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# Lake Michigan College

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**Financial Report  
with Supplemental Information  
June 30, 2022**

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## Independent Auditor's Report

To the Board of Trustees  
Lake Michigan College

### Report on the Audits of the Financial Statements

#### **Opinions**

We have audited the financial statements of the business-type activities and discretely presented component unit of Lake Michigan College (the "College") as of and for the years ended June 30, 2022 and 2021 and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of the College as of June 30, 2022 and 2021 and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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

#### **Responsibilities of Management for the Financial Statements**

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

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

#### **Auditor's Responsibilities for the Audits of the Financial Statements**

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

To the Board of Trustees  
Lake Michigan College

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

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

#### ***Required 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, schedule of pension contributions, schedule of the College's proportionate share of the net OPEB liability, and schedule of OPEB contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

#### ***Supplemental Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Trustees  
Lake Michigan College

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2022 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 8, 2022

## Management's Discussion and Analysis – Unaudited

### **Using This Report**

This financial report includes the report of the independent auditors, management's discussion and analysis (MD&A), basic financial statements, notes to the financial statements, required supplementary schedules, and supplemental information.

Following the basic financial statements, notes to the financial statements, and required supplementary schedules are supplemental information: the Combining Schedule of Net Position and the Combining Schedule of Revenues, Expenses, Transfers & Changes in Net Position. Although the Governmental Accounting Standards Board (GASB) does not require this supplemental information be present for a fair and complete presentation, the supplemental information does provide more detail regarding the funds and activities of Lake Michigan College (the "College") that is not disclosed in the basic financial statements.

### **Management's Discussion & Analysis (MD&A) – Unaudited**

The MD&A that follows provides an overview of the College's financial activities for the year ended June 30, 2022 with comparative information for the years ended June 30, 2021 and 2020, as well as a brief discussion of "forward-looking" information relating to fiscal year (FY) 2023 and beyond.

Management of the College has prepared the financial statements and related notes to the financial statements along with the MD&A. Responsibility for the completeness and accuracy of this information rests solely with management. For ease in reading, all amounts within this section are rounded to the nearest thousand.

### **Statement of Net Position**

The Statement of Net Position presents the financial position of the College and includes all assets, liabilities, and deferred inflows and outflows of resources. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the good or service is sold or provided and expenses and liabilities are recognized when obligations are incurred regardless of when cash is exchanged.

Net Position, which represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources, is one indicator of financial condition.

## Management's Discussion and Analysis – Unaudited

The following are the major components of assets, liabilities, and net position for the College as of June 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b><u>Assets</u></b>			
Cash & investments (short-term)	\$ 34,328,000	\$ 24,848,000	\$ 16,448,000
Receivables	6,576,000	8,145,000	4,731,000
Prepaid expenses & other	636,000	644,000	304,000
Capital assets, net of depreciation	89,810,000	92,466,000	93,916,000
Deferred pension & OPEB outflows	4,856,000	6,696,000	6,495,000
<b>Total Assets</b>	<b>\$ 136,206,000</b>	<b>\$ 132,799,000</b>	<b>\$ 121,894,000</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 1,760,000	\$ 2,189,000	\$ 4,134,000
Accrued liabilities	2,294,000	1,828,000	2,156,000
Unearned revenue	484,000	528,000	293,000
Interest payable	207,000	136,000	311,000
Debt	33,288,000	36,763,000	37,320,000
Net OPEB and pension liability	14,350,000	22,922,000	23,841,000
Deferred pension & OPEB inflows	9,962,000	5,209,000	5,289,000
<b>Total Liabilities</b>	<b>\$ 62,345,000</b>	<b>\$ 69,575,000</b>	<b>\$ 73,344,000</b>
<b><u>Net Position</u></b>			
Investment in capital assets, net	\$ 57,683,000	\$ 56,919,000	\$ 56,533,000
Unrestricted (deficit)	16,178,000	6,305,000	(7,983,000)
<b>Total</b>	<b>\$ 73,861,000</b>	<b>\$ 63,224,000</b>	<b>\$ 48,550,000</b>

Significant changes from year to year include:

- **Cash & investment** increases for FY22 and FY21, \$9.5 million and \$8.4 million respectfully, were the result of timing of cash receipts from Higher Education Emergency Relief Funds (HEERF), reimbursement from the State of Michigan for the College's capital outlay project expenditures, and additional intentionally-maintained holdings of cash as a contingency due to the uncertainty related to the pandemic.
- **Receivables** decreased \$1.6 million in FY22 due to receipt from the State of Michigan for prior year capital outlay project receivable. Receivables increased \$3.4 million in FY21 due to a receivable from the State of Michigan for the College's capital outlay project expenditures and a receivable related to HEERF.
- **Capital assets** consist of long-lived assets net of the depreciation that accumulates over the life of the asset. Net capital assets – which includes assets in service and those in process, as well as related depreciation – decreased in both FY22 and FY21 due to normal depreciation expense.

## Management's Discussion and Analysis – Unaudited

- **Deferred pension and OPEB outflows, deferred pension and OPEB inflows, and net pension and OPEB liability** arose upon adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) in 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75) in 2018. Both pronouncements require reporting of net related liabilities along with respective deferred outflows and inflows.

The College's net pension and OPEB liability is its respective proportionate share of the total net liabilities of the Michigan Public School Employees Retirement System (MPERS) plan. Deferred outflows of resources occur because of changes in assumptions to the net pension and OPEB liability and College contributions to MPERS subsequent to the plan's measurement date. Deferred inflows of resources represent the difference between projected and actual earnings on pension plan investments. See the footnotes to the financial statements for more information.

- **Accounts payable** represents amounts due to vendors and will fluctuate from year to year based on timing of invoice receipt and payments. In FY22, the balance decreased \$429,000 due to timing of normal operating expenditures and returning to accounts payable processing timelines that are more customary. In FY21, the balance decreased \$1.9 million due to fewer construction payables as prior significant construction wraps up.
- **Accrued liabilities** include primarily employee compensation and related amounts as well as ticket sales collected on behalf of Mainstage rental clients. This balance will fluctuate normally from year to year based on timing of pay dates and Mainstage shows.
- **Unearned revenue** represents student tuition payments collected before the beginning of a term and payments for performances/events received before a show/event. The FY21 increase from FY20 is the rebound in both student enrollments and performances/events as the pandemic became better contained.
- Total **debt** will normally decrease year over year due to principal payments. In addition, the College 'refinanced' certain bonds during FY21, as described in Note 6 to the audited financial statements.

**Net Position** represents the residual of all other elements presented in a Statement of Net Position. The College has two types of net position:

- **Net Investment in Capital Assets** represents investment in capital assets, net of depreciation and related debt.
- **Unrestricted Net Position** represents net resources generated by operating activities.



## Management's Discussion and Analysis – Unaudited

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

The **Statement of Revenues, Expenses, & Changes in Net Position** presents the revenues earned and the expenses incurred during the year. The combined statement is summarized as follows for the years ended June 30:

	<u>FY22</u>	<u>FY21</u>	<u>FY20</u>
<b><u>Revenues</u></b>			
Property taxes	\$ 23,228,000	\$ 22,592,000	\$ 22,045,000
Tuition & fees	10,931,000	9,596,000	11,096,000
Grants & contracts	9,904,000	7,942,000	2,919,000
Appropriations	6,935,000	6,507,000	5,925,000
Funding from State - Capital Outlay	-	6,313,000	1,834,000
Auxiliary & other (gross)	2,007,000	2,147,000	2,426,000
Support (to) from Foundation, net	(140,000)	121,000	3,271,000
Investment income	16,000	75,000	508,000
Total revenues	<b><u>\$ 52,881,000</u></b>	<b><u>\$ 55,293,000</u></b>	<b><u>\$ 50,024,000</u></b>
<b><u>Expenses</u></b>			
Labor costs	\$ 20,787,000	\$ 21,852,000	\$ 21,945,000
Travel, communication & other	7,015,000	4,837,000	4,047,000
Depreciation	4,805,000	4,684,000	4,803,000
Services	6,069,000	4,403,000	5,989,000
Building costs	1,732,000	2,681,000	1,508,000
Interest expense	956,000	1,022,000	1,203,000
Supplies	881,000	700,000	932,000
Loss (gain) on asset disposal	-	440,000	-
Total expenses	<b><u>\$ 42,245,000</u></b>	<b><u>\$ 40,619,000</u></b>	<b><u>\$ 40,427,000</u></b>
<b>Increase in net position</b>	<b><u>\$ 10,636,000</u></b>	<b><u>\$ 14,674,000</u></b>	<b><u>\$ 9,597,000</u></b>

**Revenues** include both operating and non-operating revenues and are presented above in order of magnitude. Significant changes from year to year include:

- **Property taxes** are revenues from millage levies on property within the College's districts. The tax equals a percentage of the taxable value of the property. Changes in property tax revenues generally reflect changes in taxable values in the taxing districts. Other components include:
  - Industrial facilities' taxes
  - Payment in lieu of taxes from Berrien County and the Pokagon Band of Potawatomi Indians
  - State reimbursement of Renaissance Zone abatements
  - Delinquent taxes with related penalties/interest,
  - State reimbursement for lost personal property tax (related to 2012 legislation eliminating this tax for certain taxpayers)
  - Beginning in 2018, proceeds from a 10-year new capital millage, which were \$4.7 million, \$4.6 million, and \$4.5 million in FY22, FY21, and FY20, respectively

## Management's Discussion and Analysis – Unaudited

- **Grants & contracts** includes Federal, state and organizational grants, such as those:
  - Awarded to students in need of financial aid (e.g., Federal Supplemental Educational Opportunity Grant, Pell Grant Program, Perkins Career & Technical Education Grant, Federal Work-Study Program)
  - Providing outreach and student services programs designed to identify and provide services for individuals from disadvantaged backgrounds (TRIO)
  - Expanding the capacity to serve low-income students (Title III)
  - Improving career and technical education programs (Perkins)

The most significant component of this funding is normally financial aid grants, which fluctuate with student enrollment and student financial need/eligibility.

This revenue increased \$1.7 million and \$5.0 million in FY22 and FY21, respectively, due primarily to HEERF, which was combination of student and institutional funding.

- **Tuition & fees** is the second largest component of funding. This revenue is driven by two variables – billing hours, which are based on student contact hours, and tuition/fee rates. The \$1.3 million increase in tuition revenue for FY22 is primarily a result of student usage of HEERF grants to fund tuition payments; combined Pell and HEERF payments of tuition totaled \$6.8 million and \$3.1 million in FY22 and FY21, respectively. The increase is attributed to College communication efforts on the availability of HEERF funding to assist in student tuition payments. The decrease in tuition revenue in FY21 is directly attributable to the COVID-19 pandemic and is a consistent outcome among community colleges.
- **Appropriations** are received from the State of Michigan in two forms: appropriations to support operations through a combination of base and performance funding and appropriations to cover the amount over a legislative cap on MPERS contributions.

Operational support was relatively stable for FY22 and FY21, increasing through typical legislative processes to yield a net of 7% increase and 10% increase, respectively.

- In FY21, \$6.3 million of **Funding from State - Capital Outlay** was received from the State of Michigan for the Napier Academic Building Renovation & Upgrade project. No additional funds were due from or paid by the State on this project subsequent to FY21.
- **Auxiliary & other** include revenues from auxiliary operations (Beckwith Hall and Mendel Center Operations) as well as miscellaneous income such as rental and certain fees. In FY21, this revenue decreased \$279,000 due to decreased occupancy in Beckwith Hall due to the pandemic offset by \$1.1 million in revenue from health department COVID-19 vaccination clinics operated by Mendel Center Operations. In FY22, this revenue decreased by \$140,000 as a result of improved Beckwith Hall occupancy offset by fewer patrons at performances and fewer events in FY22 due to the continued impact of the pandemic.
- Fluctuations in **Support from (to) Foundation, net** are to be expected due to flexibility in payment dates and changes in the amounts and nature of amounts due from the Foundation (e.g., program funding, scholarships, capital campaign funding, operational support) net of those amounts paid by the College on behalf of the Foundation (wages, benefits, contracted services, professional development.)
- **Investment income** includes earnings on checking account, short-term certificates of deposit (CD). In FY22, this revenue decreased due to lower interest rates in FY22 than FY21 to an average rate of .1% in FY22 from .15% in FY21. In FY21, this revenue decreased due to the use of the bond proceeds previously held in a money market account coupled with a significant decline in interest rates - CD rates dropped from 2.55% in FY19 to 1.62% in FY20 and to .15% in FY21.

# Management's Discussion and Analysis – Unaudited

Significant changes from year to year in **Expenses** include:

- **Labor costs** include both wage and benefit costs. In FY22, labor costs continued to decrease by \$1.1 million due to the ongoing labor market difficulties to fill vacant positions along with a benefit expense reduction related to market impact on MPSERS pension plan. In FY21, labor costs increased \$93,000 due to an increase in restricted fund (grant) positions offset by several 'held' (unfilled) positions in the general fund.
- **Travel, communication, & other** increased \$2,178,000 due to increase in student emergency grants awarded under HEERF.
- **Services** include professional services, such as audit, legal, and consulting services, as well as custodial, repair/maintenance, advertising, and part-time faculty and temporary personnel services. Fluctuations occur year to year in this expense category depending on the nature and extent of the services the College contracts.

Significant non-recurring services contracted in FY22 included a slow return to normal auxiliary operations along with service contracts supporting institutional research and information technologies. Significant non-recurring services contracted in FY21 included a limited amount of contracted personnel services for financial aid; in addition, many contracted services typically provided were unable to be completed or limited due to the impact of the pandemic.

- **Building Costs** (e.g., rent, utilities and insurance) decreased \$949,000 due primarily to the elimination of expenses in the restricted funds associated with the reimbursement by HEERF of the health department COVID-19 vaccination clinics operated by Mendel Center Operations.
- **Depreciation** reflects the utilization of long-lived assets by apportioning the cost of a capital asset over its estimated useful life. Depreciation increases when capital assets are placed into service and decreases when capital assets are disposed of or become fully depreciated. Significant capital assets placed into service in FY22 resulted in an increase of \$2.1 million; those assets include \$1.1 million in "routine capital" (i.e., maintenance, renewal and replacement of existing assets).
- **Interest expense** fluctuates normally based on bond repayment schedules.

College expenses reported by functional class can be found in Note 7 to the financial statements.

### Statement of Cash Flows

The Statement of Cash Flows is another way to assess financial health. Its primary purpose is to provide information about the cash inflows and outflows during a period, and is typically grouped into the following categories:

- **Cash flows from operating activities** reflects the net of the cash received from tuition and fees, certain grants, and auxiliary operations less the cash paid out to vendors and employees.
- **Cash flows from non-capital financing activities** include cash receipts from property taxes, state appropriations, student Pell grants, gifts, and miscellaneous sources.
- **Cash flows from capital and related financing activities** result from purchasing and selling capital assets, borrowing for new capital assets, and repaying principal and interest on debt.
- **Cash flows from investing activities** consist of investment income – both interest and dividend income and the proceeds from investment sales and maturities – offset by the cash outflow when investments are purchased.

The statement of cash flows is summarized as follows.

## Management’s Discussion and Analysis – Unaudited

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Cash provided by (used in):</b>			
Operating activities	\$ (26,641,000)	\$ (25,332,000)	\$ (26,700,000)
Financing activities - non-capital	42,631,000	35,060,000	32,891,000
Financing activities - capital	(6,509,000)	(1,404,000)	(16,381,000)
Investing activities	(40,000)	2,000	137,000
<b>Net increase (decrease) in cash</b>	<b>9,441,000</b>	<b>8,326,000</b>	<b>(10,053,000)</b>
Cash - beginning of year	11,602,000	3,276,000	13,329,000
<b>Cash - end of year</b>	<b>\$ 21,043,000</b>	<b>\$ 11,602,000</b>	<b>\$ 3,276,000</b>

### Forward-Looking Information

Following is a brief discussion of certain economic factors anticipated to affect the future, focusing on the upcoming fiscal year 2023 (FY23).

- **Property Tax** will likely continue to be the largest component of funding (51% of total revenue). Funds are from voter-approved operating millages in our taxing district of Berrien County, South Haven School District (in Van Buren and Allegan counties), and Covert Township (in Van Buren County). Property taxes are reduced by tax capture arrangements like Downtown Development Authority (DDA) and Tax Increment Finance Authority (TIF).

Although collections from the 2016 capital millage are considered “revenue” when collected, those funds are exclusively for non-routine items in accordance with millage ballot language (i.e., for safety/security improvements, energy efficiency upgrades, instructional space renovation and technology upgrades, other capital improvements). These collections are accordingly not included in this operating budget, nor are the related expenditures.

Taxable values for our districts for each fiscal year are below.

	<u>Tax Values</u>			
	<u>FY23</u>	<u>FY22</u>	<u>Change</u>	
Berrien	8,865,614,000	8,479,562,000	386,052,000	5%
Van Buren	1,299,507,000	1,294,548,000	4,959,000	0%
Allegan	265,194,000	255,675,000	9,519,000	4%
Captured Taxes	(184,047,000)	(184,047,000)	-	0%
	10,246,268,000	9,845,738,000	400,530,000	4%

- **Tuition & Fees** will likely remain the second-largest source of funding, and is driven by two variables – billing hours, which are based on student contact hours, and tuition rates.

The College believes that FY23 traditional billing hours (i.e., not direct credit or middle college) will increase 2% from FY22, based on the following factors:

- Positive: LMC Promise free tuition program (for eligible students)
- Positive: Michigan Reconnect grant program
- Positive: More continuing students thanks to the free tuition program
- Positive: Rio Salado programs
- Negative: No more free tuition for all students
- Negative: High school graduates continue to decline

Middle college and direct credit billing hours will likely decrease slightly (.4%).

Tuition rates for Academic Year (AY) 2022-2023 were set in accordance with established policy in February 2022,

# Management's Discussion and Analysis – Unaudited

and reflect an approximate 3.7% increase over AY22 rates.

- Each year the College rebates about 5% of tuition as **Scholarships & Waivers**, which include merit, need-based, and athletic scholarships, as well as waivers for senior citizens, Bureau of Indian Affairs, etc. In addition to College-funded scholarships, in FY23 the Foundation plans to provide 119 scholarships totaling more than \$262,000.
- **Appropriations**, typically the third-largest component of funding, are provided by the State. For FY23, appropriations funding is expected to increase 3.9%.

The State also provides “rate stabilization” funding to offset community college contributions to Michigan’s defined benefit pension plan (Michigan Public School Employees Retirement System, or MPSERS.) This funding reduces required contributions of up to 38.45% by 5.28%. Although this funding is not expected to continue indefinitely, based on lack of available information to the contrary, it continues to be included in future forecasts.

- **Other Revenue** includes:
  - **Donations**, which is funding from the Foundation to support programs and operations. No significant changes are expected (i.e., a major fundraising campaign.)
  - **Workforce Training & Community Ed** includes non-credit training (e.g., employer contract training, individual job training) and personal enrichment offerings. The most significant of these offerings is truck driver training, which is anticipated to result in a net positive of \$162,000 for FY23.
  - **Interest** includes earnings on checking account (.01%) and certificates of deposit (estimated composite interest rate of .1%).
  - **Miscellaneous** includes Barnes & Noble commissions, rebates (Staples, procurement cards), sale of copying/printing services, student production tickets, and fees (e.g., ID cards, testing, transcripts, collection.) Significant changes to this revenue is not anticipated in the near term.
  - **Grants & Contracts** include support from United Way for the Start to Finish program and a mental health counselor, and grant receipts intended to cover a portion of overhead. Significant changes to this revenue is not anticipated in the near term.
- Auxiliary enterprises by definition are designed to be self-supporting, non-instructional activities. **Auxiliary Operations** are summarized and discussed below:
  - **Beckwith Hall** includes operating and facility costs for the 188-bed residence hall, which typically operates at near full capacity. Barring a major event like the coronavirus pandemic, this trend is not anticipated to change.
  - **Mendel Center Operations** (MCO) includes events held generally in Mainstage Theater or Grand Upton Hall, such as performances, rentals, and events. Revenue includes ticket sales, food/beverage sales, room/equipment rentals, and funding from grants and contributions, including Foundation funding from Premier Partners and Gast Young People's Performance Series endowments. The bottom line for FY23 should improve with a reorganization focusing on academic and community partnerships and a resulting change in staffing.
  - The **Economic Club** speaker series began as a College operation in 2017 when the Economic Club of Southwest Michigan donated its endowment to the Foundation. All costs in excess of membership and ticket revenues will be funded by the Foundation until those funds are exhausted.
  - **Café & Vending** represents the food service options on campus. When operated by the College several years ago, this function was considered an auxiliary. With the move to an outsourced model through Canteen, the planned investment to maintain food service for our students and employees may result in this operation becoming an operational expense line item next year.

# Management's Discussion and Analysis – Unaudited

- **Labor Costs** are the most significant of College expenses. This includes wages and benefits, both of which are largely fixed in the short-term. Components include:
  - Employee wage costs will normally be projected to include annual pay increases for all College employees, with an estimated 2% across-the-board for non-bargaining unit employees and raises in accordance with collective bargaining agreements for the Facilities and Faculty unions. Like many other organizations, the College expects to experience lapsed salaries due to difficulties in filling open positions.
  - Outsourced staff includes wages for certain positions (part-time faculty, tutors, coaches, on-call positions) and a staffing company fee of 17%-19%. No significant changes are expected in this area.
  - Health insurance includes health, vision, dental, disability, life insurance, unemployment, workers compensation, and health savings account funding. Since the College is self-insured, healthcare costs are projected based on actuarial estimates of likely outcomes and are projected to increase from FY22 costs by 5%. Actual costs will depend on the volume and nature of claims for the year.
  - Retirement contributions are amounts paid on behalf of an employee into a retirement plan. There are 2 plan options: 1) defined contribution plan (TIAA) where contributions are 10%-14.96% of wages depending upon date of hire and 2) Michigan's defined benefit plan (MPSERS) where contributions range from 10%-30% of wages. (State legislation from 2012 capped MPSERS rates, with the State funding amounts over the cap; otherwise, these rates would be significantly higher.)
  - Employer payroll taxes are amounts paid to fund Social Security and Medicare. Employer contribution rates are 6.2% of wages for Social Security and 1.45% for Medicare, totaling 7.65% of wages annually.
  - Other benefits include tuition waivers, service awards, and relocation reimbursement. There are no plans to discontinue these benefits.
- **Depreciation** is the largest non-labor category. This cost is a direct result of investment in capital assets – as capital assets are added, depreciation expense is added. For each dollar spent on capital, between 1/5 (an asset with a 5-year useful life) and 1/45 (a 45-year useful life) will be recognized as depreciation expense annually.
- Other expenses include **Building Costs**, **Services**, **Supplies**, and **Travel, Training, & Other**. These expenses are expected to increase \$1,816,000 from last year. This represents the net impact of several factors, including:
  - Continued investment in technology through software licensing, specifically aimed at improving the student experience and gaining operational efficiencies
  - Increase in all utility costs (electricity, natural gas, water, sewage, trash)
  - Contractual rate increase for outsourced custodial and security services
  - Significant increase in contracted services (\$1.58 million) due to the FY22 outsource of institutional research (IR) operations to Dynamic Campus (\$705,000), the increase in truck driving training delivered by the contracted provider (\$485,000, which is fully offset by revenue), and the last year of a financial aid training contract (\$75,000)
- **Interest Expense** is paid on \$33,045,000 of bonds issued since 2013. Capital millage property tax revenues will be used to pay a 2018 bond issue, as the projects borrowed for were part of the capital millage ballot.

Statement of Net Position

June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 21,042,920	\$ 11,601,581
Short-term investments (Note 2)	13,285,090	13,245,966
Accounts receivable - Net (Note 4)	6,575,914	8,145,206
Inventories	7,352	7,291
Prepaid expenses and other assets	628,480	636,484
Total current assets	41,539,756	33,636,528
Capital assets - Net (Note 5)	89,809,954	92,466,009
Total assets	131,349,710	126,102,537
<b>Deferred Outflows of Resources</b> (Notes 6 and 15)	4,856,449	6,695,782
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,759,909	2,188,810
Accrued payroll and related costs	1,900,981	1,603,189
Interest payable	207,430	136,444
Unearned revenue	484,395	527,818
Current portion of long-term debt (Note 6)	3,406,912	3,485,956
Other liabilities	393,771	224,626
Total current liabilities	8,153,398	8,166,843
Noncurrent liabilities:		
Net pension liability (Note 15)	13,515,097	19,819,454
Net OPEB liability (Note 15)	834,443	3,102,282
Long-term debt - Net of current portion (Note 6)	29,880,835	33,276,791
Total noncurrent liabilities	44,230,375	56,198,527
Total liabilities	52,383,773	64,365,370
<b>Deferred Inflows of Resources</b> (Note 15)	9,962,057	5,208,964
<b>Net Position</b>		
Net investment in capital assets	57,682,732	56,918,615
Unrestricted	16,177,597	6,305,370
Total net position	<b>\$ 73,860,329</b>	<b>\$ 63,223,985</b>

## Lake Michigan College

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

Years Ended June 30, 2022 and 2021

	2022	2021
<b>Operating Revenue</b>		
Student tuition and fees:		
Tuition and fees	\$ 10,868,267	\$ 9,315,526
Scholarships and allowances	(3,745,233)	(3,116,293)
Net tuition and fees	7,123,034	6,199,233
Grants and contracts	3,271,628	3,058,663
Noncredit tuition and fees	276,501	157,362
Auxiliary activities and other operating revenue	1,790,344	1,862,554
Total operating revenue	12,461,507	11,277,812
<b>Operating Expenses</b>		
Salaries and wages	14,783,213	14,128,723
Benefits	6,003,885	7,723,396
Professional services	6,069,357	4,402,793
Supplies and materials	881,100	700,255
Travel, communications, and miscellaneous	6,796,919	4,534,802
Rent, utilities, and insurance	1,731,568	2,681,317
Small capital equipment	218,060	301,308
Depreciation	4,804,900	4,684,084
Total operating expenses	41,289,002	39,156,678
<b>Operating Loss</b>	(28,827,495)	(27,878,866)
<b>Nonoperating Revenue (Expense)</b>		
State appropriations	6,934,885	6,507,267
Pell Grants	3,531,336	3,239,755
Property taxes (Note 8)	23,228,279	22,591,723
Higher Education Emergency Relief Funds and Coronavirus Relief Funds	6,632,678	4,883,428
Support to the Foundation - Net (Note 12)	(140,162)	(319,455)
Investment income and gains	15,541	75,227
Loss on sale of capital assets	-	(439,990)
Other nonoperating revenue	217,124	284,144
Interest on capital asset-related debt	(955,842)	(1,021,982)
Total nonoperating revenue	39,463,839	35,800,117
<b>State Capital Appropriations</b>	-	6,313,019
<b>Capital Support from Foundation</b>	-	440,000
<b>Increase in Net Position</b>	10,636,344	14,674,270
<b>Net Position - Beginning of year</b>	63,223,985	48,549,715
<b>Net Position - End of year</b>	<u>\$ 73,860,329</u>	<u>\$ 63,223,985</u>



Years Ended June 30, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 4,179,674	\$ 6,511,462
Grants and contracts	3,637,930	3,058,663
Payments to suppliers	(12,369,827)	(14,721,315)
Payments to employees	(23,057,617)	(22,043,188)
Federal direct lending receipts	1,729,927	1,822,824
Federal direct lending disbursements	(1,729,927)	(1,822,824)
Auxiliary and other receipts	968,457	1,862,554
Net cash used in operating activities	(26,641,383)	(25,331,824)
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes	23,228,279	22,566,492
State appropriations	9,047,530	5,865,722
Gifts and grants for other than capital purposes	140,162	283,249
Pell Grants	3,531,336	3,239,755
Federal Coronavirus Aid, Relief, and Economic Security Act revenue	6,632,678	2,820,303
Other nonoperating receipts	50,562	284,142
Net cash provided by noncapital financing activities	42,630,547	35,059,663
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets and construction	(2,148,845)	(3,679,815)
Gifts and grants for capital purposes	-	1,065,363
State capital appropriations	-	4,480,747
Proceeds from sale of assets	-	5,907
Principal paid on debt, including amounts put in escrow	(3,475,000)	(18,684,491)
Payment of bond issuance costs	-	(295,082)
Proceeds from issuance of bonds, including premium	-	16,904,573
Interest paid on capital debt	(884,856)	(1,200,699)
Net cash used in capital and related financing activities	(6,508,701)	(1,403,497)
<b>Cash Flows from Investing Activities</b>		
Interest income	15,541	75,227
Purchases of investments	(13,323,571)	(13,297,615)
Proceeds from investment sales and maturities	13,268,906	13,223,954
Net cash (used in) provided by investing activities	(39,124)	1,566
<b>Net Increase in Cash and Cash Equivalents</b>	9,441,339	8,325,908
<b>Cash and Cash Equivalents - Beginning of year</b>	11,601,581	3,275,673
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 21,042,920</b>	<b>\$ 11,601,581</b>

**Statement of Cash Flows (Continued)**

**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (28,827,495)	\$ (27,878,866)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	4,804,900	4,684,084
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable - Net	(570,860)	(79,730)
Inventories, prepaids, and other assets	(7,943)	(339,557)
Deferred outflows of resources	1,784,505	1,014,620
Accounts payable and accrued liabilities	38,036	(1,967,609)
Unearned revenue	(43,423)	234,601
Net OPEB liability	(2,267,839)	(968,820)
Net pension liability	(6,304,357)	49,762
Deferred inflows of resources	4,753,093	(80,309)
	<u>\$ (26,641,383)</u>	<u>\$ (25,331,824)</u>
Net cash used in operating activities		

## Lake Michigan College

### Discretely Presented Component Unit Balance Sheet - Lake Michigan College Foundation

	June 30, 2022 and 2021	
	2022	2021
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 2,414,978	\$ 1,698,641
Prepaid expenses and other assets	16,341	15,797
Contributions receivable	90,273	144,924
Investments (Note 2)	13,111,161	15,467,989
Total assets	<u>\$ 15,632,753</u>	<u>\$ 17,327,351</u>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 156
Other liabilities	9,250	13,658
Due to Lake Michigan College	1,304,213	482,326
Total liabilities	<u>1,313,463</u>	<u>496,140</u>
<b>Net Assets</b>		
Without donor restrictions	1,239,002	1,146,555
With donor restrictions	13,080,288	15,684,656
Total net assets	<u>14,319,290</u>	<u>16,831,211</u>
Total liabilities and net assets	<u>\$ 15,632,753</u>	<u>\$ 17,327,351</u>

## Lake Michigan College

### Discretely Presented Component Unit Statement of Activities - Lake Michigan College Foundation

Years Ended June 30, 2022 and 2021

	2022	2021
<b>Revenue, Support, and (Losses) Gains</b>		
Gifts and contributions	\$ 542,723	\$ 361,676
Investment income and (losses) gains	(2,213,774)	3,874,981
Support from Lake Michigan College (Note 12)	505,795	462,419
Auxiliary activities and other operating revenue	8,655	3,453
Total revenue, support, and (losses) gains	(1,156,601)	4,702,529
<b>Expenses</b>		
Salaries and wages	354,849	320,426
Benefits	150,946	141,945
Professional services	54,334	60,326
Supplies and materials	7,393	6,057
Travel, communications, and miscellaneous	771,344	600,094
Rent, utilities, and insurance	11,549	7,920
Small capital equipment	4,905	11,322
Capital support to Lake Michigan College	-	440,000
Total expenses	1,355,320	1,588,090
<b>(Decrease) Increase in Net Assets</b>	(2,511,921)	3,114,439
<b>Net Assets - Beginning of year</b>	16,831,211	13,716,772
<b>Net Assets - End of year</b>	<u>\$ 14,319,290</u>	<u>\$ 16,831,211</u>

June 30, 2022 and 2021

**Note 1 - Basis of Presentation and Significant Accounting Policies**

Lake 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, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 35.

The College reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The 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 application of the criteria, the financial statements of Lake Michigan College Foundation have been discretely presented in the College’s financial statements.

Lake Michigan College Foundation (the “Foundation”) is a legally separate, tax-exempt not-for-profit organization that was formed to solicit, collect, and invest donations made for the promotion of educational activities of the College. The Foundation acts primarily as a fundraising organization of the College to foster educational opportunities for students of the College through student scholarship and loan funds and through support of college programs, departments, or individuals for organizational, instructional, and professional development. Separate financial statements of the Foundation may be obtained by contacting Lake Michigan College, 2755 E. Napier Ave, Benton Harbor, MI 49022.

In accordance with the provisions of GASB Statement No. 61, the Foundation is considered a component unit of the College. The Foundation has been determined to be a discretely presented component unit due to the significance to the College.

The Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the College’s financial reporting entity for these differences. The Internal Revenue Service has determined the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Significant accounting policies followed by the College and the discretely-presented component unit 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 using the economic resources measurement focus and accrual basis of accounting, wherein revenue is recognized when earned, and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met. The College follows all applicable GASB pronouncements. Certain revenue recognition criteria and disclosure requirements under the GASB are different than under the FASB, which is applicable to the Foundation.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 year. Actual results could differ from those estimates.

June 30, 2022 and 2021

**Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)**

***Cash and Cash Equivalents***

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

***Accounts Receivable***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to a valuation allowance based on its assessment of the status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off. An allowance for bad debts of approximately \$137,000 and \$144,000 has been established at June 30, 2022 and 2021, respectively.

***Foundation Gifts and Pledges***

Unconditional gifts are recorded at estimated fair value when received, and pledges are recorded at their net present value when it is determined that the gift is probable of collection.

***Short-term Investments***

Short-term investments consist of certificates of deposit with maturities ranging from three months to one year.

***Foundation Investments***

The Foundation maintains investment accounts for its restricted endowments. Investments in marketable equity securities are carried at fair value, which is generally determined by using quoted market prices. Realized and unrealized gains and losses are reflected in the Foundation's statement of activities.

***Fair Value Measurements***

The Foundation has categorized its investments into a three-level fair-value hierarchy based on the nature of inputs used in determining fair value. The hierarchy gives highest priority to quoted prices in active markets for identical assets and lowest priority to unobservable inputs. For further discussion, refer to Note 3.

***Inventories***

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Inventories consist of beverages used in auxiliary operations.

***Capital Assets***

Capital assets are recorded at cost except for gifts of property, which are recorded at acquisition value at the time of receipt. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized, while expenditures for routine repairs and maintenance are expensed as incurred. Management reviews capital assets annually for impairment.

June 30, 2022 and 2021

**Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)**

Depreciation is computed using the straight-line method over the estimated useful life of the asset. No depreciation is recorded on land and art, which are considered inexhaustible. The following estimated useful lives are used to compute depreciation:

	<u>Depreciable Life - Years</u>
Land improvements and infrastructure	15-20
Buildings and improvements	45
Equipment	7-15
Furniture and fixtures	5-7
Library materials	5
Computer hardware	5
Computer software	3

***Pensions***

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS 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 plan benefit terms. Related plan investments are reported at fair value.

***Other Postemployment Benefit Costs***

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

***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 and will not be recognized as an outflow of resources (expense) until then. The College reports deferred outflows of resources for certain pension-related and OPEB-related amounts, such as change in expected and actual experience, changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 15. The College also has a loss on defeasance of old debt, which is being amortized over the life of the new debt. More detailed information can be found in Note 6.

***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 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 and OPEB-related amounts, such as the difference between projected and actual earnings of the plans' investments. More detailed information can be found in Note 15.

June 30, 2022 and 2021

**Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)**

***Bond Premium***

Bond premium relates to the value of the bonds issued by the College at the issuance date. The discount on issuance is amortized on a straight-line basis of the life of the related outstanding bond issue.

***Unearned Revenue***

Revenue received prior to year end that is related to the next fiscal period is recorded as unearned revenue. Grants received prior to qualifying expenditures are also included in unearned revenue.

***Unrestricted Net Position***

Unrestricted net position represents net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for a specific purpose by action of management or the board of trustees.

***Net Investment in Capital Assets***

Net investment in capital assets represents capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

***Internal Service Activities***

Both revenue and expenses related to internal service activities (e.g., central duplicating, maintenance, and telecommunications) have been eliminated.

***Federal Financial Assistance Programs***

The College participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and federal direct lending programs. During the years ended June 30, 2022 and 2021, the College distributed approximately \$1,730,000 and \$1,820,000, respectively, for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures on the accompanying financial statements.

***Revenue Recognition***

Revenue from state appropriations is recorded as revenue in the period for which such amounts are appropriated. Tuition and related revenue are reported when earned. Property taxes are recorded as revenue in the year collected.

The College does not recognize as revenue sources held for others (e.g., federal direct loans) where the College serves in a fiduciary capacity. Federal direct loan activity meets an exception to GASB Statement No. 84, which allows the activity to be reported only as an operating activity in the statement of cash flows.

Operating revenue of the College consists of tuition and fees, grants and contracts, sales of educational activities, and auxiliary enterprises revenue. Transactions related to capital and financing activities, noncapital financing activities, investing activities, state appropriations, Pell Grants, and property taxes are components of nonoperating and other revenue, as defined by GASB Statement No. 34. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy expenses.

Foundation gifts and contributions of cash and other assets received, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as support without donor restrictions. Other restricted gifts are reported as with donor restrictions. In addition, the Foundation holds an annual benefit auction for which all the net earnings are unrestricted. The Foundation also holds an annual golf outing for which all the net earnings are restricted for athletic scholarships.



June 30, 2022 and 2021

**Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)*****Scholarship Discounts and Allowances***

Student tuition and 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.

***Upcoming Accounting Pronouncements***

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. 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, 2023.

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

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including November 8, 2022, which is the date the financial statements were available to be issued.

**Note 2 - Cash and Investments*****Cash and Cash Equivalents***

Investment policies for cash and cash equivalents set by the College's board of trustees (the "Board") allow investment in demand accounts, certificates of deposit, savings accounts, and other interest-earning deposit accounts of banks that are members of the Federal Deposit Insurance Corporation (FDIC) or savings and loan associations that are members of the Federal Savings and Loan Insurance Corporation.

***Short-term Investments***

Short-term investments are those authorized by Michigan Public Act 331, as amended through 1997, and by policy of the Board and include United States (U.S.) certificates of deposits that mature in less than one year. Short-term investments of approximately \$13,300,000 and \$13,200,000 as of June 30, 2022 and 2021, respectively, consist of certificates of deposit and are valued at amortized cost.

June 30, 2022 and 2021

**Note 2 - Cash and Investments (Continued)**

***Long-term Investments***

Investment policies set by the College's Board allow investments in bonds, bills, or notes of the U.S. or of an agency of a U.S. instrumentality or obligations of the State of Michigan. Funds may be invested in commercial paper that is supported by an irrevocable letter of credit issued by a bank that is a member of the FDIC and commercial paper of corporations located in Michigan. Mutual funds, trusts, or investment pools composed entirely of instruments that are legal for direct investment by a community college are also acceptable investments. There were no long-term investments held by the College at June 30, 2022 and 2021.

The Foundation invests primarily in mutual funds with the objectives of principal preservation and investment appreciation. Due to the long-term nature of the investments, the Foundation's investment policy does not limit investment maturities. See Note 3 for additional information regarding the Foundation's long-term investments.

The Foundation's unrealized (losses) gains on investments were primarily derived from mutual fund activity during 2022 and 2021.

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

***Interest Rate Risk***

Interest rate risk is the risk of how changes in interest rates will adversely affect the fair value of an investment. The College's investment policy does not limit investment maturities as a means of managing its exposure to fair market value losses arising from increasing interest rates.

***Credit Risk***

State law limits the College's investments. The College's investment policy does not further limit its investment choices. The Foundation's investment policy recommends that the following investment strategies be avoided: commodity contracts, selling securities short, purchasing on margin, and naked options.

***Concentration of Credit Risk***

Certificates of deposit held by the College are not limited to any given financial institution or issuer, nor does the College's investment policy limit investments in U.S. agencies or Treasuries. In addition, the Foundation invests in various mutual fund companies.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of a bank failure, college and foundation deposits may not be returned. Cumulative bank deposits for the College and the Foundation were approximately \$23,458,000 and \$13,666,000 as of June 30, 2022 and 2021, respectively. Of those balances, approximately \$22,708,000 and \$12,916,000 was exposed to custodial credit risk due to being uninsured and uncollateralized at June 30, 2022 and 2021, respectively.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the College and the Foundation will not be able to recover the value of their investments that are in the possession of the counterparty.

Custodial credit risk for mutual funds cannot be determined, as these investments are not evidenced by specifically identifiable securities.

June 30, 2022 and 2021

**Note 2 - Cash and Investments (Continued)**

State law does not require, and neither the College nor Foundation has, a policy for custodial credit risk; however, all investments are in the name of the College or the Foundation, as applicable, and the investments are held in trust accounts with the financial institution from which they were purchased. Furthermore, the College holds investments with banks that have a high rating, and the funds are invested in only the most secure investment opportunities, such as certificates of deposit. Foundation investments are primarily mutual funds and are reviewed by the Foundation's investment committee and advisors on a quarterly basis.

**Foreign Currency Risk**

The College is not authorized by state law to invest in investments that have this type of risk.

**Note 3 - Fair Value Measurements**

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

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

The following sets forth the Foundation's assets by level at fair value as of June 30:

	2022			
	Level 1	Level 2	Level 3	Total
Domestic mutual funds	\$ 10,413,997	\$ -	\$ -	\$ 10,413,997
Domestic bond funds	1,880,967	-	-	1,880,967
Corporate and municipal bonds	-	781,802	-	781,802
Preferred stock	34,395	-	-	34,395
<b>Total investments at fair value</b>	<b>\$ 12,329,359</b>	<b>\$ 781,802</b>	<b>\$ -</b>	<b>\$ 13,111,161</b>
	2021			
	Level 1	Level 2	Level 3	Total
Equity funds:				
Domestic mutual funds	\$ 10,867,247	\$ -	\$ -	\$ 10,867,247
International mutual funds	1,562,061	-	-	1,562,061
Domestic bond funds	1,998,039	-	-	1,998,039
Corporate bonds	-	718,023	-	718,023
Alternative mutual funds	322,619	-	-	322,619
<b>Total investments at fair value</b>	<b>\$ 14,749,966</b>	<b>\$ 718,023</b>	<b>\$ -</b>	<b>\$ 15,467,989</b>

Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value the investments' relationship to benchmark quoted prices.

June 30, 2022 and 2021

**Note 4 - Receivables**

Accounts receivable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Appropriations from State of Michigan	\$ 1,221,596	\$ 1,202,822
Due from Lake Michigan College Foundation	1,304,213	482,326
Grants receivable	3,293,552	3,710,681
Student receivable	373,007	206,905
Third party and other	520,046	2,685,972
	<u>6,712,414</u>	<u>8,288,706</u>
Total		
Less allowance for doubtful accounts	<u>(136,500)</u>	<u>(143,500)</u>
Net accounts receivable	<u>\$ 6,575,914</u>	<u>\$ 8,145,206</u>

Foundation contributions receivable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Contributions to be received in less than one year	\$ 49,773	\$ 74,500
Contributions to be received in one to five years	45,500	75,424
Allowance for doubtful accounts	<u>(5,000)</u>	<u>(5,000)</u>
Total	<u>\$ 90,273</u>	<u>\$ 144,924</u>

Contribution receivables due between one and five years are not discounted, as management believes discounts would be insignificant.

June 30, 2022 and 2021

**Note 5 - Capital Assets**

The following tables present changes in capital assets for the years ended June 30, 2022 and 2021:

	Balance July 1, 2021	Additions	Transfers and Retirements	Balance June 30, 2022
Nondepreciable capital assets:				
Land	\$ 966,388	\$ -	\$ -	\$ 966,388
Art collection	364,383	-	-	364,383
Construction in progress	4,454,387	1,023,442	(4,408,014)	1,069,815
<b>Total nondepreciable capital assets</b>	<b>5,785,158</b>	<b>1,023,442</b>	<b>(4,408,014)</b>	<b>2,400,586</b>
Depreciable capital assets:				
Land improvements	5,627,882	-	-	5,627,882
Buildings and improvements	115,618,121	192,949	3,898,022	119,709,092
Equipment	17,315,008	728,188	487,110	18,530,306
Infrastructure	2,304,092	129,841	17,250	2,451,183
Furniture and fixtures	2,239,906	47,186	5,632	2,292,724
Library materials	3,595,173	27,239	-	3,622,412
<b>Total depreciable capital assets</b>	<b>146,700,182</b>	<b>1,125,403</b>	<b>4,408,014</b>	<b>152,233,599</b>
Accumulated depreciation:				
Land improvements	3,857,963	154,003	-	4,011,966
Buildings and improvements	36,216,822	3,259,864	-	39,476,686
Equipment	13,485,683	1,129,813	-	14,615,496
Infrastructure	1,153,364	88,885	-	1,242,249
Furniture and fixtures	1,783,879	142,677	-	1,926,556
Library materials	3,521,620	29,658	-	3,551,278
<b>Total accumulated depreciation</b>	<b>60,019,331</b>	<b>4,804,900</b>	<b>-</b>	<b>64,824,231</b>
<b>Net capital assets</b>	<b>\$ 92,466,009</b>	<b>\$ (2,656,055)</b>	<b>\$ -</b>	<b>\$ 89,809,954</b>

June 30, 2022 and 2021

**Note 5 - Capital Assets (Continued)**

	Balance July 1, 2020	Additions	Transfers and Retirements	Balance June 30, 2021
Nondepreciable capital assets:				
Land	\$ 1,071,057	\$ -	\$ (104,669)	\$ 966,388
Art collection	364,383	-	-	364,383
Construction in progress	36,347,294	823,533	(32,716,440)	4,454,387
<b>Total nondepreciable capital assets</b>	<b>37,782,734</b>	<b>823,533</b>	<b>(32,821,109)</b>	<b>5,785,158</b>
Depreciable capital assets:				
Land improvements	5,627,882	-	-	5,627,882
Buildings and improvements	88,944,218	1,146,159	25,527,744	115,618,121
Equipment	15,544,381	1,028,357	742,270	17,315,008
Infrastructure	1,092,837	626,402	584,853	2,304,092
Furniture and fixtures	2,140,150	29,906	69,850	2,239,906
Library materials	3,569,715	25,458	-	3,595,173
<b>Total depreciable capital assets</b>	<b>116,919,183</b>	<b>2,856,282</b>	<b>26,924,717</b>	<b>146,700,182</b>
Accumulated depreciation:				
Land improvements	3,704,046	153,917	-	3,857,963
Buildings and improvements	38,588,968	2,999,072	(5,371,218)	36,216,822
Equipment	12,295,624	1,249,177	(59,118)	13,485,683
Infrastructure	1,082,062	71,302	-	1,153,364
Furniture and fixtures	1,619,281	184,757	(20,159)	1,783,879
Library materials	3,495,761	25,859	-	3,521,620
<b>Total accumulated depreciation</b>	<b>60,785,742</b>	<b>4,684,084</b>	<b>(5,450,495)</b>	<b>60,019,331</b>
<b>Net capital assets</b>	<b>\$ 93,916,175</b>	<b>\$ (1,004,269)</b>	<b>\$ (445,897)</b>	<b>\$ 92,466,009</b>

A portion of the South Haven campus building and the Todd Center have been financed in part by State Building Authority (SBA) bond issuances, which are secured by a pledge of rentals to be received by the State of Michigan pursuant to an agreement entered into between the SBA, the State of Michigan, and the College. While the SBA bonds are outstanding, the SBA will hold title to the respective buildings, although the College has capitalized the building and pays all operating and maintenance costs. Once the SBA bonds are fully paid, the SBA will transfer the titles of the buildings to the College.

June 30, 2022 and 2021

**Note 6 - Debt**

Long-term debt activity for the years ended June 30, 2022 and 2021 was as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Current Portion
2013 College Building and Site Refunding Bonds, General Obligations Limited Tax	\$ 450,000	\$ -	\$ 350,000	\$ 100,000	\$ 100,000
2013 College Building and Site General Obligation Limited Tax	150,000	-	-	150,000	75,000
2014 College Building and Site General Obligation Limited Tax	710,000	-	225,000	485,000	235,000
2018 College Building and Site General Obligation Limited Tax	18,550,000	-	2,900,000	15,650,000	2,975,000
2021 College Refunding Bonds	16,660,000	-	-	16,660,000	-
Unamortized bond premium	242,747	-	-	242,747	21,912
Total long-term debt	<u>\$ 36,762,747</u>	<u>\$ -</u>	<u>\$ 3,475,000</u>	<u>\$ 33,287,747</u>	<u>\$ 3,406,912</u>
	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Current Portion
2013 College Building and Site Refunding Bonds, General Obligations Limited Tax	\$ 4,220,000	\$ -	\$ 3,770,000	\$ 450,000	\$ 350,000
2013 College Building and Site General Obligation Limited Tax	3,315,000	-	3,165,000	150,000	-
2014 College Building and Site General Obligation Limited Tax	9,785,000	-	9,075,000	710,000	225,000
2018 College Building and Site General Obligation Limited Tax	20,000,000	-	1,450,000	18,550,000	2,900,000
2021 College Refunding Bonds	-	16,660,000	-	16,660,000	-
Unamortized bond premium	-	244,573	1,826	242,747	10,956
Total	<u>\$ 37,320,000</u>	<u>\$ 16,904,573</u>	<u>\$ 17,461,826</u>	<u>\$ 36,762,747</u>	<u>\$ 3,485,956</u>

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

**June 30, 2022 and 2021****Note 6 - Debt (Continued)*****2021 College Refunding Bonds***

Bonds issued in the amount of \$16,660,000 were used to advance refund \$3,090,000 of the 2013 Refunding Bonds, \$3,420,000 of the 2013 College Building and Site Bonds, and \$8,875,000 of the 2014 College Building and Site Bonds. The bonds mature in varying amounts through 2022, with interest charged semiannually on March 1 and September 1. Interest rates range from 2.00 percent to 2.75 percent. The bonds were sold at a premium of \$244,573. In conjunction with the issuance, the College established an irrevocable trust with an escrow agent to provide for future debt service payments on the advance refunded bonds until they are callable. As a result, the bonds are considered in substance defeased, and \$15,110,000 in liability for the bonds has been removed from the statement of net position. The bond refunding resulted in a capitalized loss on defeasance of \$1,224,490. The capital loss is being amortized and recognized over the period of repayment of the new debt and has a balance of \$1,160,525 and \$1,215,353 at June 30, 2022 and 2021, respectively.

***2018 College Building and Site Bonds***

Bonds issued in the amount of \$20,000,000 were used to fund erecting, furnishing, and equipping college facilities and additions thereto. The bonds mature in varying amounts beginning on May 1, 2021 through May 1, 2027, with interest charged semiannually on May 1 and November 1. Interest rates range from 2.35 percent to 2.95 percent, with an effective rate of 2.64 percent.

***2014 College Building and Site Bonds***

Bonds issued in the amount of \$10,435,000 were used to liquidate the outstanding 2013 Bond Anticipation Note, as well as to provide funding for the completion of the student residence hall. These bonds are payable from general revenue, maturing serially through September 1, 2043, with interest due semiannually on March 1 and September 1. Interest-only payments were required until September 1, 2016. Interest rates range from 3.0 percent to 5.0 percent, with an effective rate of 4.16 percent. Upon issuance of the 2021 Refunding Bonds, \$8,875,000 of the bonds for the periods 2024 through 2043 is considered defeased.

***2013 College Refunding Bonds***

Bonds issued in the amount of \$6,370,000 matured in varying amounts through 2031, with interest charged at annual rates ranging from 0.45 percent to 3.35 percent, with an effective rate of 2.21 percent. All of the bonds are callable after September 1, 2021. Upon issuance of the 2021 Refunding Bonds, \$3,090,000 of the bonds for the periods 2021 and 2024 through 2044 is considered defeased.

***2013 College Building and Site Bonds***

Bonds issued in the amount \$3,565,000 were used to fund the construction costs of a student activity center and other campus improvements. The bonds mature serially through September 1, 2044, with interest due semiannually on March 1 and September 1. Interest rates range from 4.0 percent to 5.0 percent, with an effective rate of 4.31 percent. Upon issuance of the 2021 Refunding Bonds, \$3,420,000 of the bonds for the periods 2022 through 2031 is considered defeased.

The balance on the bonds considered in substance defeased as of June 30, 2022 was \$15,035,000, as the balance will be called in 2023.



June 30, 2022 and 2021

**Note 6 - Debt (Continued)**

Total principal and interest requirements on debt obligations as of June 30, 2022 are as follows:

Years Ending June 30	Principal	Interest	Total
2023	\$ 3,385,000	\$ 830,093	\$ 4,215,093
2024	3,480,000	735,418	4,215,418
2025	3,980,000	637,243	4,617,243
2026	4,060,000	534,155	4,594,155
2027	4,170,000	425,655	4,595,655
2028-2032	4,510,000	1,375,425	5,885,425
2033-2037	3,625,000	961,650	4,586,650
2038-2042	4,075,000	514,050	4,589,050
2043-2044	1,760,000	48,400	1,808,400
<b>Total</b>	<b>\$ 33,045,000</b>	<b>\$ 6,062,089</b>	<b>\$ 39,107,089</b>

**Note 7 - Functional Expense**

The College reports its expenses by natural class versus functional class. The tables below show expense by functional area as follows:

**Year Ended June 30, 2022**

	Instruction	Information Technology	Public Service	Academic Support	Student Services	Institutional Support
Salaries and benefits	\$ 8,177,439	\$ 1,279,757	\$ 1,793	\$ 1,862,022	\$ 2,576,601	\$ 3,259,425
Professional services	1,490,137	82,447	45	103,881	286,998	1,062,071
Supplies and materials	212,406	67,670	-	218,838	115,529	49,183
Travel, communications, and miscellaneous	125,344	593,535	-	92,665	358,676	736,840
Rent, utilities, and insurance	-	-	-	18	79,031	1,185
Small capital equipment	31,932	2,603	-	4,518	8,136	10,843
Depreciation	-	-	-	-	-	-
<b>Total</b>	<b>\$ 10,037,258</b>	<b>\$ 2,026,012</b>	<b>\$ 1,838</b>	<b>\$ 2,281,942</b>	<b>\$ 3,424,971</b>	<b>\$ 5,119,547</b>
	Maintenance of Plant	Capital/Debt Service	Auxiliary	Total Unrestricted	Grants	Total
Salaries and benefits	\$ 1,179,392	\$ -	\$ 772,006	\$ 19,108,435	\$ 1,678,663	\$ 20,787,098
Professional services	1,553,431	-	1,338,247	5,917,257	152,100	6,069,357
Supplies and materials	44,901	-	88,808	797,335	83,765	881,100
Travel, communications, and miscellaneous	224,340	-	54,639	2,186,039	4,610,880	6,796,919
Rent, utilities, and insurance	1,217,114	-	434,220	1,731,568	-	1,731,568
Small capital equipment	-	-	2,593	60,625	157,435	218,060
Depreciation	-	4,804,900	-	4,804,900	-	4,804,900
<b>Total</b>	<b>\$ 4,219,178</b>	<b>\$ 4,804,900</b>	<b>\$ 2,690,513</b>	<b>\$ 34,606,159</b>	<b>\$ 6,682,843</b>	<b>\$ 41,289,002</b>

June 30, 2022 and 2021

**Note 7 - Functional Expense (Continued)**

*Year Ended June 30, 2021*

	Instruction	Information Technology	Public Service	Academic Support	Student Services	Institutional Support
Salaries and benefits	\$ 7,684,767	\$ 1,277,922	\$ 1,792	\$ 2,499,531	\$ 2,757,329	\$ 3,222,656
Professional services	1,155,570	123,325	217	81,143	180,610	550,684
Supplies and materials	175,119	52,519	-	193,651	87,933	14,167
Travel, communications, and miscellaneous	230,316	538,022	-	144,926	170,240	635,455
Rent, utilities, and insurance	1,916	-	-	-	80,997	(18,192)
Small capital equipment	10,418	-	-	4,633	7,268	(504)
Depreciation	-	-	-	-	-	-
<b>Total</b>	<b>\$ 9,258,106</b>	<b>\$ 1,991,788</b>	<b>\$ 2,009</b>	<b>\$ 2,923,884</b>	<b>\$ 3,284,377</b>	<b>\$ 4,404,266</b>

  

	Maintenance of Plant	Capital/Debt Service	Auxiliary	Total Unrestricted	Grants	Total
Salaries and benefits	\$ 1,199,158	\$ -	\$ 909,077	\$ 19,552,232	\$ 2,299,887	\$ 21,852,119
Professional services	1,398,110	-	430,737	3,920,396	482,397	4,402,793
Supplies and materials	27,984	-	23,929	575,302	124,953	700,255
Travel, communications, and miscellaneous	146,974	295,081	45,899	2,206,913	2,327,889	4,534,802
Rent, utilities, and insurance	1,193,528	-	348,725	1,606,974	1,074,343	2,681,317
Small capital equipment	18,067	-	3,153	43,035	258,273	301,308
Depreciation	-	4,684,084	-	4,684,084	-	4,684,084
<b>Total</b>	<b>\$ 3,983,821</b>	<b>\$ 4,979,165</b>	<b>\$ 1,761,520</b>	<b>\$ 32,588,936</b>	<b>\$ 6,567,742</b>	<b>\$ 39,156,678</b>

**Note 8 - Property Taxes**

Property tax revenue is recognized in the year the payment is received.

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

During the years ended June 30, 2022 and 2021, \$2.2654 of tax per \$1,000 of taxable property value in the College's taxing district was levied for general operating purposes on all property. Total operating property tax revenue was \$23,228,279 and \$22,591,723 for the years ended June 30, 2022 and 2021, respectively.

**Note 9 - Retirement Plan - Optional Retirement Plan**

The College offers all full-time faculty and administrative employees the opportunity to participate in the Optional Retirement Plan (ORP). Funding for the ORP consists of employer contributions of 10 percent or 14.96 percent of employee compensation, as defined, depending on date of hire. All contributions vest immediately. At June 30, 2022 and 2021, the College had approximately 130 participants. Contributions under the ORP were approximately \$1,176,000 and \$1,130,000 for the years ended June 30, 2022 and 2021, respectively.

June 30, 2022 and 2021

### Note 10 - Risk Management

The College is exposed to risk of loss related to employee injuries (workers' compensation), employee medical benefits, property, auto, and general liability. The College has purchased insurance for workers' compensation and medical benefits. For property, auto, and general liability, the College participates in the Michigan Association of School Boards - SEG (MASBSEG) risk management pool. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund reserves and the aggregate excess reinsurance coverage, the fund may assess its members on a pro rata basis to cover excess losses. In previous years, the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to its members.

There have been no settlements that exceeded insurance coverage for each of the past three fiscal years.

### Note 11 - Related Parties

College management has operational responsibility for the Foundation, and the Foundation is established to exclusively benefit the College. For this reason, the Foundation is considered a related party to the College. In addition, all distributions made out of the Foundation other than for normal operating expenses are to be made to the College. Upon any dissolution of the Foundation, its remaining assets would be distributed to the College.

LM Vintners, Inc. is a legally separate, tax-exempt entity that was formed in 2015 to support the advancement of educational opportunities at the College through a teaching winery and viticulture business. LM Vintners, Inc. is, therefore, considered a related party to the College. The College provides LM Vintners, Inc. with general management, administrative, and accounting services under a management services agreement (MSA). Revenue recognized by the College under the MSA was approximately \$45,000 for fiscal years 2022 and 2021.

### Note 12 - Foundation Endowments

The Foundation was formed to operate exclusively for charitable purposes to promote, establish, conduct, maintain, and operate educational and scientific activities in conjunction with the College. During the years ended June 30, 2022 and 2021, the Foundation made distributions to and on behalf of the College totaling \$365,633 and \$582,964, respectively. During the years ended June 30, 2022 and 2021, the College provided support to the Foundation totaling \$505,795 and \$462,419, respectively.

The Foundation's net assets primarily include donor-restricted endowment funds, whose purpose is to provide scholarships to students of the College. Net assets associated with these funds are classified and reported based on the existence or absence of donor- or board-imposed restrictions. Nonexpendable scholarship endowment net assets were \$4,178,724 and \$3,632,600 as of June 30, 2022 and 2021, respectively. Excess earnings on the endowments, classified as expendable scholarships and fellowships, were \$7,969,242 and \$10,852,015 as of June 30, 2022 and 2021, respectively. Unrestricted board-designated net assets were \$12,650 as of June 30, 2022 and 2021.

June 30, 2022 and 2021

**Note 12 - Foundation Endowments (Continued)**

***Interpretation of Relevant Law***

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as donor restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund:

- Duration and preservation of the fund
- Purpose of the Foundation and donor-restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and appreciation (depreciation) of investments
- Other resources of the Foundation
- Foundation investment policies

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that were reported in restricted for expendable scholarships and fellowships net position totaled approximately \$22,000 and \$40,000 as of June 30, 2022 and 2021, respectively. Management believes that these deficiencies are temporary in anticipation of a future recovery in the market.

***Return Objectives and Risk Parameters***

The Foundation has adopted investment policies for assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity and board-designated funds. Under this policy, the assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming an average level of investment risk. The Foundation expects its funds, over time, to provide an average rate of return of inflation plus 5 percent. A minimum return equal to the rate of inflation is required to preserve the real purchasing power of the fund and the additional 5 percent is required to provide for spending and expenses. Specific total rates of return goals are expected to be met on a cumulative basis over three to five years.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

June 30, 2022 and 2021

**Note 12 - Foundation Endowments (Continued)**

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Foundation utilizes the total return method for the distribution policy for endowment funds. Under the total return method, the Foundation may spend 3 percent - 5 percent of a rolling 12-quarter average of market values (principal and interest). The Foundation's investment committee evaluates endowment fund performance and recommends to the Foundation's board of directors the percentage to be available for distribution in the following year. Spending may not occur from endowments whose rolling 12-quarter average market value falls below 90 percent of its historic gift value. Any unexpended allocations will be returned to the fund unless otherwise approved by the Foundation's investment committee.

**Note 13 - Self-insurance**

The College is generally self-insured for health care and dental claims. Amounts payable by the College are limited to \$25,000 per employee through the use of stop-loss insurance. Costs incurred but not reported are accrued based on estimates of the aggregate liability for claims incurred plus related run-out costs based upon the College's historical experience. Such accrued costs amounted to approximately \$357,000, \$232,000, and \$116,000 at June 30, 2022, 2021, and 2020, respectively, and such costs charged to expense were approximately \$2,664,000, \$2,770,000, and \$1,793,000 for the years ended June 30, 2022, 2021, and 2020, respectively.

**Note 14 - Contingencies**

The College has certain contingent liabilities, most of which are covered by insurance, arising from litigation and other claims incident to the normal course of business. The amount of uninsured liability is considered to be insignificant.

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System**

***Plan Description***

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

MPSERS issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>.

***Benefits Provided***

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

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

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

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

Members are eligible for non-duty 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.

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

**Contributions**

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

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

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

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

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

The range of rates is as follows:

	Pension	OPEB
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%

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

The College's required and actual pension contributions to the plan for the years ended June 30, 2022 and 2021 were \$1,966,723 and \$1,762,330, respectively, which include the College's contributions required for those members with a defined contribution benefit. The College's required and actual pension contributions include an allocation of \$824,545 and \$790,038 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the years ended June 30, 2022 and 2021, respectively.

The College's required and actual OPEB contributions to the plan for the years ended June 30, 2022 and 2021 were \$476,285 and \$433,615, respectively, which include the College's contributions required for those members with a defined contribution benefit.

**Net Pension Liability**

At June 30, 2022, and 2021, the College reported a liability of \$13,515,097 and \$19,819,454, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 and 2019, which used update procedures to roll forward the estimated liability to September 30, 2021 and 2020. 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, 2021, 2020, 2019, the College's proportion was 0.057085 percent, 0.057697 percent, and 0.059697 percent, respectively.

**Net OPEB Liability**

At June 30, 2022 and 2021, the College reported a liability of \$834,443 and \$3,102,282, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2021 and 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 and 2019, which used updated procedures to roll forward the estimated liability to September 30, 2021 and 2020. The College's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2021, 2020, and 2019, the College's proportion was 0.054668, 0.057908, and 0.056718 percent, respectively.

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

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

For the years ended June 30, 2022 and 2021, the College recognized pension expense of \$836,719 and \$2,260,771, respectively, inclusive of payments to fund the MPSERS unfunded actuarial accrued liability stabilization rate. At June 30, 2022 and 2021, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 209,355	\$ (79,588)	\$ 302,825	\$ (42,302)
Change of assumptions	851,943	-	2,196,187	-
Net difference between projected and actual earnings on pension plan assets	-	(4,345,060)	83,272	-
Changes in proportion and differences between contributions	3,143	(992,606)	4,405	(1,476,316)
Total amortized deferrals	1,064,441	(5,417,254)	2,586,689	(1,518,618)
College contributions subsequent to the measurement date	1,538,082	-	1,449,888	-
Pension portion of SEC 147c state aid award subsequent to the measurement date	-	(824,545)	-	(790,038)
Total	\$ 2,602,523	\$ (6,241,799)	\$ 4,036,577	\$ (2,308,656)

The \$824,545 and \$790,038 as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 201(5) of the State School Aid Act (PA 94 of 1979) will be recognized as state appropriations revenue for the years ended June 30, 2022 and 2021, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2023	\$ (933,150)
2024	(1,072,896)
2025	(1,154,533)
2026	(1,192,234)
Total	\$ (4,352,813)

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

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

For the years ended June 30, 2022 and 2021, the College recognized OPEB recovery of \$674,718 and \$255,287, respectively.



June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

At June 30, 2022 and 2021, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (2,381,857)	\$ -	\$ (2,311,490)
Changes in assumptions	697,553	(104,380)	1,022,488	-
Net difference between projected and actual earnings on OPEB plan assets	-	(628,934)	25,892	-
Changes in proportion and differences between College contributions and proportionate share of contributions	78,540	(605,087)	92,067	(588,818)
Total amortized deferrals	776,093	(3,720,258)	1,140,447	(2,900,308)
College contributions subsequent to the measurement date	317,308	-	303,405	-
Total	\$ 1,093,401	\$ (3,720,258)	\$ 1,443,852	\$ (2,900,308)

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

Years Ending June 30	Amount
2023	\$ (837,198)
2024	(745,149)
2025	(612,392)
2026	(512,866)
2027	(209,121)
Thereafter	(27,439)
Total	\$ (2,944,165)

**Actuarial Assumptions**

The total pension liability and total OPEB liability as of September 30, 2021 and 2020 are based on the results of an actuarial valuation as of September 30, 2020 and 2019, respectively, and rolled forward.

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

The total pension and OPEB liabilities were determined using the following actuarial assumptions for both valuations:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate	5.25% - 7.75%	Year 1 graded to 3.5% in year 15, 3.0% in year 120
Mortality basis	Retirees and active	RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

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

Significant assumption changes since the prior measurement date, September 30, 2020, for the OPEB plan include an increase in the health care cost trend rate of 0.75 percentage points for members under 65 and a reduction from 7.0 percent to 5.25 percent for members over 65. There were no significant changes in assumptions for the pension actuarial valuation. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2020.

Significant assumption changes since the measurement date, September 30, 2021, for both the pension and OPEB plan include a reduction of both plans' discount rates to 6.0 percent. The change increases the total plan's net pension liability by approximately \$8.1 billion and the total plan's net OPEB liability by approximately \$1.1 billion.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.00 to 6.50 percent as of September 30, 2021 and 2020, depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2021 and 2020. 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 employee contributions will be made at the current contribution rate and that college contributions will be made at statutorily required rates.

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

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

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

Investment Category	September 30, 2021		September 30, 2020	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.40 %	25.00 %	5.60 %
Private equity pools	16.00	9.10	16.00	9.30
International equity pools	15.00	7.50	15.00	7.40
Fixed-income pools	10.50	(0.70)	10.50	0.50
Real estate and infrastructure pools	10.00	5.40	10.00	4.90
Absolute return pools	9.00	2.60	9.00	3.20
Real return/Opportunistic pools	12.50	6.10	12.50	6.60
Short-term investment pools	2.00	(1.30)	2.00	(0.10)
Total	<u>100.00 %</u>		<u>100.00 %</u>	

Long-term rates of return are net of administrative expense and inflation of 2.0 percent.

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

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

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

	2022		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
Net pension liability	\$ 19,322,924	\$ 13,515,097	\$ 8,700,028

  

	2021		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
Net pension liability	\$ 25,652,922	\$ 19,819,454	\$ 14,984,810

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

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

	2022		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
Net OPEB liability	\$ 1,550,545	\$ 834,443	\$ 226,727

  

	2021		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
Net OPEB liability	\$ 3,985,234	\$ 3,102,282	\$ 2,358,911

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

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

	2022		
	1 Percentage Point Decrease	Current Trend Rate	1 Percentage Point Increase
Net OPEB liability	\$ 203,097	\$ 834,443	\$ 1,544,783

  

	2021		
	1 Percentage Point Decrease	Current Trend Rate	1 Percentage Point Increase
Net OPEB liability	\$ 2,330,449	\$ 3,102,282	\$ 3,980,148

June 30, 2022 and 2021

**Note 15 - Retirement Plans - Michigan Public School Employees' Retirement System (Continued)**

***Pension Plan and OPEB Plan Fiduciary Net Position***

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

***Payable to the Pension Plan***

At June 30, 2022, the College reported a payable of \$282,001 and \$24,680 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2022.

At June 30, 2021, the College reported a payable of \$265,591 and \$23,048 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2021.

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## Required Supplemental Information

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

	<b>Last Eight Plan Years</b>							
	<b>Plan Years Ended September 30</b>							
	2021	2020	2019	2018	2017	2016	2015	2014
College's proportion of the collective MPERS net pension liability - As a percentage	0.05708 %	0.05770 %	0.05970 %	0.06500 %	0.06813 %	0.06948 %	0.06860 %	0.08544 %
College's proportionate share of the net pension liability	\$ 13,515,097	\$ 19,819,454	\$ 19,769,692	\$ 19,541,000	\$ 17,654,426	\$ 17,333,664	\$ 16,755,295	\$ 18,819,042
College's covered payroll	\$ 4,986,357	\$ 5,163,049	\$ 4,967,208	\$ 5,322,316	\$ 5,697,177	\$ 5,806,721	\$ 6,049,721	\$ 7,638,406
College's proportionate share of the collective pension liability as a percentage of its covered payroll	271.04 %	383.87 %	398.00 %	367.15 %	309.88 %	298.51 %	276.96 %	246.37 %
MPSERS fiduciary net position as a percentage of the total pension liability	72.32 %	59.49 %	62.12 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

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

	<b>Last Eight Fiscal Years</b>							
	<b>Years Ended June 30</b>							
	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 1,813,325	\$ 1,666,717	\$ 1,534,018	\$ 1,547,010	\$ 1,631,510	\$ 1,612,982	\$ 1,589,635	\$ 1,952,838
Contributions in relation to the statutorily required contribution	1,813,325	1,666,717	1,534,018	1,547,010	1,631,510	1,612,982	1,589,635	1,952,838
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>College's Covered Payroll</b>	<b>\$ 5,493,098</b>	<b>\$ 4,960,754</b>	<b>\$ 5,159,824</b>	<b>\$ 4,985,095</b>	<b>\$ 5,356,197</b>	<b>\$ 5,974,625</b>	<b>\$ 6,008,621</b>	<b>\$ 6,233,306</b>
<b>Contributions as a Percentage of Covered Payroll</b>	33.01 %	33.60 %	29.73 %	31.03 %	30.46 %	27.00 %	26.46 %	31.33 %

**Notes to Required Supplemental Information**

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

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

2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.

2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.

2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.



**Lake Michigan College**

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

	<b>Last Five Plan Years</b>				
	<b>Plan Years Ended September 30</b>				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
College's proportion of the net OPEB liability - As a percentage	0.05467 %	0.05791 %	0.05672 %	0.06238 %	0.06839 %
College's proportionate share of the net OPEB liability	\$ 834,443	\$ 3,102,282	\$ 4,071,102	\$ 4,958,935	\$ 6,056,540
College's covered payroll	\$ 4,986,357	\$ 5,163,049	\$ 4,967,208	\$ 5,322,316	\$ 5,697,177
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.73 %	60.09 %	81.96 %	93.17 %	106.31 %
MPSERS fiduciary net position as a percentage of the total OPEB liability	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

**Required Supplemental Information  
Schedule of College's OPEB Contributions  
Michigan Public School Employees' Retirement Plan**

	<b>Last Five Fiscal Years</b>				
	<b>Years Ended June 30</b>				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 433,944	\$ 401,672	\$ 407,440	\$ 387,271	\$ 383,616
Contributions in relation to the actuarially determined contractually required contribution	<u>433,944</u>	<u>401,672</u>	<u>407,440</u>	<u>387,271</u>	<u>383,616</u>
<b>Contribution Deficiency</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>College's Covered Payroll</b>	<b>\$ 5,493,098</b>	<b>\$ 4,960,754</b>	<b>\$ 5,159,824</b>	<b>\$ 4,985,095</b>	<b>\$ 5,356,197</b>
<b>Contributions as a Percentage of Covered Payroll</b>	<b>7.90 %</b>	<b>8.10 %</b>	<b>7.90 %</b>	<b>7.77 %</b>	<b>7.16 %</b>

**Notes to Required Supplemental Information**

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

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

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

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

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

2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by \$1.4 billion in 2018.

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## Other Supplemental Information

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Combining Schedule of Net Position

As of June 30, 2022

	General Fund	Plant Fund	Pension Liability Fund	Restricted Fund	Agency Funds	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 21,042,920	\$ -	\$ -	\$ -	\$ -	\$ 21,042,920
Short-term investments	13,285,090	-	-	-	-	13,285,090
Accounts receivable, net	2,325,131	-	-	4,059,135	191,648	6,575,914
Inventories	7,352	-	-	-	-	7,352
Prepaid expenses and other	628,480	-	-	-	-	628,480
Due from (due to) other funds	27,621,638	(23,611,673)	-	(3,903,697)	(106,268)	-
Total current assets	64,910,611	(23,611,673)	-	155,438	85,380	41,539,756
Noncurrent assets:						
Net capital assets	-	89,809,954	-	-	-	89,809,954
Total assets	64,910,611	66,198,281	-	155,438	85,380	131,349,710
<b>Deferred Outflows - Deferred OPEB, pension and loss on debt defeasance</b>						
	-	1,160,525	3,695,924	-	-	4,856,449
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	1,395,314	329,448	-	35,147	-	1,759,909
Accrued payroll and related costs	1,900,981	-	-	-	-	1,900,981
Interest payable	-	207,430	-	-	-	207,430
Unearned revenue	401,800	-	-	80,505	2,090	484,395
Current portion of debt	-	3,406,912	-	-	-	3,406,912
Other liabilities	210,398	60,297	-	39,786	83,290	393,771
Total current liabilities	3,908,493	4,004,087	-	155,438	85,380	8,153,398
Noncurrent liabilities:						
Net pension liability	-	-	13,515,097	-	-	13,515,097
Net OPEB liability	-	-	834,443	-	-	834,443
Long-term liabilities - Net of current portion	-	29,880,835	-	-	-	29,880,835
Total noncurrent liabilities	-	29,880,835	14,349,540	-	-	44,230,375
Total liabilities	3,908,493	33,884,922	14,349,540	155,438	85,380	52,383,773
<b>Deferred Inflows -</b>						
Deferred OPEB and pension related deferrals	-	-	9,962,057	-	-	9,962,057
<b>Net Position</b>						
Invested in capital assets - Net of related debt	-	57,682,732	-	-	-	57,682,732
Unrestricted (deficit)	61,002,118	(24,208,848)	(20,615,673)	-	-	16,177,597
Total net position	\$ 61,002,118	\$ 33,473,884	\$ (20,615,673)	\$ -	\$ -	\$ 73,860,329

# Combining Schedule of Revenue, Expenses, Transfers, and Changes in Net Position

**As of June 30, 2022**

	General Fund	Auxiliary Fund	Plant Fund	Pension Liability Fund	Restricted Fund	Eliminations	Total
<b>Operating Revenue</b>							
Tuition and fees (net of \$3,393,695 scholarship allowance)	\$ 10,526,032	\$ (4,303)	\$ -	\$ -	\$ (5,000)	\$ (3,393,695)	\$ 7,123,034
Grants and contracts	154,706	-	-	-	3,198,990	(82,068)	3,271,628
Non-credit tuition and fees	276,501	-	-	-	-	-	276,501
Auxiliary activities and other revenue (net of allowance of \$94,796)	114,898	1,770,242	-	-	-	(94,796)	1,790,344
Total operating revenue	<u>11,072,137</u>	<u>1,765,939</u>	<u>-</u>	<u>-</u>	<u>3,193,990</u>	<u>(3,570,559)</u>	<u>12,461,507</u>
<b>Operating Expenses</b>							
Salaries and wages	13,260,885	432,049	-	-	1,090,279	-	14,783,213
Benefits	7,207,354	277,252	-	(2,069,105)	588,384	-	6,003,885
Professional services	4,620,390	1,317,304	-	-	234,168	(102,505)	6,069,357
Supplies and materials	708,950	88,385	-	-	83,765	-	881,100
Travel, communications, and miscellaneous	2,132,900	54,403	-	-	8,077,670	(3,468,054)	6,796,919
Rent, utilities, and insurance	1,280,989	450,579	-	-	-	-	1,731,568
Small capital equipment	58,030	2,595	-	-	157,435	-	218,060
Depreciation	-	-	4,804,900	-	-	-	4,804,900
Total operating expenses	<u>29,269,498</u>	<u>2,622,567</u>	<u>4,804,900</u>	<u>(2,069,105)</u>	<u>10,231,701</u>	<u>(3,570,559)</u>	<u>41,289,002</u>
<b>Operating (Loss) Income</b>	(18,197,361)	(856,628)	(4,804,900)	2,069,105	(7,037,711)	-	(28,827,495)
<b>Nonoperating Revenue (Expenses)</b>							
State appropriations	6,969,392	-	-	(34,507)	-	-	6,934,885
Pell grants	-	-	-	-	3,531,336	-	3,531,336
Property taxes	23,228,279	-	-	-	-	-	23,228,279
Federal Coronavirus Aid, Relief, and Economic Security Act	-	-	-	-	6,632,678	-	6,632,678
Support (to) from Foundation	(452,163)	309,994	-	-	2,007	-	(140,162)
Investment income and gains	15,541	-	-	-	-	-	15,541
Other nonoperating revenue	205,124	-	12,000	-	-	-	217,124
Interest on capital asset-related debt	(491,870)	-	(463,972)	-	-	-	(955,842)
Net nonoperating revenue (expense)	<u>29,474,303</u>	<u>309,994</u>	<u>(451,972)</u>	<u>(34,507)</u>	<u>10,166,021</u>	<u>-</u>	<u>39,463,839</u>
<b>Income (Loss) Before Transfers</b>	11,276,942	(546,634)	(5,256,872)	2,034,598	3,128,310	-	10,636,344
<b>Transfers In (Out)</b>	<u>2,491,324</u>	<u>546,634</u>	<u>90,352</u>	<u>-</u>	<u>(3,128,310)</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	13,768,266	-	(5,166,520)	2,034,598	-	-	10,636,344
<b>Net Position (Deficit) - Beginning of year</b>	<u>47,233,852</u>	<u>-</u>	<u>38,640,404</u>	<u>(22,650,271)</u>	<u>-</u>	<u>-</u>	<u>63,223,985</u>
<b>Net Position (Deficit) - End of year</b>	<u>\$ 61,002,118</u>	<u>\$ -</u>	<u>\$ 33,473,884</u>	<u>\$ (20,615,673)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,860,329</u>