabilities and other:										
Accrued salaries and wages	1,213,483	-	-	-	642,521	-	-	762,123	2,618,127	2,671,733
Accrued interest payable	-	-	-	-	-	148,553	-	-	148,553	106,330
Unearned revenue	936,552	-	35,099	-	30,469	-	-	-	1,002,120	1,242,868
Long-term obligations - Current	600,000	-	-	-	-	3,425,875	-	-	4,025,875	3,580,874
Total current liabilities	3,485,718	9,777	142,087	-	721,037	5,914,193	-	803,660	11,076,472	9,015,022
Noncurrent liabilities:										
Net pension liability	-	-	-	47,027,079	-	-	-	-	47,027,079	44,052,561
Long-term obligations - Net of current portion	698,403	-	-	-	-	27,551,619	-	-	28,250,022	31,580,913
Deposits	379,116	-	262,203	-	566,980	-	-	280,522	1,488,821	1,095,889
Total noncurrent liabilities	1,077,519	-	262,203	47,027,079	566,980	27,551,619	-	280,522	76,765,922	76,729,363
Total liabilities	4,563,237	9,777	404,290	47,027,079	1,288,017	33,465,812	-	1,084,182	87,842,394	85,744,385
Deferred Inflows of Resources	-	-	-	1,701,898	-	-	-	-	1,701,898	1,438,175
Net Position										
Net investment in capital assets	-	-	-	-	-	51,108,890	-	-	51,108,890	48,780,462
Unrestricted	5,128,488	2,726,665	4,648,396	(41,339,377)	-	2,494,088	-	-	(26,341,740)	(23,939,962)
Total net position	**$ 5,128,488**	**$ 2,726,665**	**$ 4,648,396**	**$ (41,339,377)**	**$ -**	**$ 53,602,978**	**$ -**	**$ -**	**$ 24,767,150**	**$ 24,840,500**

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

June 30, 2017

(with comparative totals for 2016)

	Current Funds									
	General Fund	Board-designated Fund	Auxiliary Fund	Pension Liability Fund	Restricted Fund	Plant Fund	Loan Fund	Eliminations	2017	2016
Operating Revenue										
Student tuition and fees	$ 23,630,918	$ -	$ 12,362	$ -	$ -	$ -	$ -	$ (3,256,187)	$ 20,387,093	$ 19,362,192
Federal grants and contracts	807,101	-	2,668	-	481,370	-	-	-	1,291,139	1,226,062
State grants and contracts	-	-	20,632	-	109,748	-	-	-	130,380	1,137,118
Private gifts, grants, and contracts	385	-	-	-	72,518	-	-	-	72,903	172,152
Departmental and other educational activities	-	-	-	-	-	1,905,734	-	(1,905,734)	-	-
Sales and services of auxiliary activities	-	-	4,117,688	-	-	-	-	-	4,117,688	4,442,517
Other sources	573,989	15,373	1,561,384	-	24,980	2,000	-	-	2,177,726	2,124,464
Total operating revenue	25,012,393	15,373	5,714,734	-	688,616	1,907,734	-	(5,161,921)	28,176,929	28,464,505
Operating Expenses										
Instruction	19,628,027	92,352	368	269,478	141,124	355,136	-	(515,713)	19,970,772	20,091,810
Public service	452,126	530	2,243,037	41,442	96,479	8,590	-	(29,885)	2,812,319	2,762,287
Instructional support	7,640,009	7,904	99,051	97,332	67,130	30,992	-	-	7,942,418	7,842,101
Student services	5,578,954	-	3,214,582	76,486	6,077,928	-	-	(3,620,775)	11,327,175	12,794,785
Institutional administration	6,131,976	527,289	74,454	56,127	113,292	9,610	(73)	-	6,912,675	6,683,273
Operation and maintenance of plant	4,875,960	-	258,206	47,498	13,553	1,717,380	-	(995,548)	5,917,049	5,651,646
Depreciation	-	-	-	-	-	4,629,154	-	-	4,629,154	4,791,426
Total operating expenses	44,307,052	628,075	5,889,698	588,363	6,509,506	6,750,862	(73)	(5,161,921)	59,511,562	60,617,328
Operating (Loss) Income	(19,294,659)	(612,702)	(174,964)	(588,363)	(5,820,890)	(4,843,128)	73	-	(31,334,633)	(32,152,823)
Nonoperating Revenue (Expense)										
State appropriations	11,528,030	-	-	(190,753)	-	41,387	-	-	11,378,664	9,812,927
Federal Pell grants	-	-	-	-	4,473,960	-	-	-	4,473,960	5,312,273
Property taxes	10,034,788	-	-	-	-	3,045,067	-	-	13,079,855	12,831,611
Support from component unit	518,167	60,446	672,952	-	1,360,543	138,340	-	-	2,750,448	2,520,173
Investment (loss) income	(10,574)	-	-	-	-	158,542	-	-	147,968	715,194
Bond insurance amortization	-	-	-	-	-	28,745	-	-	28,745	(109,943)
Interest expense on capital-related debt	-	-	-	-	-	(598,357)	-	-	(598,357)	(285,075)
Total nonoperating revenue (expense)	22,070,411	60,446	672,952	(190,753)	5,834,503	2,813,724	-	-	31,261,283	30,797,160
Transfers (Out) In	(2,336,493)	300,000	(820)	-	(13,613)	2,050,999	(73)	-	-	-
Change in Net Position	439,259	(252,256)	497,168	(779,116)	-	21,595	-	-	(73,350)	(1,355,663)
Net Position - Beginning of year	4,689,229	2,978,921	4,151,228	(40,560,261)	-	53,581,383	-	-	24,840,500	26,196,163
Net Position - End of year	**$ 5,128,488**	**$ 2,726,665**	**$ 4,648,396**	**$ (41,339,377)**	**$ -**	**$ 53,602,978**	**$ -**	**$ -**	**$ 24,767,150**	**$ 24,840,500**