Southwestern Michigan College

Financial Report

with Additional Information

June 30, 2018

Southwestern Michigan College

Contents

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Independent Auditor's Report

To the Board of Trustees
Southwestern Michigan College

Report on the Financial Statements

We have audited the accompanying financial statements of Southwestern Michigan College (the "College") and its discretely presented component unit as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Southwestern Michigan College's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwestern Michigan College and its discretely presented component unit as of June 30, 2018 and 2017 and the respective changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Southwestern Michigan College

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2017, the College adopted the new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Southwestern Michigan College's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of Southwestern Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwestern Michigan College's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 15, 2018

The discussion and analysis of Southwestern Michigan College's (the “College”) financial statements provides an overview of the College's financial activities for the years ended June 30, 2018, 2017, and 2016. Management has prepared the financial statements and the related note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College’s administration.

Using this Report

The College’s annual financial report includes the report of independent auditors, the management’s discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary information, and additional information. The basic financial statements are comprised of three components: the statement of net position; the statement of revenue, expenses, and changes in net position; and the statement of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.*

Financial Highlights

The combined annual operations of all funds of the College entity again added to the financial stability of the institution. The combined College’s net position increased almost $1.9 million in fiscal year 2018, prior to an adjustment for a change in accounting principles. This was mostly a result of a small increase in enrollment, an increased tuition and fees rate of approximately 2.7%, and the reinstatement of Summer Federal Pell Grant funding. The fiscal year 2018 revenue also includes the transfer of $0.7 million of donations received by the Southwestern Michigan College Foundation to assist with funding of the Nursing and Health Education Building project. The increase in combined revenues was greater than the 4% increase in total expenses for all funds of the College.

In comparison, the combined College’s net position increased $1.1 million from fiscal year 2016 to fiscal year 2017. During fiscal year 2017, enrollment had decreased slightly from 2016, which was offset with an approximately 2.7% tuition and fee rate increase and lower than budgeted expenses, thus resulting in an increase in overall net position.

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

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

Total net position at June 30, 2018, 2017, and 2016 is $32.8 million, $34.5 million, and $33.4 million, respectively. The College's balance sheet at June 30 is summarized as follows:

Condensed Balance Sheet as of June 30 (in millions)

	2018	2017	2016
Assets			
Current assets	$ 12.0	$ 10.4	$ 7.9
Capital assets	60.0	55.8	57.3
Other noncurrent assets	1.9	5.5	7.5
Total assets	73.9	71.7	72.7
Deferred Outflows of Resources	2.9	1.8	1.1
Total assets and deferred outflows of resources	**$ 76.8**	**$ 73.5**	**$ 73.8**
Liabilities			
Current liabilities	$ 4.8	$ 3.0	$ 3.3
Noncurrent liabilities	36.8	34.9	36.0
Total liabilities	41.6	37.9	39.3
Deferred Inflows of Resources	2.4	1.1	1.1
Total liabilities and deferred inflows of resources	44.0	39.0	40.4
Net Position			
Net investment in capital assets	36.1	31.2	32.7
Unrestricted net (deficit) position	(3.3)	3.3	0.7
Total net position	32.8	34.5	33.4
Total liabilities, deferred inflows, and net position	**$ 76.8**	**$ 73.5**	**$ 73.8**

Statement of Net Position

The primary changes in the assets and liabilities of the College between 2018 and 2017 are summarized as follows:

- The increase in current assets from 2017 to 2018 is primarily due to a shift from long-term to short-term investments due to the nature of the College's upcoming cash needs. The increase in current assets from 2016 to 2017 was also due to a shift from long-term to short-term investments and overall increase in the College's investment balances due to lower than budgeted General Fund expenses during fiscal year 2017. There was also a decrease in accounts receivable balances from 2016 to 2017 due to the timing of several state and federal grant payments.
- Capital assets increased from 2017 to 2018 due to the Nursing and Health Education Building Renovation and Expansion project. This project started early in fiscal year 2018 and will be completed in fiscal year 2019. Funding for this project requires that College resources pay for the first $5.6 million and the State of Michigan's appropriated funding of $4.0 million will be received and used for the remaining project costs. Thus, in fiscal year 2018, other non-current assets decreased as long-term investments were liquidated, as planned, for the College to fund the early expenditures of the project. Non-current assets also decreased from 2016 to 2017 as the College prepared for the cash flow needs of this project and due to the liquidation of the Perkins Loan program.
- Current liabilities increased from 2017 to 2018 as a result of an increase in accounts payable related to building projects and an estimated accrual for a payment to the Office of Retirement Services based on the PA 328 of 2018 Study results. Current liabilities decreased from 2016 to 2017 as a result of a decrease in accounts payable related to the timing of building projects during that year.
- Noncurrent liabilities increased from 2017 to 2018 due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Noncurrent liabilities decreased from 2016 to 2017 due to the liquidation of the Perkins Loan program.

Net Position

In comparison with fiscal year 2017, the College's net position for fiscal year 2018 decreased by $1.7 million, or 4.9 percent. The decrease was due to implementation of GASB Statement No 75, which resulted in a $3.6 million adjustment to decrease the net position on July 1, 2017. In comparison with fiscal year 2016, the College's net position for fiscal year 2017 increased by $1.1 million, or 3.2 percent. This was mostly due to lower than budgeted salary and healthcare expenses during fiscal year 2017. In both fiscal years 2018 and 2017, transfers into the Plant Fund were funded by operating and nonoperating revenue in excess of expenses in both the General Fund and Auxiliary Fund.

Statement of Revenue, Expenses, and Changes in Net Position

Following is a comparison of the major components of operating results of the College for the years ended June 30, 2018, 2017, and 2016:

Operating Results for the Years Ended June 30 (in millions)

	2018	2017	2016
Operating Revenue			
Tuition and fees	$ 10.1	$ 9.8	$ 10.0
Scholarship allowance	(3.4)	(3.1)	(3.3)
Tuition and fees - Net	6.7	6.7	6.7
Federal grants	1.0	0.9	0.9
State grants and contracts	-	0.1	-
Sales and services of auxiliary activities	2.4	2.4	2.3
Scholarship allowance	(0.8)	(0.8)	(0.8)
Auxiliary services - Net	1.6	1.6	1.5
Other	1.5	0.6	0.7
Total operating revenue	10.8	9.9	9.8
Operating Expenses			
Instruction	7.1	7.1	7.7
Public service	-	0.1	0.1
Instructional support	1.9	1.7	1.9
Student services	4.7	4.0	4.8
Institutional administration	3.8	3.5	3.7
Physical plant operations	3.2	3.2	3.2
Information technology	2.0	1.9	-
Depreciation	2.4	2.4	2.3
Total operating expenses	25.1	23.9	23.7
Operating Loss	(14.3)	(14.0)	(13.9)
Nonoperating Revenue (Expenses)			
State appropriations	7.5	7.3	6.8
Federal Pell Grant	4.2	3.6	4.1
Property taxes	5.4	5.4	5.3
Investment income	0.1	-	-
Bond issuance cost	-	(0.1)	-
Interest on capital asset - Related debt	(1.2)	(1.3)	(1.2)
Interest on ARRA subsidy	0.2	0.2	0.2
Net nonoperating revenue	16.2	15.1	15.2
Other Revenue - State capital appropriations	-	-	3.7
Increase in Net Position	1.9	1.1	5.0
Net Position - Beginning of year	34.5	33.4	28.4
Adjustment for change in accounting principle	(3.6)	-	-
Net position, beginning of year, as restated	30.9	33.4	28.4
Net Position - End of year	**$ 32.8**	**$ 34.5**	**$ 33.4**

Total Revenue

The major changes in revenue for fiscal year 2018 are a result of increased Pell Grant funding and an increase in revenue from other sources due to the effects of donations transferred in for the Nursing and Health Services Building project. The major changes in revenue for fiscal year 2017 were a result of decreased Pell Grant funding, a decrease in state capital appropriations, and an increase in state appropriations due to the effects of GASB 68.

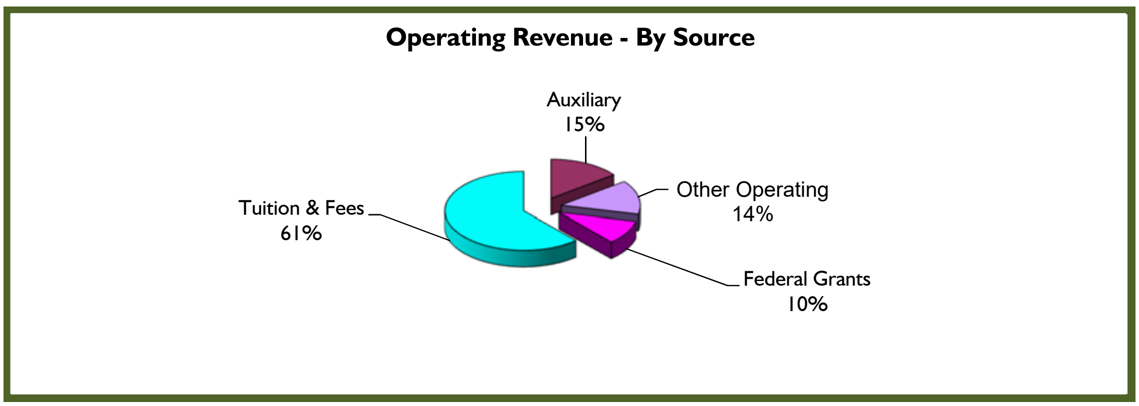
Operating Revenue

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

Operating revenue changes were as follows:

- For fiscal years 2018, 2017, and 2016, net Tuition and Fee revenue has been relatively flat at $6.7 million. Small fluctuations in enrollment each of these years have been offset by annual tuition and fee increases of approximately 2.7 percent in 2018 and 2017.

The following graph illustrates the percentage of operating revenue by source for the year ended June 30, 2018:



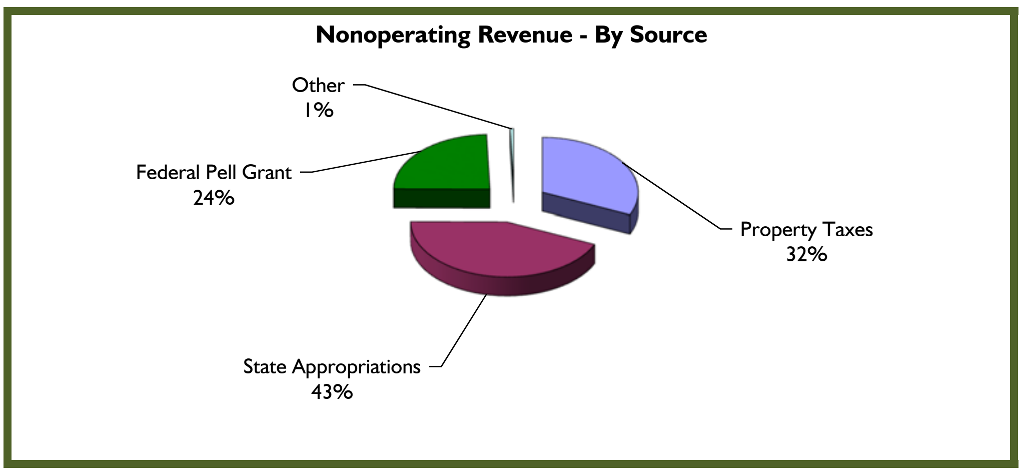
Nonoperating Revenue

Nonoperating revenue is all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, federal Pell Grant funding, property taxes, and state capital appropriations.

Nonoperating revenue changes included the following factors:

- State appropriations increased by $0.2 million, or 2.6 percent, from fiscal year 2017 to 2018 and increased by $0.5 million, or 7.3 percent, from fiscal year 2016 to 2017 partially due to changes in the Michigan Public School Employees' Retirement System Unfunded Actuarial Accrued Liability rate stabilization amounts.
- Property tax revenue increased by approximately $114,000, or 2.1 percent, from fiscal year 2017 to 2018 and increased by approximately $57,000, or 1.1 percent, from fiscal year 2016 to 2017.
- Federal Pell Grant revenue increased $0.6 million, or 17.9 percent, from fiscal year 2017 to 2018 due to the timing of summer Pell 2017 disbursements and the re-institution of year-round Pell Grants. Federal Pell Grant revenue decreased $0.5 million, or 13.1 percent, from fiscal year 2016 to 2017 due to decreased enrollment.

The following graph illustrates these sources of nonoperating revenue for the year ended June 30, 2018:



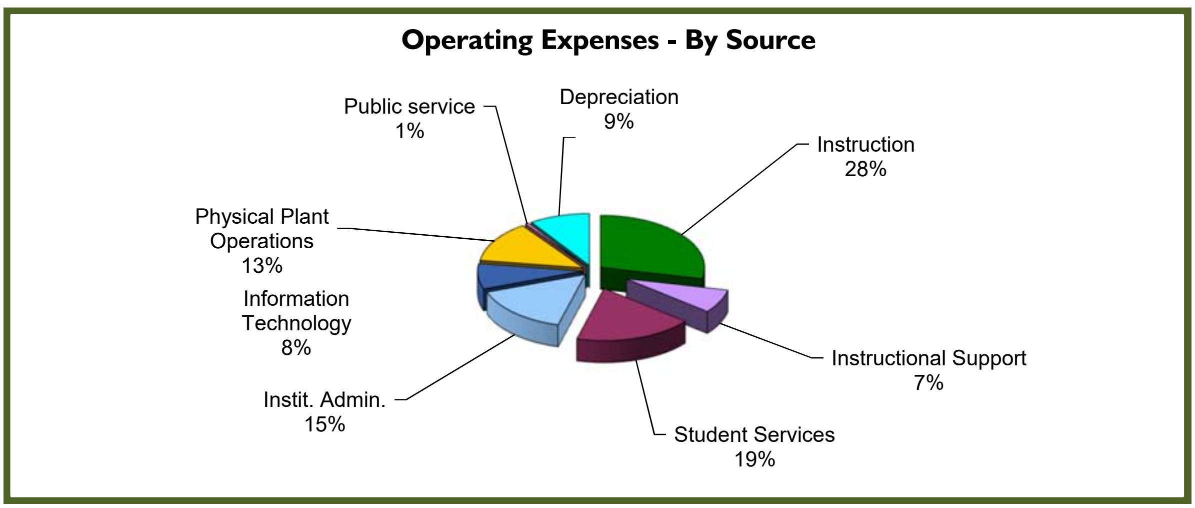
Operating Expenses

Operating expenses are all the costs associated with administering the programs and performing the primary purposes of the College. These costs include salaries, benefits, utilities, supplies, services, and depreciation and are then categorized by function. Overall, total operating expenses increased $1.2 million (5.0 percent) in fiscal year 2018. For the purpose of the financial statements, operating expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

Highlights of the major changes by category are as follows:

- Expenditures for salaries and wages increased 3.8 percent and 2.7 percent for the years ended June 30, 2018 and 2017, respectively, while expenditures for benefits increased 6.9 percent and 3.3 percent for the years ended June 30, 2018 and 2017, respectively. These changes affected expenses in most of the operating expense categories.
- In fiscal year 2018, student services expenses increased partially as a result of increased federal Pell Grant expenditures due to increased enrollment, the timing of summer 2017 Pell disbursements and the institution of year round Pell Grants. In fiscal year 2017, student services expenses decreased as a result of reduced federal Pell Grant expenditures due to decreased enrollment.
- Depreciation remained constant from 2017 to 2018 and 2016 to 2017.

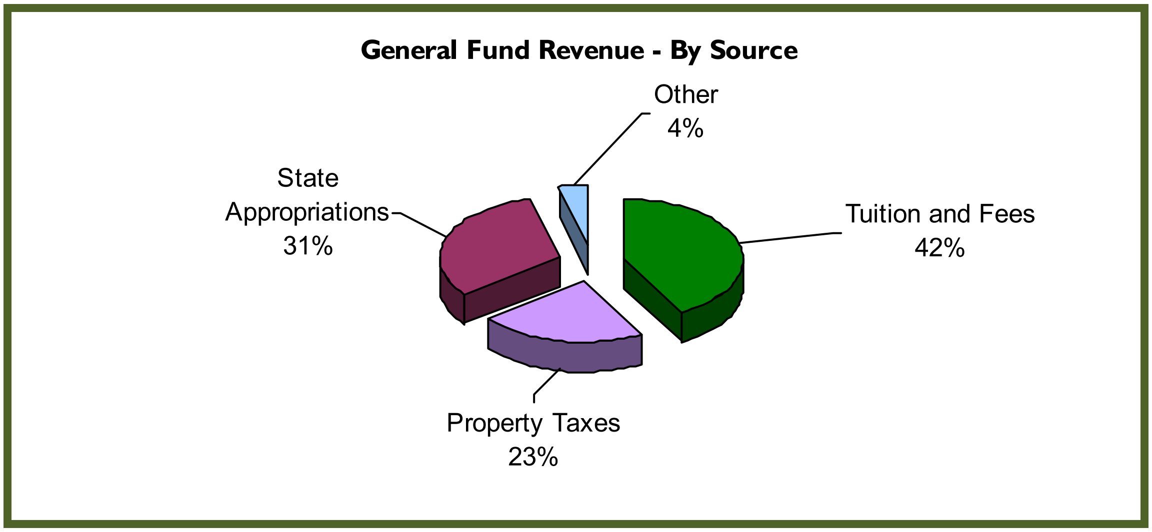
The following is a graphic illustration of operating expenses by source for the College as a whole for the year ended June 30, 2018:



General Fund Revenue

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

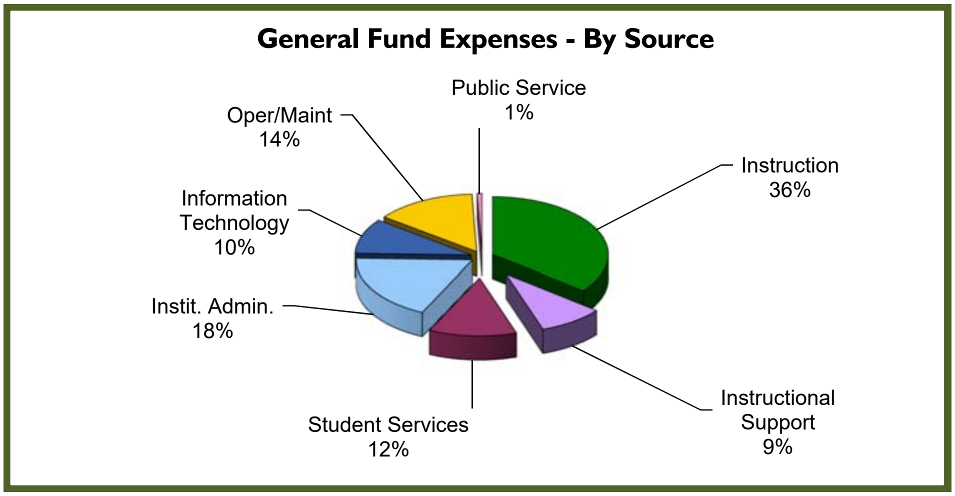
The following graph illustrates the percentage of total General Fund revenue by source for the year ended June 30, 2018:



General Fund Expenses

The College accounts for its primary programs and operations in its General Fund. General Fund expenses are recorded according to the following categories: instruction, instructional support, student services, institutional administration, information technology, and operations and maintenance of the assets of the College. Each category includes salaries, benefits, utilities, supplies, and services for each function. For the purpose of these financial statements, expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

The following graph illustrates the percentage of total General Fund expenses by source for the year ended June 30, 2018:



Statement of Cash Flows

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

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

Major sources of funds from operations came from tuition and fees, grants, contracts, and auxiliary activities (i.e. student housing). These sources were offset by expenditures for operations such as payments to employees and suppliers. For fiscal year 2018, the cash balance increased by $0.4 million. For fiscal year 2017, the cash balance remained unchanged during the year.

Cash used in capital and related financing for fiscal years 2018, 2017, and 2016 was $8.3 million, $2.0 million, and $3.7 million, respectively. The large increase in 2018 was due to the expenditures for the construction process for the Nursing and Health Education Building Renovation and Expansion project. Cash from (used in) investing activities for fiscal years 2018, 2017, and 2016 was $2.3 million, ($2.7) million, and ($1.2) million, respectively.

Cash Flows for the Year Ended June 30 (in millions)

	2018	2017	2016
Cash (Used in) Provided By			
Operating activities	$ (10.7)	$ (11.5)	$ (13.2)
Noncapital financing activities	17.2	16.2	16.2
Capital and related financing activities	(8.4)	(2.0)	(3.7)
Investing activities	2.3	(2.7)	(1.2)
Net Increase (Decrease) in Cash and Cash Equivalents	0.4	-	(1.9)
Cash and Cash Equivalents - Beginning of year	0.6	0.6	2.5
Cash and Cash Equivalents - End of year	**$ 1.0**	**$ 0.6**	**$ 0.6**

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018 and 2017, the College had $93.6 million and $87.6 million, respectively, invested in capital assets, before accumulated depreciation of $33.6 million and $31.8 million, respectively. Depreciation charges totaled $2.4 million and $2.4 million, respectively, for the 2018 and 2017 fiscal years. Depreciation is not applicable for the Nursing and Health Education Building until the expansion and renovations are complete.

Capital Assets at June 30 (in millions)

	2018	2017	2016
Land and land improvements	$ 5.1	$ 5.1	$ 4.3
Buildings and improvements	67.3	67.5	63.6
Furniture, fixtures, and equipment	13.5	13.4	13.0
Library materials	0.6	0.6	0.6
Land	0.5	0.5	0.5
Construction in progress	6.6	0.5	4.9
Total	**$ 93.6**	**$ 87.6**	**$ 86.9**

The College had $23.9 million, $24.5 million, and $24.5 million in debt outstanding at June 30, 2018, 2017, and 2016, respectively. The table below summarizes these amounts by type of debt instrument. The College's bond rating by Standard & Poor’s was AA at June 30, 2018, 2017, and 2016.

Debt Outstanding at June 30 (in millions)

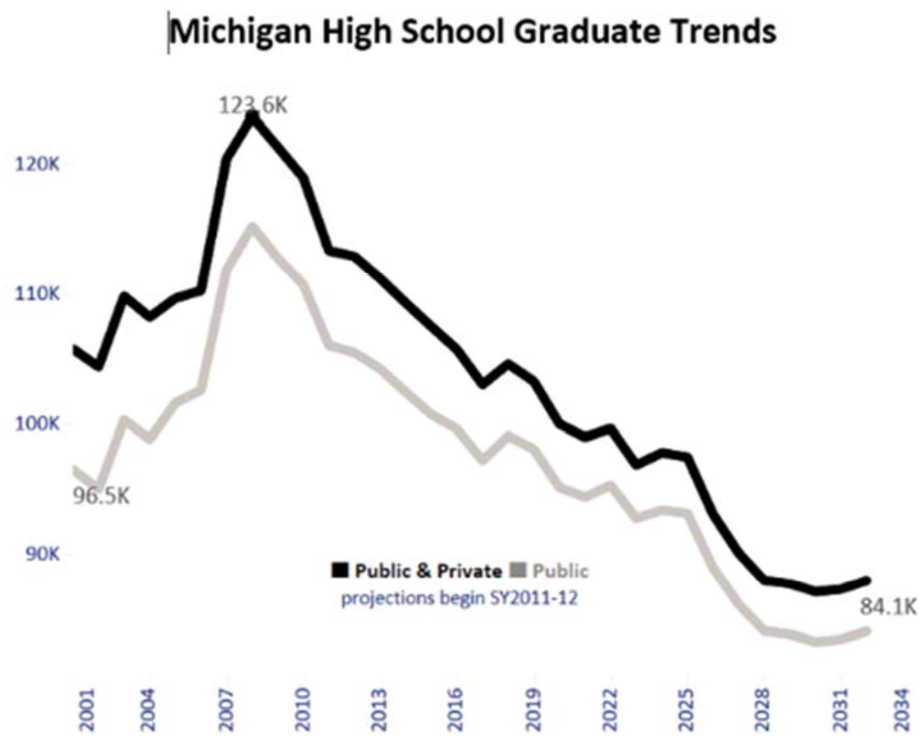
	2018	2017	2016
Bonds payable	$ 23.9	$ 24.4	$ 24.4
Capital lease	-	0.1	0.1
Total	**$ 23.9**	**$ 24.5**	**$ 24.5**

Economic Factors That Will Affect the Future

The economic outlook for the College is tied heavily to national and state economic conditions. Although federal and state appropriations have been determined for the upcoming fiscal year, it is important to note that in times of financial constraint, such funding can be reduced mid-year through an executive order. Even with this substantial dependency on state funding, Southwestern Michigan College’s strong fiscal management resulted in the College’s most recent rating by Standard & Poor’s being affirmed two years ago as AA with a stable outlook, at a time when Moody’s issued a negative outlook for higher education overall.

For fiscal year 2019, the College has budgeted a slight increase in state operating funding and property tax revenue over fiscal year 2018. Additionally, the fiscal year 2019 budget includes a tuition and fees increase of 2.4 percent over the fiscal year 2018 rates, with anticipated flat enrollment from the fiscal year 2018 actual level. This resulted in budgeted tuition and fees of approximately $155,000 more than actual fiscal year 2018 results and $26,000 more than the fiscal year 2018 budget.

Although enrollment was budgeted to be flat compared to fiscal year 2018, after four semesters of either increasing or flat enrollment the College has experienced an enrollment decline for the fall 2018 semester. We have still attracted over 2,100 students in the fall 2018 semester despite an approximate nine percent decrease in contact hours. This is primarily due to approximately 130 fewer traditional high school graduates and other first time college students (FTIACs) enrolling with us than in the past year. As shown in the chart below, this can be attributed to the declining trend in high school graduates in Michigan overall. Unfortunately, this graph indicates that Michigan's projected trend is the third worst in the country. Enrollment at individual schools may fluctuate up and down in a school of choice environment, but declining graduate numbers is the overall trend, and we see the impact of this in the 81 schools that our admissions department tracks. The declining high school enrollment is a direct result of Generation X having fewer children than the Baby Boomer Generation. This has created a very competitive market as there are fewer high school graduates available for the freshman class at all institutions of higher education.



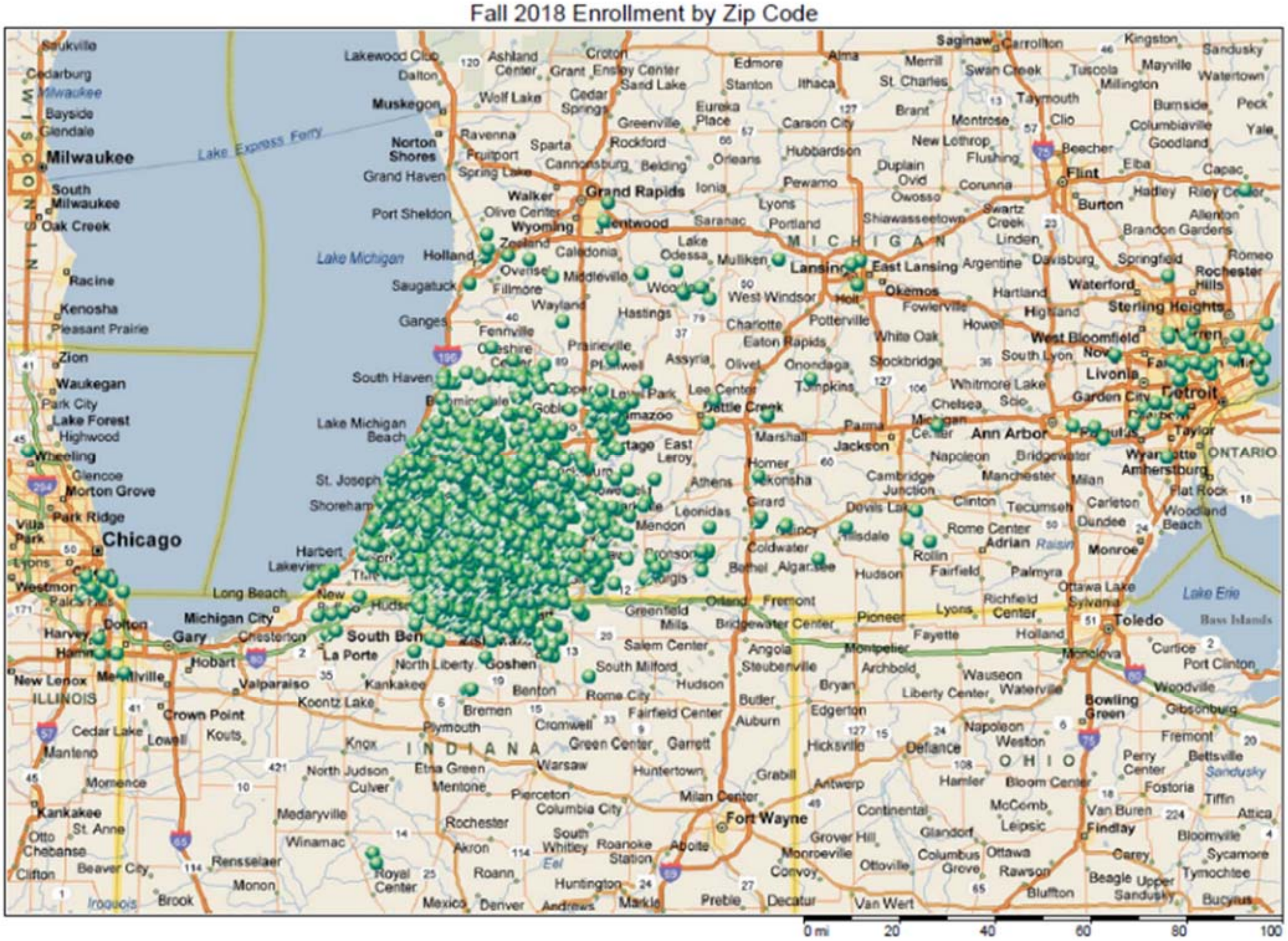
Source: *Source*: Western Interstate Commission for Higher Education,

Knocking at the College Door: Projections of High School Graduates Through 2032. See Michigan Profile.

Another reason for the decline in enrollment is that many potential students are going directly to the workforce instead of choosing to go to college. This is supported by a report from the Michigan Gateway Foundation in which it was stated that of 84 eligible Buchanan Promise students, they had 9 deferrals in 2017, but of the 89 eligible in 2018, 35 deferred. Stated differently, about 4 times as many are choosing to work or take a "gap year" now compared to a year ago. The Michigan Association of State Universities are worried enough about this to start an ad campaign to emphasize the value of post-secondary education. This will continue to create a very competitive environment going forward.

Southwestern Michigan College is attracting about the same percentage of graduates from our in-district high schools as we have historically. As demonstrated in the scatter map below, the high quality of our programs and campus life for our residents are noticed outside the area and we continue to attract students from places like Chicago, Detroit, and Kalamazoo.

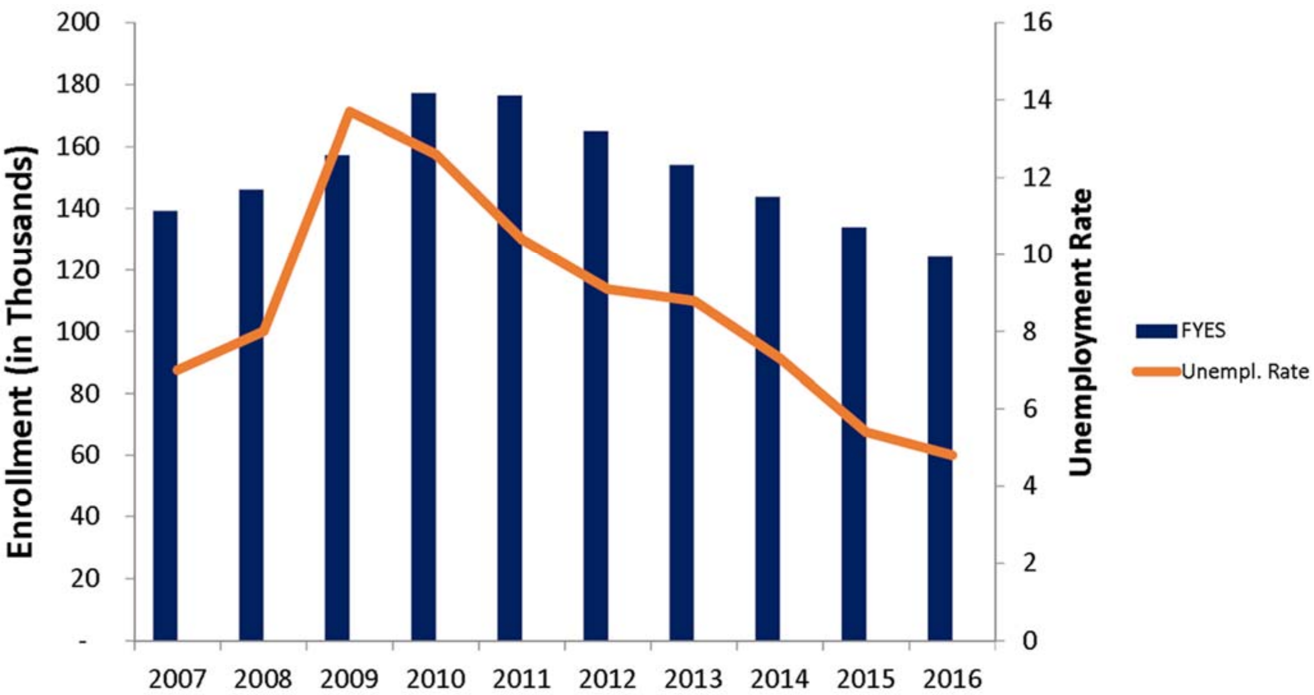
Fall 2018 Enrollment by Zip Code



Building residence halls at Southwestern Michigan College was both a good “defensive” and “offensive” strategy because not only has it generated positive cash flow, but also students from both inside and outside the district want the experience of living on campus after high school. We have been able to attract many students to Southwestern Michigan College because of our on-campus living opportunities.

The earlier noted factors contributed to Southwestern Michigan College’s decline in high school graduate enrollment and to the decline of FTIACs enrollment overall. These groups comprise approximately 58 percent of our students and about two thirds of our annual contact hours. However, unlike universities, Southwestern Michigan College does not depend solely on high school graduates for enrollment. There are other diverse audiences that are part of our student body.

Non-traditional students or adult learners make up approximately 17 percent of our students. This segment is also challenging to recruit right now due to the relatively low 3.8 percent unemployment rate in Michigan. As demonstrated in the chart below, community college enrollment parallels that of the State unemployment rate. As the unemployment rate declines, so does community college enrollment. Even at our affordable tuition rate, the opportunity cost of not working right now is too high for many adults. Many students that continue to value education are now more likely to attend only part-time which results in fewer contact hours in which they enroll per term.



Source: Activity Classification Structure; Senate Fiscal Agency

Although this situation cannot be easily remedied, there are several bright points. Non-traditional retention for fall 2018 was up in both head count and contact hours. Those students appear to be well served and are more likely to graduate. We also expect FTIAC retention to remain in the top quartile of all community colleges nationally given all of the new student engagement initiatives implemented in the fall of 2018 and our emphasis on continuous improvement in the classroom.

In addition, we have seen increased enrollment in the area of dual-enrolled high school students and early college students. These increases are in both head count and contact hours. This fall the dual-enrolled/early-college population represents 24 percent of our students and about 16 percent of contact hours. This is what the community is asking of Southwestern Michigan College right now – to help students get started on their college education. During the recession 10 years ago, the community asked us to assist with retraining people for a new career, now they need our help in offsetting the overall cost of a degree. The upside is that these dual-enrolled students retain and complete at a rate twice that of traditional high school graduates.

We have several other initiatives as well to increase enrollment going forward. In partnership with the Lewis Cass Intermediate School District, we have added an Early College mentor as a point person to work more closely with the Early College students. We have also reworked the international student application process and have three on campus now, with a few more expected in spring. While we do not intend to market heavily to this segment, they do pay a higher tuition rate and add diversity for a richer experience for all students. We are also confident that our diverse student body population that we attract, relative to the county makeup, will continue to enhance all students' college experience.

To improve our yield of traditional high school graduates going forward we plan to emphasize the following:

- New acceptance packets that are an acknowledgement of Southwestern Michigan College as a destination
- Our eight new pathways with Indiana University of South Bend in nursing and business
- On-campus housing
- Calibrate the marketing to go geographically wider than in the past
- Promotion of education tracks
- Hosting more events on campus
- Adding more virtual tour options to our website

Southwestern Michigan College has a well-established, long-range planning process, which involves the board of trustees, along with the administrative leaders of the College. The evaluation of programs and services is always under review by the College's administration. It is imperative that the College's scarce resources are always allocated to those programs and services that drive the College's core mission of student success. The College's desire to attract, retain, develop, and graduate students is at the center of all decisions made as the College looks to use our resources most efficiently and effectively and reallocate as deemed necessary through the College's annual long-range planning process.

Fiscal year 2019 will find Southwestern Michigan College completing the $9.6 million renovation and expansion of the Nursing and Health Education Building on the Dowagiac campus, enhancing the College's capacity to provide much needed education offerings in the nursing and health fields. As our School of Nursing has received national accreditation by the Accreditation Commission for Education in Nursing (ACEN), these renovated facilities will be the appropriate home for this excellent, expanding program.

Overall, this is a very challenging environment for higher education given the broader trends; however, we at Southwestern Michigan College believe that our emphasis on high quality education, total student life experiences, and adapting to new realities will serve us well. We will continue to focus on the expanded recruiting and retention efforts that we have identified through our participation in the Higher Learning Commission's Persistence Academy over the past two years. Southwestern Michigan College has managed trends in the past and we will continue to do so to maintain stable operations going forward as we are able to adjust our expenditures adequately, if necessary, to continue our mission of providing affordable local access to high-quality college education.

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

Statement of Net Position

	June 30 2018	June 30 2017
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 1,040,347	$ 574,331
Short-term investments (Note 3)	8,759,128	7,696,808
Accounts receivable - Net (Note 5)	2,206,083	2,120,184
Other current assets	41,367	38,980
Total current assets	12,046,925	10,430,303
Noncurrent assets:		
Other long-term investments (Note 3)	1,907,221	5,471,235
Capital assets - Net (Note 6)	59,995,547	55,777,242
Total noncurrent assets	61,902,768	61,248,477
Total assets	73,949,693	71,678,780
Deferred Outflows of Resources		
MPSERS-related deferrals (Note 8)	2,307,125	1,249,600
Loss on refunding of bonds payable (Note 7)	566,955	594,169
Total deferred outflows	2,874,080	1,843,769
Total assets and deferred outflows of resources	76,823,773	73,522,549
Liabilities		
Current liabilities:		
Accounts payable	1,873,833	348,461
Accrued liabilities:		
Payroll and related liabilities	1,213,154	841,342
Interest payable	153,105	170,024
Other	156,916	215,000
Unearned revenue	466,591	544,460
Long-term obligations - Current (Note 7)	745,866	661,938
Accrued vacation	224,954	212,272
Total current liabilities	4,834,419	2,993,497
Noncurrent liabilities:		
Long-term obligations - Net of current portion (Note 7)	23,151,331	23,897,198
Net pension liablity (Note 8)	10,112,762	10,678,380
Net OPEB liability (Note 8)	3,528,964	-
Student loans payable	-	307,997
Total noncurrent liabilities	36,793,057	34,883,575
Total liabilities	41,627,476	37,877,072
Deferred Inflows of Resources (Note 8)	2,387,409	1,174,840
Total liabilities and deferred outflows of resources	44,014,885	39,051,912
Net Position		
Net investment in capital assets	36,098,350	31,218,106
Unrestricted net (deficit) position (Note 1)	(3,289,462)	3,252,531
Total net position	**$ 32,808,888**	**$ 34,470,637**

See Notes to Financial Statements.

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2018	2017
Operating Revenue		
Tuition and fees	$ 10,075,207	$ 9,763,036
Scholarship allowance	(3,447,785)	(3,129,233)
Net tuition and fees	6,627,422	6,633,803
Federal grants and contracts	1,061,016	949,962
State grants and contracts	17,765	74,258
Sales and services of auxiliary activities	2,405,911	2,382,576
Scholarship allowance - Auxiliary activities	(823,315)	(763,659)
Net sales and services of auxiliary activities	1,582,596	1,618,917
Other sources	1,505,164	589,197
Total operating revenue	10,793,963	9,866,137
Operating Expenses		
Instruction	7,121,235	7,129,062
Public service	37,500	75,000
Instructional support	1,861,761	1,740,563
Student services	4,698,661	4,028,032
Institutional administration	3,842,463	3,546,476
Operations and maintenance of plant	3,212,019	3,157,533
Information techology	2,005,116	1,869,150
Depreciation	2,337,410	2,360,885
Total operating expenses	25,116,165	23,906,701
Operating Loss	(14,322,202)	(14,040,564)
Nonoperating Revenue (Expenses)		
State appropriations	7,494,626	7,305,468
Federal Pell Grant	4,203,720	3,564,093
Property taxes (Note 2)	5,477,783	5,363,577
Investment income and other interest income	98,306	33,264
Bond issuance cost	-	(123,171)
Interest on capital asset - Related debt	(1,183,132)	(1,188,398)
Interest on ARRA subsidy	153,585	156,230
Net nonoperating revenue	16,244,888	15,111,063
Increase in Net Position	1,922,686	1,070,499
Net Position - Beginning of year	34,470,637	33,400,138
Adjustment for change in accounting principle (Note 1)	(3,584,435)	-
Net position, beginning of year, as restated	30,886,202	33,400,138
Net Position - End of year	**$ 32,808,888**	**$ 34,470,637**

Statement of Cash Flows

	Year Ended June 30	
	2018	2017
Cash Flows from Operating Activities		
Tuition and fees	$ 6,760,673	$ 6,460,693
Grants and contracts	830,624	1,757,279
Payments to suppliers	(4,809,055)	(6,656,623)
Payments to employees	(15,402,312)	(14,755,011)
Auxiliary enterprise charges	490,398	566,969
Other	1,479,061	1,153,431
Net cash used in operating activities	(10,650,611)	(11,473,262)
Cash Flows from Noncapital Financing Activities		
Local property taxes	5,477,783	5,363,577
Federal direct lending receipts	3,334,335	3,409,479
Federal direct lending disbursements	(3,334,335)	(3,409,479)
State appropriations	7,476,898	7,293,736
Pell Grant	4,203,720	3,564,093
Net cash provided by noncapital financing activities	17,158,401	16,221,406
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(6,625,372)	(947,828)
Proceeds from bond issue	-	12,380,017
Principal paid on capital debt	(661,939)	(12,328,917)
Proceeds from sale of capital assets	-	43,675
Cash paid for bond issuance costs	-	(123,171)
Cash received from federal stabilization funds (ARRA)	153,585	156,230
Interest paid on capital debt	(1,200,051)	(1,211,566)
Net cash used in capital and related financing activities	(8,333,777)	(2,031,560)
Cash Flows from Investing Activities		
Payments on student loans	(307,997)	(266,101)
Net proceeds from sales (purchases) of investments	2,501,694	(2,475,358)
Investment income	98,306	33,264
Net cash provided by (used in) investing activities	2,292,003	(2,708,195)
Net Increase in Cash and Cash Equivalents	466,016	8,389
Cash and Cash Equivalents - Beginning of year	574,331	565,942
Cash and Cash Equivalents - End of year	**$ 1,040,347**	**$ 574,331**

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2018	2017
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (14,322,202)	$ (14,040,564)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	2,337,410	2,360,885
Loss on disposal of fixed assets	69,657	23,992
Change in pension and OPEB liablities and deferreds	(438,831)	(726,998)
(Increase) decrease in assets:		
Accounts receivable	(68,171)	1,144,064
Other current assets	(2,387)	15,785
Increase (decrease) in liabilities:		
Accounts payable	1,525,372	(357,345)
Accrued payroll and related liabilities	371,812	66,441
Accrued other	(58,084)	56,531
Unearned revenue	(77,869)	(39,964)
Accrued vacation	12,682	23,911
Net cash used in operating activities	**$ (10,650,611)**	**$ (11,473,262)**

Discretely Presented Component Unit
Southwestern Michigan College Foundation

Balance Sheet

	June 30 2018	June 30 2017
Assets		
Cash and cash equivalents	$ 37,330	$ 181,417
Investments (Note 3)	12,406,648	12,203,190
Pledges receivable	127,500	25,000
Total assets	**$ 12,571,478**	**$ 12,409,607**
Liabilities - Due to Southwestern Michigan College	$ 329,485	$ 313,875
Net Assets		
Unrestricted	41,144	28,334
Temporarily restricted	1,676,718	1,804,979
Permanently restricted	10,524,131	10,262,419
Total net assets	12,241,993	12,095,732
Total liabilities and net assets	**$ 12,571,478**	**$ 12,409,607**

Statement of Activities

	Year Ended June 30 2018	Year Ended June 30 2017
Revenue		
Contributions	$ 811,730	$ 561,376
Contributed services	156,543	150,347
Rent revenue	92,400	178,500
Interest income	251,025	220,835
Net realized and unrealized gains (losses) on investments	4,883	(63,928)
Total revenue	1,316,581	1,047,130
Expenses		
Grants and contributions	1,000,837	313,175
Management and general	61,818	61,349
Fundraising	107,665	103,075
Total expenses	1,170,320	477,599
Net Increase in Net Assets	146,261	569,531
Net Assets - Beginning of year	12,095,732	11,526,201
Net Assets - End of year	**$ 12,241,993**	**$ 12,095,732**

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

Reporting Entity - Southwestern Michigan College (the “College”) is a Michigan community college whose financial statements have been prepared in accordance with generally accepted accounting principles as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

The 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 Governmental Accounting Standards Board 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 the Southwestern Michigan College Foundation have been discretely presented in Southwestern Michigan College’s financial statements.

The Southwestern Michigan College Foundation (the “Foundation”), a nonprofit organization, was formed to operate exclusively for charitable purposes to promote, establish, conduct, maintain, and operate educational and scientific activities in conjunction with the College. Separate financial statements of the Foundation may be obtained by contacting Southwestern Michigan College, 58900 Cherry Grove Road, Dowagiac, MI 49047.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. 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 are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis - The financial statements of Southwestern Michigan College have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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

Investments - Investments are recorded at fair value, based on quoted market price.

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

Bond Issuance Costs - Bond issuance costs are expensed as incurred. There were no bonds issued during fiscal year 2018. In fiscal year 2017, bond issuance costs of $123,171 were expensed with the issuance of the 2017 bonds.

Property and Equipment - Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Library books are recorded using a historically based estimated value. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. The following estimated useful lives are used to compute depreciation:

Land improvements	10-20 years
Buildings and improvements	15-45 years
Furniture, fixtures, and equipment	3-20 years
Library materials	5 years

Unearned Revenue - Revenue received prior to year-end that is related to the next fiscal period is recorded as unearned revenue. The balance as of June 30, 2018 consists of approximately $179,000 for the 2018 fall semester and $288,000 for the 2018 summer semester. The balance as of June 30, 2017 consisted of approximately $230,000 for the 2017 fall semester and $314,000 for the 2017 summer semester. Grants received prior to qualifying expenditures are also included in unearned revenue. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Compensated Absences - Compensated absences represent the accumulated liability to be paid under the College's current vacation pay policy. Under the College's policy, employees earn vacation time based on time of service with the College.

Student Loans Payable - Funds provided by the United States government pursuant to the Perkins Loan program are loaned to qualified students and may be re-loaned upon collection. Since these funds are ultimately distributable to the federal government upon liquidation of the program, the advances are reflected as liabilities on the accompanying balance sheet. As of June 30, 2017, the College has liquidated the program and all loans have been assigned to the Department of Education. The remaining balance consists of the amount due to the Department of Education upon final liquidation. The liquidation process was completed during fiscal year 2018.

Operating and Nonoperating Revenue - Operating activities reported on the statement of revenue, expenses, and changes in net position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, as defined by GASB Statement No. 34, including state appropriations, property taxes, federal Pell Grant revenue, gifts, and investment income.

Pell Grant Reimbursements - Pell Grant reimbursements are classified as nonoperating revenue due to their nonexchange nature. The amount received during the years ended June 30, 2018 and 2017 was $4,203,720 and $3,564,093, respectively.

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

Unrestricted Net Position - Unrestricted net position represents net positions that are 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. The College, through board action, has designated the use of unrestricted net position as of June 30, 2018 and 2017 as follows:

	2018	2017
Designated for General Fund division use	$ 3,843,436	$ 3,643,436
Designated for net pension and OPEB liabilities	(13,722,010)	(10,603,620)
Designated for capital maintenance and replacement	3,995,295	7,606,701
Designated for budget stablization	1,000,000	1,000,000
Designated for healthcare expenses	907,063	907,063
Designated for marketing expenses	103,576	151,037
Designated for scholarships and grants	96,204	135,940
Designated for auxiliary expenditures	486,974	411,974
Total unrestricted net (deficit) position	$ (3,289,462)	$ 3,252,531

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.

Federal Financial Assistance Programs - The College participates in federally funded Pell Grants, SEOG grants, Federal Work-Study, and Federal Direct Lending programs. Federal programs are audited in accordance with the Single Audit Act amendments of 1996, the U.S. Office of Management and Budget Revised Uniform Guidance, *Audit of States, Local Governments, and Non-Profit Organizations*, and the compliance supplement. During the years ended June 30, 2018 and 2017, the College distributed $3,334,335 and $3,409,479, 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 of Tuition and Fees - The academic programs are offered in traditional fall and spring semesters. Revenue from tuition and student fees is recognized during the academic term. Revenue from the summer semester, which commences in June and ends in August, is split and recognized proportionally to the number of days of the semester within the fiscal year. Tuition revenue is reported at established rates, net of institutional financial aid and discounts provided directly by the College to students.

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

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

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

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 MPSERS and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, MPSERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity 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 future periods 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 (see Note 8 for more information) and for the loss on refunding of a portion of the 2008 Community College Improvement Bonds (see Note 7 for more information).

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 future periods 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 plan's investments. More detailed information can be found in Note 8.

Adoption of New Accounting Pronouncement - The GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which requires governments providing other postemployment benefit (OPEB) plans to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statements, the College has reported a change in accounting principle adjustment to unrestricted net position of $3,584,435, which is the net of the net OPEB liability and related deferred outflows as of July 1, 2017. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75 because the information is not available to calculate the impact on OPEB expense for the fiscal year ended June 30, 2017.

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

Grant Revenue - Revenue from grant and contract agreements is recognized as it is earned through expenditures in accordance with the agreement.

Reclassifications - Certain prior year balances were reclassified to conform with the current year presentation. In 2018, the College reclassified the balances related to information technology expenditures to a separate function within the operating expenses on the statement of revenue, expenses, and changes in net position. The impact for the year ended June 30, 2017 is shown below:

Function	Original 2017 Balance	Reclassification	Year-end Amount
Instruction	$ 8,023,398	$ (894,336)	$ 7,129,062
Instructional support	1,958,887	(218,324)	1,740,563
Student services	4,336,332	(308,300)	4,028,032
Institutional administration	3,994,666	(448,190)	3,546,476
Information technology	-	1,869,150	1,869,150

Note 2 - Property Taxes

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

During the years ended June 30, 2018 and 2017, 2.4280 mills of tax per $1,000 of taxable property value in the community college taxing district were levied for general operating purposes on all property. Total operating property tax revenue was $5,477,783 and $5,363,577 for the years ended June 30, 2018 and 2017, respectively.

Note 3 - Deposits and Investments

The College considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The College's deposits and investments are included on the statement of net position under the following classifications at June 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	$ 1,040,347	$ 574,331
Short-term investments	8,759,128	7,696,808
Long-term investments	1,907,221	5,471,235
Total cash and investments	$ 11,706,696	$ 13,742,374

Note 3 - Deposits and Investments (Continued)

The amounts in the previous table are classified in the following categories:

	2018	2017
Cash and cash equivalents	$ 1,036,697	$ 570,681
Investments in securities and similar instruments	10,666,349	13,168,043
Petty cash and cash on hand	3,650	3,650
Total cash and investments	$ 11,706,696	$ 13,742,374

As of June 30, 2018, the College had the following investments and maturities:

	Fair Market Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Money market	$ 470,220	$ 470,220	$ -	$ -	$ -
Certificate of deposit	245,223	-	245,223	-	-
Municipal bonds	66,030	-	25,410	40,620	-
Mutual funds	3,680	3,680	-	-	-
Commercial paper	395,136	-	204,952	190,185	-
U.S. agencies	1,538,581	1,071,106	387,253	39,881	40,341
U.S. treasuries	7,947,479	7,214,122	717,274	16,083	-
Total Investments	$ 10,666,349	$ 8,759,128	$ 1,580,112	$ 286,769	$ 40,341

As of June 30, 2017, the College had the following investments and maturities:

	Fair Market Value	Less Than 1 Year	1-5 Years	5-10 Years	More Than 10 Years
Money market	$ 2,116,631	$ 2,116,631	$ -	$ -	$ -
Certificate of deposit	350,406	100,001	250,405	-	-
Municipal bonds	68,598	-	26,244	42,354	-
Mutual funds	21,250	21,250	-	-	-
Commercial paper	299,886	-	145,853	154,033	-
U.S. agencies	1,168,537	785,760	195,063	19,786	167,928
U.S. treasuries	9,142,735	4,673,166	4,439,330	30,239	-
Total Investments	$ 13,168,043	$ 7,696,808	$ 5,056,895	$ 246,412	$ 167,928

Interest Rate Risk

The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College does invest in accordance with state law.

Custodial Credit Risk of Investments

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

Note 3 - Deposits and Investments (Continued)

Credit Risk

According to state law, the College must limit investments in commercial paper to corporations rated prime by at least one of the standard rating services.

At June 30, 2018 and 2017, the College's investments subject to credit risk (interest rate fluctuations) and related earnings consisted of the following:

	June 30, 2018				June 30, 2017			
Moody's Rating	U.S. Agencies	U.S. Treasuries	Commercial Paper	Municipal Bonds	U.S. Agencies	U.S. Treasuries	Commercial Paper	Municipal Bonds
Aaa	$ 1,538,581	$ 7,947,479	$ 48,889	$ -	$ 920,619	$ 8,389,655	$ 50,367	$ -
Aa2	-	-	28,997	-	-	-	29,893	-
Aa3	-	-	22,061	25,410	-	-	22,803	26,244
A1	-	-	62,649	-	-	-	64,855	-
A2	-	-	45,325	-	-	-	46,543	-
A3	-	-	172,395	40,620	-	-	33,032	42,354
Baa1	-	-	-	-	-	-	52,393	-
Not rated	-	-	14,820	-	247,918	753,080	-	-
Total	$ 1,538,581	$ 7,947,479	$ 395,136	$ 66,030	$ 1,168,537	$ 9,142,735	$ 299,886	$ 68,598

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the College's deposits may not be returned to it. The College's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk be used for the College's deposits. As of June 30, 2018, the College's deposit balance of $1,836,652 had $1,341,429 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. As of June 30, 2017, the College's deposit balance of $1,588,418 had $988,012 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The College believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the College evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Foundation Investments

Investments at the Southwestern Michigan College Foundation are as follows:

	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Money market mutual funds	$ 228,600	$ 228,600	$ 87,990	$ 87,990
Certificates of deposit	1,990,865	1,968,026	2,555,357	2,561,921
Mutual funds	3,282,804	3,578,230	2,043,938	2,161,638
Government securities	1,908,428	1,839,161	2,788,592	2,761,374
Municipal bonds	402,122	387,495	430,513	424,573
Corporate bonds	1,717,658	1,669,182	1,579,037	1,573,169
Foreign corporate bonds	288,890	278,149	292,267	290,205
Asset backed	193,732	189,805	74,126	74,320
Land	1,053,233	2,268,000	1,053,233	2,268,000
Total	$ 11,066,332	$ 12,406,648	$ 10,905,053	$ 12,203,190

Note 4 - Fair Value Measurements

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

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

The College has the following recurring fair value measurements as of June 30, 2018 and 2017:

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Certificates of deposit	$ 245,223	$ 245,223	$ -	$ -
Equity Securities				
Equity securities - Mutual funds	3,680	3,680	-	-
Debt securities:				
U.S. agency bonds	1,538,581	-	1,538,581	-
U.S. treasury securities	7,947,479	-	7,947,479	-
Commercial paper	395,136	-	395,136	
Municipal bonds	66,030	-	66,030	-
Total investments by fair value level	$ 10,196,129	$ 248,903	$ 9,947,226	$ -

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Certificates of deposit	$ 350,406	$ 350,406	$ -	$ -
Equity securities - Mutual funds	21,250	21,250	-	-
Debt securities:				
U.S. agency bonds	1,168,537	-	1,168,537	-
U.S. treasury securities	9,142,735	-	9,142,735	-
Commerical paper	299,886	-	299,886	-
Municipal bonds	68,598	-	68,598	-
Total investments by fair value level	$ 11,051,412	$ 371,656	$ 10,679,756	$ -

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Note 4 - Fair Value Measurements (Continued)

Foundation Investments

Investments at the Southwestern Michigan College Foundation are as follows:

Assets Measured at Fair Value on a Recurring Basis at June 30, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Money market mutual funds	$ 228,600	$ -	$ -	$ 228,600
Equity - Mutual funds	3,578,230	-	-	3,578,230
Fixed income:				
U.S. agency bonds	-	1,077,258	-	1,077,258
U.S. treasuries	-	761,903	-	761,903
Municipal bonds	-	387,495	-	387,495
Corporate bonds	-	1,669,182	-	1,669,182
Foreign corporate bonds	-	278,149	-	278,149
Asset backed	-	189,805	-	189,805
Land	-	-	2,268,000	2,268,000
Total investments	$ 3,806,830	$ 4,363,792	$ 2,268,000	$ 10,438,622

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Money market mutual funds	$ 87,990	$ -	$ -	$ 87,990
Equity - Mutual funds	2,161,638	-	-	2,161,638
Fixed income:				
U.S. agency bonds	-	1,372,095	-	1,372,095
U.S. treasuries	-	1,389,279	-	1,389,279
Municipal bonds	-	424,573	-	424,573
Corporate bonds	-	1,573,169	-	1,573,169
Foreign corporate bonds	-	290,205	-	290,205
Asset backed	-	74,320	-	74,320
Land	-	-	2,268,000	2,268,000
Total investments	$ 2,249,628	$ 5,123,641	$ 2,268,000	$ 9,641,269

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Land classified in Level 3 are valued using discounted cash flow techniques or previously performed appraisals.

Note 5 - Accounts Receivable

Accounts receivable as of June 30, 2018 and 2017 consist of the following:

	2018	2017
Student	$ 141,848	$ 352,968
Grants and contracts	447,204	199,047
State appropriations - Operating	1,324,022	1,306,294
Other	343,009	311,875
Total	2,256,083	2,170,184
Less allowance for doubtful accounts	(50,000)	(50,000)
Net accounts receivable	$ 2,206,083	$ 2,120,184

Management's periodic evaluation of the adequacy of the allowance is based on the College's past collection experience, adverse situations that may affect the student's ability to repay, and current economic conditions.

The College values accounts receivable at gross realizable value. All amounts deemed to be uncollectible are charged directly against income in the period that determination is made.

Note 6 - Capital Assets

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

	July 1, 2017 Balance	Additions	Retirements	Transfers	June 30, 2018 Balance
Depreciable assets:					
Land improvements	$ 5,063,243	$ -	$ -	$ 15,324	$ 5,078,567
Building and building improvements	67,468,039	265,961	(554,140)	105,225	67,285,085
Furniture, fixtures, and equipment	13,421,963	162,164	(77,356)	-	13,506,771
Library materials	562,117	-	-	-	562,117
Total depreciable assets	86,515,362	428,125	(631,496)	120,549	86,432,540
Nondepreciable assets:					
Land	528,532	-	-	-	528,532
Construction in progress	515,951	6,197,247	-	(120,549)	6,592,649
Total nondepreciable assets	1,044,483	6,197,247	-	(120,549)	7,121,181
Total depreciable and nondepreciable assets	87,559,845	$ 6,625,372	$ (631,496)	$ -	93,553,721
Accumulated depreciation:					
Land improvements	2,263,065	$ 190,270	$ -	$ -	2,453,335
Building and building improvements	19,996,596	1,407,438	(489,101)	-	20,914,933
Furniture, fixtures, and equipment	8,960,826	739,702	(72,738)	-	9,627,790
Library materials	562,116	-	-	-	562,116
Total accumulated depreciation	31,782,603	$ 2,337,410	$ (561,839)	$ -	33,558,174
Net capital assets	$ 55,777,242				$ 59,995,547

Note 6 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2017 was as follows:

	July 1, 2016 Balance	Additions	Retirements	Transfers	June 30, 2017 Balance
Depreciable assets:					
Land improvements	$ 4,267,500	$ -	$ -	$ 795,743	$ 5,063,243
Building and building improvements	63,502,224	125,120	-	3,840,695	67,468,039
Furniture, fixtures, and equipment	13,088,410	23,519	(282,193)	592,227	13,421,963
Library materials	562,117	-	-	-	562,117
Total depreciable assets	81,420,251	148,639	(282,193)	5,228,665	86,515,362
Nondepreciable assets:					
Land	528,532	-	-	-	528,532
Construction in progress	4,945,428	799,188	-	(5,228,665)	515,951
Total nondepreciable assets	5,473,960	799,188	-	(5,228,665)	1,044,483
Total depreciable and nondepreciable assets	86,894,211	$ 947,827	$ (282,193)	$ -	87,559,845
Accumulated depreciation:					
Land improvements	2,079,780	$ 183,285	$ -	$ -	2,263,065
Building and building improvements	18,607,151	1,389,445	-	-	19,996,596
Furniture, fixtures, and equipment	8,387,198	788,155	(214,527)	-	8,960,826
Library materials	562,116	-	-	-	562,116
Total accumulated depreciation	29,636,245	$ 2,360,885	$ (214,527)	$ -	31,782,603
Net capital assets	$ 57,257,966				$ 55,777,242

Several of the buildings on campus were financed through the issuance of bonds by the State of Michigan Building Authority (SBA). The SBA bonds are secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement entered into among the SBA, the State of Michigan, and the College. During the lease term, the SBA will hold title to the buildings, the State of Michigan will make all lease payments to the SBA, and the College will be responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer the title of the buildings to the College.

As of June 30, 2018, the College had signed a commitment for a major construction project for approximately $2,100,000. There were no such commitments as of June 30, 2017.

Note 7 - Long-term Obligations

Short-term Obligations - On March 18, 2013, the College entered into a $1,000,000 revolving line of credit agreement. The agreement requires interest to be paid monthly at LIBOR plus 3 percent and matures on April 1, 2019. There were no outstanding borrowings under this line of credit as of June 30, 2018 and 2017.

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

	July 1, 2017	Additions	Reductions	June 30, 2018	Current Portion
Bonds Payable					
2008 Community College Improvement Bonds	$ 350,000	$ -	$ (350,000)	$ -	$ -
2009 Community College Build America Bonds	6,775,000	-	(150,000)	6,625,000	150,000
2014 Community College Improvement Bonds	5,000,000	-	(100,000)	4,900,000	100,000
2017 Community College Improvement Bonds	12,250,000	-	-	12,250,000	490,000
Total bonds payable	24,375,000	-	(600,000)	23,775,000	740,000
Unamortized Bond Premium	128,063		(5,866)	122,197	5,866
Capital Lease	56,073	-	(56,073)	-	-
Total long-term obligations	$ 24,559,136	$ -	$ (661,939)	$ 23,897,197	$ 745,866

Long-term obligation activity during the year ended June 30, 2017 was as follows:

	July 1, 2016	Additions	Reductions	June 30, 2017	Current Portion
Bonds Payable					
2002 Community College Improvement Bonds	$ 125,000	$ -	$ (125,000)	$ -	$ -
2008 Community College Improvement Bonds	12,350,000	-	(12,000,000)	350,000	350,000
2009 Community College Build America Bonds	6,925,000	-	(150,000)	6,775,000	150,000
2014 Community College Improvement Bonds	5,000,000	-	-	5,000,000	100,000
2017 Community College Improvement Bonds	-	12,250,000	-	12,250,000	-
Total bonds payable	24,400,000	12,250,000	(12,275,000)	24,375,000	600,000
Unamortized Bond Premium	-	130,018	(1,955)	128,063	5,865
Capital Lease	109,990	-	(53,917)	56,073	56,073
Total long-term obligations	$ 24,509,990	$ 12,380,018	$ (12,330,872)	$ 24,559,136	661,938

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

Community College Improvement Bonds, 2002 - The College issued $1,500,000 of 4.80 to 4.90 percent General Obligation - Limited Tax Bonds. The bonds were insured, payable from tax revenue of the College, callable at a premium, and matured in the amount of $125,000 through 2017. Proceeds from this issuance were used for the purpose of paying a portion of the cost of acquiring, constructing, equipping, furnishing, and making improvements to a college facilities building.

Community College Improvement Bonds, 2008 - The College issued $14,220,000 of 4.125 to 5.50 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in an amount of $350,000 in 2018. Proceeds from this issuance were used for the purpose of paying a portion of the cost of purchasing, erecting, and equipping a new student residence hall; purchasing, erecting, and equipping additions to, and renovating and re-equipping college buildings; and developing and improving sites.

Note 7 - Long-term Obligations (Continued)

In February 2017, the College issued an additional series of bonds for the purpose of advance refunding a portion of the 2008 Community College Improvement Bonds that were callable as of May 1, 2018. The refunded bonds, with an outstanding principal balance of $11,650,000, were originally maturing from 2019 through 2039. The College used the proceeds of the new bond issue to establish an escrow fund that was used to pay the principal and interest of the 2008 Community College Improvement Bonds when due and at call for redemption.

Community College Build America Bonds, 2009 - The College issued $7,500,000 of 5.25 to 7.25 percent General Obligation - Limited Tax Build America Bonds authorized by Section 1531 of the American Recovery and Revitalization Act of 2009. The College will receive payments from the federal Treasury equal to 35 percent of the total coupon interest paid by the College. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from $150,000 to $500,000 through 2040. Proceeds from this issuance were used for the purpose of paying all or a portion of the cost of purchasing, erecting, and equipping a new student residence hall and developing and improving sites.

Community College Improvement Bonds, 2014 - The College issued $5,000,000 of 3.00 to 3.75 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from $100,000 to $375,000 beginning 2018 through 2039. Proceeds from this issuance were used for the purpose of paying a portion of the cost of renovating and re-equipping two existing college classroom buildings.

Community College Improvement Bonds, 2017 - The College issued $12,250,000 of 2.00 to 4.00 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in amounts ranging from $490,000 to $780,000 beginning 2019 through 2039. Proceeds from this issuance were for the purpose of advance refunding a portion of the 2008 Community College Improvement Bonds. The bonds were sold at a premium of $130,018. Amortization expense for the years ended June 30, 2018 and 2017 was $5,866 and $1,955, respectively. The bond refunding resulted in a capitalized loss on defeasance of $603,240. Amortization expense for the years ended June 30, 2018 and 2017 was $27,214 and $9,071, respectively. The refunding resulted in a total reduction of future debt service of $1,990,561, with a net present value reduction of $1,412,805.

Capital Lease - The College entered into a five-year capital lease agreement for software commencing on September 1, 2013 in the amount of $270,000. The lease required annual payments of $58,314, including 4.00 percent interest. The lease was secured by the related software. Depreciation expense on property under capital lease is included in the depreciation amount disclosed in Note 6. The final payment was made on the capital lease during the year ended June 30, 2018.

Note 7 - Long-term Obligations (Continued)

Total principal and interest maturities on the debt obligations as of June 30, 2018 are as follows:

Years Ending June 30		Debt Obligations Principal	Interest	Total
2019		$ 740,000	$ 1,072,462	$ 1,812,462
2020		785,000	1,050,662	1,835,662
2021		805,000	1,021,426	1,826,426
2022		880,000	985,726	1,865,726
2023		875,000	947,026	1,822,026
2024-2028		4,950,000	4,113,938	9,063,938
2029-2033		5,780,000	2,959,053	8,739,053
2034-2038		6,855,000	1,563,607	8,418,607
2039-2040		2,105,000	148,438	2,253,438
	Total	$ 23,775,000	$ 13,862,338	$ 37,637,338

For the years ended June 30, 2018 and 2017, interest charged was $1,183,132 and $1,188,398, respectively. In addition, there was a Build America Bonds subsidy of $153,585 and $156,230 received during the years ended June 30, 2018 and 2017, resulting in a net expense of $1,029,547 and $1,025,049 respectively.

Note 8 - Retirement Plans

Defined Benefit Plan

Plan Description

The College participates in the Michigan Public School Employees' Retirement System (MPSERS or 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 healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

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

Benefits Provided

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

Note 8 - Retirement Plans (Continued)

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

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

Members are eligible for 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 healthcare 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.

Note 8 - Retirement Plans (Continued)

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare 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 a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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

The range of rates is as follows:

	Pension	OPEB
October 1, 2015 - September 30, 2016	14.56% - 18.95%	6.4% - 6.83%
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69%-5.91%
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

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, 2018 and 2017 were approximately $1,116,000 and $962,000, 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 approximately $486,000 and $329,000 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 year ended June 30, 2018 and 2017, respectively.

The College's required and actual OPEB contributions to the plan for the years ended June 30, 2018 and 2017 were approximately $234,000 and $312,000, respectively, which include the College's contributions required for those members with a defined contribution benefit. The College's required and actual OPEB contributions does not include an allocation of 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 year ended June 30, 2018, however, included an allocation of $123,000 of revenue for the year ended June 30, 2017.

Note 8 - Retirement Plans (Continued)

Net Pension Liability

At June 30, 2018 and 2017, the College reported a liability of approximately $10,113,000 and $10,678,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017 and 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and 2015, which used updated procedures to roll forward the estimated liability to September 30, 2017 and 2016. 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, 2017, 2016, and 2015, the College's proportion was 0.03902 percent, 0.04280 percent, and 0.04430 percent respectively.

Net OPEB Liability

At June 30, 2018, the College reported a liability of approximately $3,529,000 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The College’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the College’s proportion was 0.03985 percent of MPSERS in total.

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

For the year ended June 30, 2018 and 2017, the College recognized pension expense of approximately $576,000 and $745,000, respectively, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018 and 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 87,887	$ (49,621)	$ 133,081	$ (25,308)
Changes of assumptions	1,107,933	-	166,948	-
Net difference between projected and actual earnings on pension plan assets	-	(483,457)	177,475	-
Changes in proportion and differences between College contributions and proportionate share of contributions	16,978	(1,249,113)	1,721	(820,033)
Total amortized deferrals	1,212,798	(1,782,191)	479,225	(845,341)
College contributions subsequent to the measurement date	899,647	-	770,375	-
Total	$ 2,112,445	$ (1,782,191)	$ 1,249,600	$ (845,341)

Note 8 - Retirement Plans (Continued)

The $485,913 and $329,499 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 147c of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriations revenue for the years ended June 30, 2019 and 2018, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	$ (288,061)
2019	(64,305)
2020	(94,673)
2021	(122,354)
	$ (569,393)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year. The College had deferred outflows of resources related to revenue in support of pension payments made subsequent to the measurement date totaling approximately $900,000 and $770,000 at June 30, 2018 and 2017, respectively.

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

For the years ended June 30, 2018 and 2017, the College recognized OPEB expense of approximately $238,000 and $312,000, respectively.

At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (37,573)
Net difference between projected and actual earnings on pension plan assets	-	(81,732)
Changes in proportion and differences between College contributions and proportionate share of contributions	7,442	-
Total amortized deferrals	7,442	(119,305)
College contributions subsequent to the measurement date	187,238	-
Total	$ 194,680	$ (119,305)

Note 8 - Retirement Plans (Continued)

There are no amounts included as deferred inflows of resources resulting from the OPEB portion of state aid payments that will be recognized as state appropriations revenue for the year ended June 30, 2019.

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

Year Ending June 30	Amount
2018	$ (27,167)
2019	(27,167)
2020	(27,167)
2021	(27,167)
2022	(3,195)
	$ (111,863)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 and 2016 was based on the results of an actuarial valuation as of September 30, 2016 and 2015, respectively, and rolled forward. The total pension liability was determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return – Pension	7.00% - 7.50% - 2017 7.00% - 8.00% - 2016	Net of investment expenses based on the groups
Investment rate of return – OPEB	7.50% - 2017	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	Including wage inflation of 3.50%
Healthcare Cost Trend Rate	7.50% - 2017	Year 1 graded to 3.5% Year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual non-compounded for MIP members

Assumption changes as a result of an experience study for the periods 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 7.50 percent and 7.00 – 8.00 percent as of September 30, 2017 and 2016, respectively, depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Note 8 - Retirement Plans (Continued)

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.

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:

	September 30, 2017		September 30, 2016	
Investment Category	Target Allocation Percentage	Long-term Expected Real Rate of Return	Target Allocation Percentage	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.00%	5.60%	28.00%	5.90%
Private Equity Pools	18.00%	8.70%	18.00%	9.20%
International Equity Pools	16.00%	7.20%	16.00%	7.20%
Fixed Income Pools	10.50%	(0.10%)	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.20%	10.00%	4.30%
Real Return, Opportunistic, and Absolute Pools	15.50%	5.00%	15.50%	6.00%
Short-term Investment Pools	2.00%	(0.90%)	2.00%	- %
Total	100.00%		100.00%	

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05% and 7.15%, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2018.

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:

	1.00 Percent Decrease (6.00 - 6.50 percent)	Current Discount Rate (7.00 - 7.50 percent)	1.00 Percent Increase (8.00 - 8.50 percent)
College's proportionate share of the net pension liability - June 30, 2018	$ 13,173,565	$ 10,112,762	$ 7,535,760

	1.00 Percent Decrease (6.00 - 7.00 percent)	Current Discount Rate (7.00 - 8.00 percent)	1.00 Percent Increase (8.00 - 9.00 percent)
College's proportionate share of the net pension liability - June 30, 2017	$ 13,751,065	$ 10,678,380	$ 8,087,810

Note 8 - Retirement Plans (Continued)

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:

	1.00 Percent Decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1.00 Percent Increase (8.50 percent)
College's proportionate share of the net OPEB liability - June 30, 2018	$ 4,133,436	$ 3,528,964	$ 3,015,956

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

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

	1.00 Percent Decrease (6.50 percent)	Current Healthcare Cost Trend Rate (7.50 percent)	1.00 Percent Increase (8.50 percent)
College's proportionate share of the net OPEB liability - June 30, 2018	$ 2,988,558	$ 3,528,964	$ 4,142,557

Pension Plan and OPEB Plan Fiduciary Net Position

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

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the College reported a payable of $99,197 and $11,898 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018. At June 30, 2017, the College reported a payable of $129,359 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Defined Contribution Plan

In January 1997, the College began providing a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt status employees can elect to participate with the Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF).

The TIAA-CREF plan is a defined contribution retirement plan in which benefits vest immediately. The College contributes a specified percentage of employee wages and has no liability beyond its own contribution. For the years ended June 30, 2018 and 2017, that contribution rate was determined to be 14.0 percent. This resulted in the College contributing approximately $965,000 and $921,000 for the years ended June 30, 2018 and 2017, respectively, to the plan.

Note 9 - Risk Management

The College is exposed to various risks of loss related to property loss, errors, omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The College participates in risk management pools for claims relating to auto, property, and liability claims. The College is self-insured for health benefits. The College has purchased commercial insurance for other risks such as workers' compensation, employee long-term disability, and employee life insurance. Settled claims resulting from all of the above risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk-sharing Programs

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk management pool for auto, property, and liability claims. The program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the pool, which the pool uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Self Insurance

The College is self-insured for health benefits. The College estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The College has purchased insurance to protect the College for claims in excess of $50,000.

	2018	2017	2016
Estimated liability - Beginning of year	$ 175,000	$ 100,000	$ 150,000
Estimated claims incurred, including changes in estimates	(1,148,244)	(921,607)	(1,054,189)
Less claim payments	1,110,244	996,607	1,004,189
Estimated liability - End of year	$ 137,000	$ 175,000	$ 100,000

Note 10 - Cash Flows

There were no significant noncash investing and financing transactions during 2018 or 2017.

Note 11 - Southwestern Michigan College Foundation

The Southwestern Michigan College Foundation (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, 2018 and 2017, the Foundation made grants and distributions to and on behalf of the College totaling $1,000,837 and $313,175, respectively.

The Foundation's net assets 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. Permanently restricted endowment net assets are $10,524,131 and $10,262,419 as of June 30, 2018 and 2017, respectively. Excess earnings on the endowments, classified as temporarily restricted, are $1,676,718 and $1,804,979 as of June 30, 2018 and 2017, respectively.

Note 11 - Southwestern Michigan College Foundation (Continued)

Interpretation of Relevant Law

The board of trustees 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 permanently 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

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 or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2018 and 2017, the Foundation had no endowment funds with deficiencies of this nature.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner which will provide long-term growth of principal without undue exposure to risk using a diversified investment structure. It is the objective of the Foundation to earn between four percent and six percent annual rate of return over a five-year market cycle, net of all fees.

Strategies Employed for Achieving Objectives

The Foundation’s investment allocation structure includes real estate holdings and $1,000,000 held in liquid assets, with the remainder of the investment portfolio to eventually be invested 60 percent in equities and 40 percent in fixed-income instruments. Equities will be purchased using dollar cost averaging to reduce risk at a rate of $500,000 per fiscal quarter until the 60 percent threshold is achieved.

Note 11 - Southwestern Michigan College Foundation (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating three percent of the 12 quarter rolling average market value of the investment portfolio. The specific amount for distribution shall be approved annually by the board of directors. The board of directors reserves the right to deviate from the stated calculation and approve a distribution between zero percent and six percent of the 12 quarter rolling average market value of the investment portfolio if deemed appropriate based on the market activity.

Note 12 - Upcoming Pronouncement

In June 2018, the Governmental Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The College is currently evaluating the impact of this standard. The provisions of this statement are effective for the College's financial statements for the year ending June 20, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases,* which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the College's financial statements as a result of the leases for real property and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The provisions of this statement are effective for the College's financial statements for the year ending June 20, 2021.

Required Supplementary Information

Schedule of the College's Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement Plan
(Amounts were determined as of September 30 of each fiscal year)

	2017	2016	2015	2014
College's proportion of the collective MPSERS net pension liability: As a percentage	0.03902%	0.04280%	0.04430%	0.04807%
Amount	$ 10,112,762	$ 10,678,380	$ 10,821,127	$ 10,588,583
College's covered-employee payroll	$ 3,227,336	$ 3,414,645	$ 3,854,430	$ 4,163,460
College's proportionate share of the collective pension liability (amount), as a percentage of the College's covered-employee payroll	313.35%	312.72%	280.75%	254.32%
MPSERS fiduciary net position as a percentage of the total pension liability	63.96%	63.01%	62.92%	66.15%

Schedule of College's Pension Contributions
Michigan Public School Employees' Retirement Plan
(Amounts were determined as of June 30 of each fiscal year)

	2018	2017	2016	2015
Statutorily required contribution	$ 1,077,965	$ 906,326	$ 998,707	$ 746,587
Contributions in relation to the actuarially determined contractually required contribution	$ 1,077,965	$ 906,326	$ 998,707	$ 746,587
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 3,308,824	$ 3,172,875	$ 3,552,297	$ 3,931,090
Contributions as a percentage of covered employee payroll	32.58%	28.56%	28.11%	18.99%

Notes to Required Supplemental Information

Changes of benefit terms - There were no changes of benefit terms for the plan year ended September 30, 2017 and 2016.

Changes of assumptions - There were no changes to assumptions for the plan year ended September 30, 2017 except that the discount rate used in the September 30, 2016 actuarial valuation decreased by 0.5 percent. There were no changes to assumptions for the plan year ended September 30, 2016.

GASB No. 68, *Accounting and Financial Reporting for Pensions* - GASB No. 68 was implemented in fiscal year 2015. The schedule above is a required disclosure by this standard. It is being built prospectively and ultimately, 10 years of data will be presented.

Schedule of the College's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement Plan
(Amounts were determined as of September 30 of each fiscal year)

	2017
College's proportion of the net OPEB liability: As a percentage	0.03985%
Amount	$ 3,528,964
College's covered-employee payroll	$ 3,227,336
College's proportionate share of the net OPEB liability (amount), as a percentage of the College's covered-employee payroll	109.35%
MPSERS fiduciary net position as a percentage of the total OPEB liability	36.53%

Schedule of College's OPEB Contributions
Michigan Public School Employees' Retirement Plan
(Amounts were determined as of June 30 of each fiscal year)

	2018
Statutorily required contribution	$ 206,540
Contributions in relation to the actuarially determined contractually required contribution	$ 206,540
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 3,308,824
Contributions as a percentage of covered employee payroll	6.24%

Notes to Required Supplemental Information

Changes of benefit terms - There were no changes of benefit terms for the plan year ended September 30, 2017.

Changes of assumptions - There were no changes to assumptions for the plan year ended September 30, 2017.

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - GASB No. 75 was implemented in fiscal year 2018. The schedule above is a required disclosure by this standard. It is being built prospectively and ultimately, 10 years of data will be presented.

Additional Information

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	General Fund	MPSERS Fund	Designated Fund	Auxiliary Fund
Assets				
Current assets:				
Cash and cash equivalents	$ 1,040,347	$ -	$ -	$ -
Short-term investments	6,204,669	-	-	-
Accounts receivable	1,745,058	-	-	26,006
Other current assets	41,367	-	-	-
Due (to) from other funds	(3,561,412)	-	2,018,856	533,544
Total current assets	5,470,029	-	2,018,856	559,550
Noncurrent assets:				
Other long-term investments	691,216	-	-	-
Capital assets - Net	-	-	-	-
Total noncurrent assets	691,216	-	-	-
Total assets	6,161,245	-	2,018,856	559,550
Deferred Outflows of Resources				
Pension-related deferrals	-	2,307,125	-	-
Loss on refunding of bonds payable	-	-	-	-
Total deferred outflows	-	2,307,125	-	-
Liabilities				
Current liabilities:				
Accounts payable	281,781	-	8,217	46,989
Accrued liabilities:				
Payroll and related liabilities	1,213,154	-	-	-
Interest payable	-	-	-	-
Other	156,916	-	-	-
Unearned revenue	441,004	-	-	25,587
Long-term obligations - Current	-	-	-	-
Accrued vacation	224,954	-	-	-
Total current liabilities	2,317,809	-	8,217	72,576
Noncurrent liabilities:				
Long-term obligations - Net of current portion	-	-	-	-
Net pension liablity	-	13,641,726	-	-
Student loans payable	-	-	-	-
Total noncurrent liabilities	-	13,641,726	-	-
Total liabilities	2,317,809	13,641,726	8,217	72,576
Deferred Inflows of Resources	-	2,387,409	-	-
Net Position				
Net investment in capital assets	-	-	-	-
Unrestricted net position (deficit)	3,843,436	(13,722,010)	2,010,639	486,974
Total net position (deficit)	**$ 3,843,436**	**$ (13,722,010)**	**$ 2,010,639**	**$ 486,974**

Combining Statement of Net Position

Year Ended June 30, 2018
(with comparative totals as of June 30, 2017)

Restricted Fund	Plant Fund	Loan Fund	Agency Fund	Combined Total June 30, 2018	Combined Total June 30, 2017
$ -	$ -	$ -	$ -	$ 1,040,347	$ 574,331
-	2,554,459	-	-	8,759,128	7,696,808
396,364	-	38,655	-	2,206,083	2,120,184
-	-	-	-	41,367	38,980
(298,519)	1,234,308	(34,884)	108,107	-	-
97,845	3,788,767	3,771	108,107	12,046,925	10,430,303
-	1,216,005	-	-	1,907,221	5,471,235
-	59,995,547	-	-	59,995,547	55,777,242
-	61,211,552	-	-	61,902,768	61,248,477
97,845	65,000,319	3,771	108,107	73,949,693	71,678,780
-	-	-	-	2,307,125	1,249,600
-	566,955	-	-	566,955	594,169
-	566,955	-	-	2,874,080	1,843,769
5,229	1,423,327	183	108,107	1,873,833	348,461
-	-	-	-	1,213,154	841,342
-	153,105	-	-	153,105	170,024
-	-	-	-	156,916	215,000
-	-	-	-	466,591	544,460
-	745,866	-	-	745,866	661,938
-	-	-	-	224,954	212,272
5,229	2,322,298	183	108,107	4,834,419	2,993,497
-	23,151,331	-	-	23,151,331	23,897,198
-	-	-	-	13,641,726	10,678,380
-	-	-	-	-	307,997
-	23,151,331	-	-	36,793,057	34,883,575
5,229	25,473,629	183	108,107	41,627,476	37,877,072
-	-	-	-	2,387,409	1,174,840
-	36,098,350	-	-	36,098,350	31,218,106
92,616	3,995,295	3,588	-	(3,289,462)	3,252,531
$ 92,616	**$ 40,093,645**	**$ 3,588**	**$ -**	**$ 32,808,888**	**$ 34,470,637**

	Current Funds			
	General Fund	MPSERS Fund	Designated Fund	Auxiliary Fund
Operating Revenue				
Tuition and fees	$ 10,075,207	$ -	$ -	$ -
Scholarship allowance	-	-	-	-
Net tuition and fees	10,075,207	-	-	-
Federal grants and contracts	-	-	-	-
State grants and contracts	-	-	-	-
Sales and services of auxiliary activities	-	-	-	2,405,911
Scholarship allowance	-	-	-	-
Net sales and services of auxiliary activities	-	-	-	2,405,911
Other sources	839,795	-	16	-
Total operating revenue	10,915,002	-	16	2,405,911
Operating Expenses				
Instruction	7,385,726	(264,491)	-	-
Public service	37,500	-	-	-
Instructional support	1,925,534	(63,773)	-	-
Student services	2,624,090	(7,566)	-	1,084,780
Institutional administration	3,821,811	(26,825)	47,477	-
Operations and maintenance of plant	2,922,937	(63,957)	-	-
Information technology	2,078,350	(73,234)	-	-
Depreciation	-	-	-	-
Total operating expenses	20,795,948	(499,846)	47,477	1,084,780
Operating (Loss) Income	(9,880,946)	499,846	(47,461)	1,321,131
Nonoperating Revenue (Expenses)				
State appropriations	7,528,427	(33,801)	-	-
Federal Pell Grant	-	-	-	-
Property taxes	5,477,783	-	-	-
Investment income and interest income	80,694	-	-	-
Bond issuance cost	-	-	-	-
Interest on capital asset - Related debt	-	-	-	-
Interest ARRA subsidy	-	-	-	-
Net nonoperating revenue (expense)	13,086,904	(33,801)	-	-
Increase (Decrease) in Net Position - Before transfers	3,205,958	466,045	(47,461)	1,321,131
Transfers (Out) In	(3,005,958)	-	-	(1,246,131)
Increase (Decrease) in Net Position	200,000	466,045	(47,461)	75,000
Net Position (Deficit) - Beginning of year	3,643,436	(10,603,620)	2,058,100	411,974
Adjustment for change in accounting principle	-	(3,584,435)	-	-
Net position, beginning of year, as restated	3,643,436	(14,188,055)	2,058,100	411,974
Net Position (Deficit) - End of year	**$ 3,843,436**	**$ (13,722,010)**	**$ 2,010,639**	**$ 486,974**

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

Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

Restricted Fund	Plant Fund	Loan Fund	Eliminations	Combined Total Year Ended June 30, 2018	Combined Total Year Ended June 30, 2017
$ -	$ -	$ -	$ -	$ 10,075,207	$ 9,763,036
-	-	-	(3,447,785)	(3,447,785)	(3,129,233)
-	-	-	(3,447,785)	6,627,422	6,633,803
1,061,016	-	-	-	1,061,016	949,962
17,765	-	-	-	17,765	74,258
-	-	-	-	2,405,911	2,382,576
-	-	-	(823,315)	(823,315)	(763,659)
-	-	-	(823,315)	1,582,596	1,618,917
-	665,353	-	-	1,505,164	589,197
1,078,781	665,353	-	(4,271,100)	10,793,963	9,866,137
-	-	-	-	7,121,235	7,129,062
-	-	-	-	37,500	75,000
-	-	-	-	1,861,761	1,740,563
5,266,071	-	2,386	(4,271,100)	4,698,661	4,028,032
-	-	-	-	3,842,463	3,546,476
9,848	343,191	-	-	3,212,019	3,157,533
-	-	-	-	2,005,116	1,869,150
-	2,337,410	-	-	2,337,410	2,360,885
5,275,919	2,680,601	2,386	(4,271,100)	25,116,165	23,906,701
(4,197,138)	(2,015,248)	(2,386)	-	(14,322,202)	(14,040,564)
-	-	-	-	7,494,626	7,305,468
4,203,720	-	-	-	4,203,720	3,564,093
-	-	-	-	5,477,783	5,363,577
-	17,612	-	-	98,306	33,264
-	-	-	-	-	(123,171)
-	(1,183,132)	-	-	(1,183,132)	(1,188,398)
-	153,585	-	-	153,585	156,230
4,203,720	(1,011,935)	-	-	16,244,888	15,111,063
6,582	(3,027,183)	(2,386)	-	1,922,686	1,070,499
(6,582)	4,296,021	(37,350)	-	-	-
-	1,268,838	(39,736)	-	1,922,686	1,070,499
92,616	38,824,807	43,324	-	34,470,637	33,400,138
-	-	-	-	(3,584,435)	-
92,616	38,824,807	43,324	-	30,886,202	33,400,138
$ 92,616	**$ 40,093,645**	**$ 3,588**	**$ -**	**$ 32,808,888**	**$ 34,470,637**