



MACOMB COMMUNITY COLLEGE

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



**Macomb
Community College**

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MACOMB COMMUNITY COLLEGE

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Independent Auditor's Report

To the Board of Trustees
Macomb Community College

Report on the Financial Statements

We have audited the accompanying financial statements of Macomb Community College and its discretely presented component unit (Community College District of the County of Macomb) (the "College") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Macomb Community College and its discretely presented component unit'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 discretely presented component unit was not audited under *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Macomb Community College and its discretely presented component unit as of June 30, 2014 and 2013 and the respective changes in 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
Macomb Community College

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 on our consideration of Macomb Community College and its discretely presented component unit'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 Macomb Community College and its discretely presented component unit's internal control over financial reporting and compliance.

Plante & Moran, PLLC

August 28, 2014

Macomb Community College

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Macomb Community College's (the College) financial statements provides an overview of the College's financial position at June 30, 2014, 2013 and 2012 and its activities for the three years ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes and this discussion are the responsibility of management and are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, which consist of the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows and notes to the financial statements. Following the basic financial statements and footnotes are two supplemental schedules: the combining statement of net position and the combining statement of revenues, expenses and changes in net position as of and for the year ended June 30, 2014.

The College's financial statements include all assets and liabilities using the accrual basis of accounting. All revenues and expenses are recorded as incurred regardless of when cash is received or paid. Revenues and expenses are separated into categories of operating and nonoperating.

Under the provision of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Macomb Community College Foundation (the Foundation) has been determined to be a component unit. Accordingly, the Foundation is discretely presented in the College's financial statements. Refer to Note 1 and Note 10 of the financial statements for information regarding the Foundation.

Financial Highlights

The financial statements report information on the College as a whole. These statements report the College's financial position as of June 30, 2014 and 2013 and changes in net position for the two years ended June 30, 2014. The College's financial position remained strong at June 30, 2014 and 2013, with assets of \$356.3 million and \$344.3 million, respectively and liabilities of \$25.6 million and \$25.6 million, respectively. For the fiscal year ended June 30, 2014, the College's revenues and other support exceeded expenses, thereby increasing the net position of the College by \$12.0 million as compared to a \$635,526 decrease in the previous year.

The College completed several capital projects during the fiscal year including fire alarm upgrades, mechanical upgrades, infrastructure replacement and repair at both south and center campuses. Additional information about capital additions is included in the capital asset section of this discussion as well as in the footnotes to the financial statements.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

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

The following is a comparative analysis of key components of the Statement of Net Position as of June 30:

	2014	2013	2012
Assets			
Current assets	\$ 41,369,284	\$ 29,704,703	\$ 33,019,253
Restricted cash and investments	961,304	2,418,597	7,217,015
Long-term investments	178,118,248	170,761,755	158,952,558
Capital assets	135,861,955	141,401,276	148,082,903
Total Assets	356,310,791	344,286,331	347,271,729
Liabilities			
Current liabilities	19,701,585	16,788,289	16,391,326
Long-term liabilities	5,893,898	8,788,672	11,535,507
Total Liabilities	25,595,483	25,576,961	27,926,833
Net Position			
Net Investment in capital assets	129,866,955	133,458,499	142,678,485
Restricted for:			
Expendable endowments, scholarships and grants	1,020,533	1,172,355	1,234,100
Expendable debt service	961,304	1,450,432	879,864
Unrestricted	198,866,516	182,628,084	174,552,447
Total Net Position	\$ 330,715,308	\$ 318,709,370	\$ 319,344,896

At June 30, 2014, uncommitted, unrestricted net position totaled \$5.2 million compared to \$5.3 million in 2013. Although unrestricted net position is not subject to externally imposed restrictions, the majority of the College's unrestricted net position is designated for purposes to fulfill its mission including designations for capital and maintenance improvements and in anticipation of the implementation of GASB Statement, No. 68, *Accounting and Financial Reporting for Pensions*. This statement will require the College to recognize its portion of the unfunded pension benefit obligation in the Michigan Public School Employees' Retirement System (MPERS) plan as a liability in the June 30, 2015 financial statements. Although the College is currently evaluating the impact of this statement, an estimated liability of \$152 million for 2014 and \$140 million for 2013 has been designated from the unrestricted net position.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

The following is a comparative analysis of key components of the revenues, expenses and change in net position for the years ended June 30:

	2014	2013	2012
Operating Revenues			
Tuition and fees	\$ 44,883,755	\$ 43,642,309	\$ 42,128,876
Federal grants and contracts	3,542,649	4,719,085	6,647,266
State and local grants and contracts	343,137	345,277	357,192
Nongovernmental grants	373,464	580,424	924,144
Center for Performing Arts revenue	1,748,767	1,715,520	1,437,747
Miscellaneous	4,157,518	4,270,251	3,748,052
Total Operating Revenues	55,049,290	55,272,866	55,243,277
Operating Expenses	151,007,351	152,184,764	152,671,831
Operating Loss	(95,958,061)	(96,911,898)	(97,428,554)
Nonoperating Revenues (Expenses)			
State appropriations	34,922,836	32,645,737	30,490,300
Property tax levy	37,143,926	38,447,770	40,712,041
Federal Pell grants	29,295,246	29,933,412	30,249,614
Investment income	4,258,470	3,754,474	3,647,340
Net realized and unrealized gain (loss) on investments	1,657,403	(8,977,239)	2,669,690
Interest expense	(187,052)	(243,802)	(297,521)
Gifts between College and Foundation	873,170	716,020	616,988
Net Nonoperating Revenues	107,963,999	96,276,372	108,088,452
Other Revenues			
Capital gifts and grants	-	-	32,238
Change in Net Position	12,005,938	(635,526)	10,692,136
Net Position - Beginning of year	318,709,370	319,344,896	308,652,760
Net Position - End of year	<u>\$ 330,715,308</u>	<u>\$ 318,709,370</u>	<u>\$ 319,344,896</u>

Macomb Community College

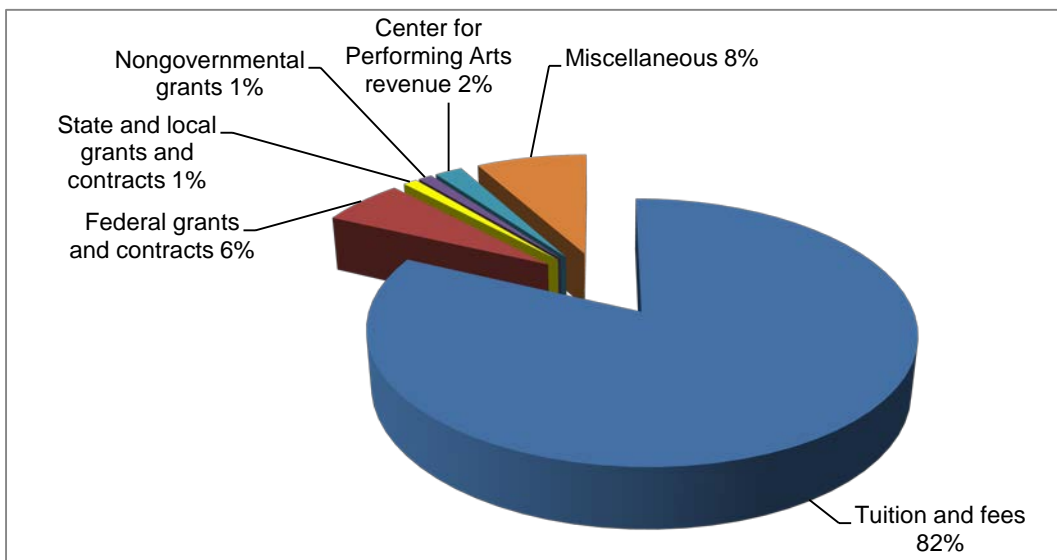
Management's Discussion and Analysis – Unaudited (Continued)

Operating Revenues

Operating revenues include all transactions that result in sales and / or receipts from goods and services, such as tuition and fees and ticket sales revenue from the Macomb Center for Performing Arts. 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 revenues consisted of the following during the years ended June 30:

	2014	2013	2012
Operating Revenues			
Tuition and fees	\$ 44,883,755	\$ 43,642,309	\$ 42,128,876
Federal grants and contracts	3,542,649	4,719,085	6,647,266
State and local grants and contracts	343,137	345,277	357,192
Nongovernmental grants	373,464	580,424	924,144
Center for Performing Arts revenue	1,748,767	1,715,520	1,437,747
Miscellaneous	4,157,518	4,270,251	3,748,052
Total Operating Revenues	\$ 55,049,290	\$ 55,272,866	\$ 55,243,277

The following is a graphic illustration of operating revenues for fiscal year 2014:



Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

- Student tuition and fee revenue increased by \$2,755,000 or 6.5 percent during the three years ended June 30, 2014. This revenue increase is due to a combination of a 6.0 percent increase in tuition rates and a 4.7 percent decline in credit hours during this period.
- The decline in federal grants from 2012 is a result of the completion of a \$4.9 million Department of Labor grant for job skills training which was awarded in 2010 and ended June 30, 2013. Current grants for the development of new programs, classroom training and equipment, include a \$2.9 million grant from the National Science Foundation to develop the Center for Advanced Automotive Technology and a grant of \$850,000 from the Department of Labor for training on electric vehicles. In September 2013, the College was awarded \$24.9 million from the Department of Labor to lead a consortium of eight Michigan community colleges to leverage growth opportunities in advanced manufacturing for the creation and expansion of innovative partnerships between community colleges and businesses and to educate and train workers for in-demand jobs. The College's associated grant revenue of \$9.6 million will be received over a period of four years.
- Ticket sales at the Center for Performing Arts increased \$311,000 or 21.6 percent during the three years ended June 30, 2014. The Performing Arts Center continues to be a popular venue for entertainment within the county.
- Other revenue, which consists primarily of food service revenue, facility rental revenue and bookstore sales commissions, increased by \$409,000 or 10.9 percent from 2012 through 2014 due to increasing sales at the bookstores, delinquent account fees recovered from students and the lease with Michigan State University for the facility which houses the College for Osteopathic Medicine.

Operating Expenses

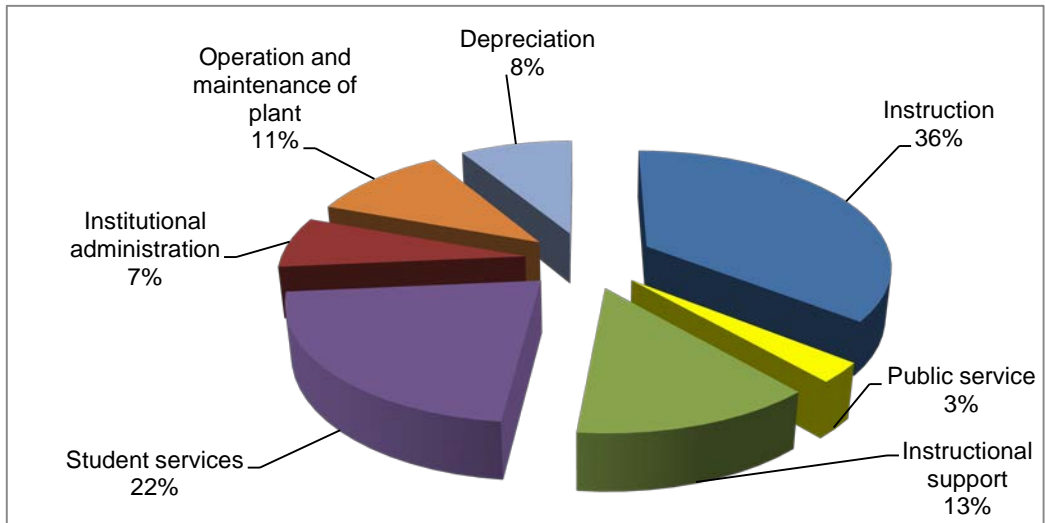
Operating expenses are the costs necessary for the College to provide services and conduct the programs necessary to carry out the College mission. Operating expenses consisted of the following for the three years ended June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Expenses			
Instruction	\$ 53,928,495	\$ 52,735,880	\$ 55,303,502
Public service	4,171,916	3,784,058	3,528,551
Instructional support	19,982,287	19,347,435	19,958,100
Student services	32,984,456	32,577,464	32,894,876
Institutional administration	10,654,524	13,606,937	10,177,388
Operation and maintenance of plant	16,165,665	16,209,478	16,323,514
Depreciation	13,120,008	13,923,512	14,485,900
Total Operating Expenses	<u>\$ 151,007,351</u>	<u>\$ 152,184,764</u>	<u>\$ 152,671,831</u>

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

The following is a graphic illustration of operating expenses for the year ended June 30, 2014:



The primary operating expenses of the College are salaries, payroll taxes and related fringe benefits. The College incurred approximately \$96.0 million, \$94.1 million, and \$94.6 million of payroll-related expenses during the three years ended June 30, 2014. This represents 63.6 percent, 61.9 percent and 62.0 percent of the College's operating expenses during those years, respectively.

Wage expenses have decreased \$1.1 million or 1.7 percent during the three years ended June 30, 2014 due primarily to vacated positions which are not filled for a period of the time, as well as the lack of cost of living adjustments for faculty, administration and support staff in fiscal years ending in 2012 and 2013.

This decline has been offset by the \$2.4 million or 8.3 percent increase in benefit-related expenses during the three years ended June 30, 2014. Rising health care costs across the College's various health, vision and dental plans, as well as continued increases in the MPSERS pension contribution rate make up the increased benefit-related expenses. MPSERS is a statewide, cost-sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers most employees of the College. The MPSERS contribution rate increased from 15.96 in 2012 to 16.25 percent in 2013 and increased further to 18.34 percent in 2014. The MPSERS post-employment health benefit contribution rate was 8.5 percent from November 2010 through September 2012, 9.11 percent from October 2012 through September 2013 and 6.45 percent from October 2013 through September 2014.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Nonoperating Revenues

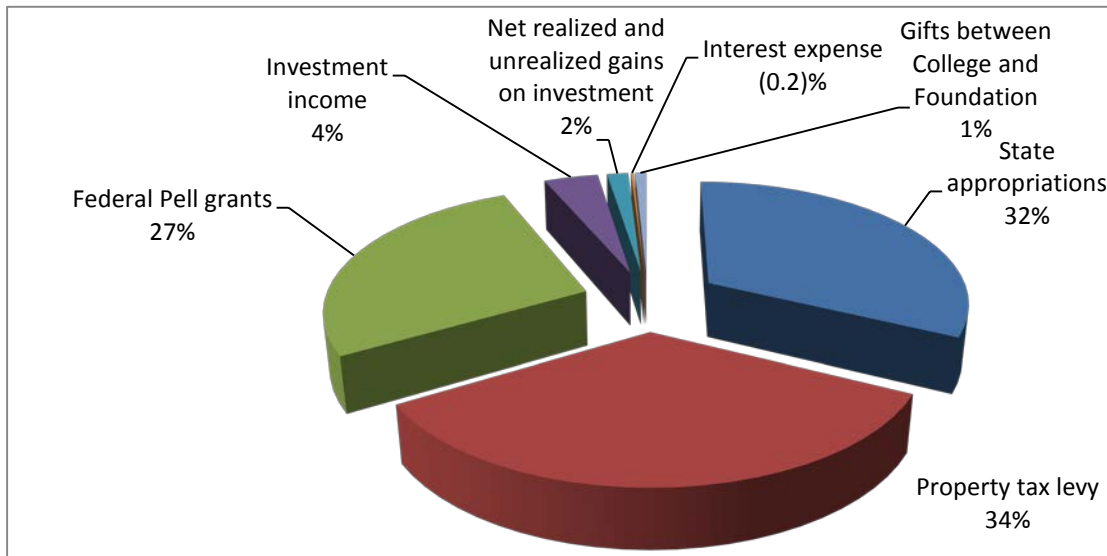
The College receives substantial nonoperating support from state appropriations, property tax revenue and Federal Pell grants thus operating expenses normally exceed operating revenues resulting in an operating loss. Nonoperating revenues and expenses are an integral component in funding annual operations.

Nonoperating revenues represent revenue sources that are primarily non-exchange in nature in which the College receives value without directly giving equal value in return. They consist primarily of state appropriations, property tax revenue and Federal Pell grants.

Nonoperating revenues (expenses) were comprised of the following for the three years ended June 30, 2014:

	2014	2013	2012
Nonoperating Revenues (Expenses)			
State appropriations	\$ 34,922,836	\$ 32,645,737	\$ 30,490,300
Property tax levy	37,143,926	38,447,770	40,712,041
Federal Pell grants	29,295,246	29,933,412	30,249,614
Investment income	4,258,470	3,754,474	3,647,340
Net realized and unrealized gain (loss) on investments	1,657,403	(8,977,239)	2,669,690
Interest expense	(187,052)	(243,802)	(297,521)
Gifts between College and Foundation	873,170	716,020	616,988
Net Nonoperating Revenues	\$ 107,963,999	\$ 96,276,372	\$ 108,088,452

The following is a graphic illustration of nonoperating revenues (expenses) for the year ended June 30, 2014:



Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Due to stabilizing economic conditions within the State, there was an increase of \$600,000 or 1.8 percent in state appropriations during 2014. In addition, Public Act 300 of 2012 instituted a 20.96 percent cap on the employer's share of the Unfunded Actuarial Accrued Liability (UAAL) for reported MPSERS wages. This resulted in a state appropriation of \$2.8 million in June 2014 and \$1.1 million in June 2013, as well as MPSERS related expenses of equal amounts in 2014 and 2013, respectively.

Property tax values decreased by 1.1 percent in 2014 and 5.6 percent in 2013 due to reduction in housing market values, continued foreclosures and less new construction in Macomb County resulting in a \$3.6 million decrease in property tax revenue over the three year period, which is partially offset by \$2.7 million property tax revenue from the College's debt levy. The combined operating and technology millage rate was 1.4212 for years 2012, 2013 and 2014. The debt retirement millage rate was .15 in 2012 and 2013 and .11 in 2014.

Federal Pell grants decreased by \$954,000 or 3.2 percent during the three year period due to the improving economic conditions in southeastern Michigan which resulted in a 4.5 percent enrollment decline and a 7.4 percent decline in the number of financial aid students.

Higher interest rates resulted in an increase in investment income of \$504,000 in 2014 after a modest increase of \$107,000 in 2013. The weighted average interest rates on cash and investments for the years 2014, 2013, and 2012 were 2.14, 2.05, and 2.02 percent, respectively.

The market value for government agency bonds increased in 2014 as a result of a slight interest rate decline late in the year. The net realized and unrealized gain on investments was \$1.7 million in 2014, compared to net realized and unrealized losses of \$8.98 million in 2013 and net realized and unrealized gains of \$2.7 million in 2012. The College portfolio is heavily weighted in government agency bonds that fluctuate in value with rising and declining interest rates. As the College intends to hold the bonds to maturity or call, the market value fluctuations do not indicate true or realized gains or losses.

Other Revenues

Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the College.

Statement of Cash Flows

The primary purpose of this statement 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 assess:

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

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Following is a comparative analysis of the cash flows of the College for the three years ended June 30:

	2014	2013	2012
Cash provided by (used in):			
Operating activities	\$ (80,535,710)	\$ (81,927,950)	\$ (84,494,558)
Noncapital financing activities	99,978,926	96,555,435	98,396,921
Capital and related financing activities	(7,992,664)	(6,664,022)	(11,460,402)
Investing activities	(524,119)	(12,369,182)	(2,086,323)
Net change in cash and equivalents	10,926,433	(4,405,719)	355,638
Cash and equivalents- Beginning of year	15,924,386	20,330,105	19,974,467
Cash and equivalents- End of year	<u>\$ 26,850,819</u>	<u>\$ 15,924,386</u>	<u>\$ 20,330,105</u>

Net cash and equivalents used in operating activities totaled \$80.5 million in 2014. This was financed by \$100.0 million of net cash flows from noncapital financing activities such as property taxes, Federal Pell grants and state appropriations. Net cash used in capital and related financing activities totaled \$8.0 million during 2014, which is primarily the result of capital expenditures. Net cash used in investing activities totaled approximately \$0.5 million. The net result of all cash flows is an increase in cash and equivalents of \$10.9 million from 2013.

Net cash and equivalents used in operating activities totaled \$81.9 million in 2013. This was financed by \$96.6 million of net cash flows from noncapital financing activities such as property taxes, Federal Pell grants and state appropriations. Net cash used in capital and related financing activities totaled \$6.7 million during 2013, which is primarily the result of capital additions. Net cash used in investing activities totaled approximately \$12.4 million. The net result of all cash flows is a decrease in cash and equivalents of \$4.4 million from 2012.

Capital Assets

The College had \$135.9 million and \$141.4 million invested in capital assets, net of accumulated depreciation of \$190.1 million and \$180.3 million at June 30, 2014 and 2013 respectively. Depreciation charges totaled \$13.1 million and \$13.9 million, respectively, for the years then ended.

	2014	2013	2012
Capital assets			
Land and improvements	\$ 14,180,468	\$ 14,039,870	\$ 14,039,870
Infrastructure	15,647,730	15,447,123	13,354,120
Building and improvements	244,245,028	240,216,532	237,048,322
Furniture, fixtures and equipment	47,663,673	48,032,395	47,788,650
Library materials	2,571,317	2,662,732	2,726,626
Construction in progress	1,619,217	1,351,736	1,635,477
Accumulated depreciation	(190,065,478)	(180,349,112)	(168,510,162)
Total Capital assets	<u>\$ 135,861,955</u>	<u>\$ 141,401,276</u>	<u>\$ 148,082,903</u>

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Major capital additions completed during 2014 were as follows:

<u>Campus</u>	<u>Description</u>	<u>Amount</u>
South, Center	Renovation projects	\$ 2,450,000
South, Center	Mechanical work	1,750,000
South, Center	Fire alarm upgrades	60,000
Center	Repaving	360,000
	Total	<u>\$ 4,620,000</u>

Debt

At year-end, the College had \$6.0 million in debt outstanding from the issuance of the remaining approved amounts of \$7.4 million of the 1996 bond authorization and \$6.9 million of the 1998 bond authorization on March 31, 2011. Bond principal payments are due annually each May through maturity in fiscal year 2016. Interest payments are due semi-annually through maturity at rates ranging from 2.125 to 2.5 percent. The College's general obligation bond rating was rated Aa2 by Moody's in March 2011 upon issuance.

Economic Factors that will Affect the Future

The economic position of the College is closely tied to that of Macomb County and the State of Michigan. While there has been recent economic stabilization in employment and housing markets, the economic future continues to remain uncertain. State appropriations for community colleges continue to lag inflation and decline as a percentage of all funding sources. In fiscal year 2002, state appropriations were 27 percent of the College revenues and in 2014 they were 21 percent of College revenues. State appropriations increased by 1.8 percent for the fiscal year ending 2014 and are anticipated to increase by an additional 2.3 percent in 2015. State appropriation revenue levels will continue to remain uncertain for future years as the State of Michigan continues to address balancing the state budget as well as the unfunded MPERS pension liabilities.

Macomb County taxable value and the resulting property tax revenue decreased by 1 percent in 2013-14 and are expected to increase 2 percent in 2014-15, this results in an approximate \$10 million or 22 percent decline in operating property tax revenue over a five year period, including settlements from tax tribunal cases. Home sales and new construction have improved particularly in the northern areas of the county, indicating that property tax declines are beginning to slow or reverse. At approximately 23 percent of total general fund revenue, property tax revenue has been a very important source of revenue to the College over the years, especially in light of uncertain state appropriations which have also lagged inflation since 2002. This has and will continue to have a significant impact on College resources for the next few years; even when economic conditions improve, property tax values due to State statute can not increase at a rate greater than inflation.

In August, 2014, Proposal 1 was approved by Michigan voters to phase out Personal Property Tax for most businesses. This legislation authorized the creation of an authority to distribute existing use tax revenue to replace most of the funds that local schools, community colleges and municipalities will lose as a result of the legislation. The College is currently assessing the implications of this upcoming change.

To partially offset property tax revenue losses and state appropriation declines, tuition rates will increase approximately 3.0 percent beginning in the fall 2014 semester. Despite these increases, the College's tuition rates remain below the average rate charged by Michigan community colleges and are approximately one quarter of the university tuition rates in southeastern Michigan.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Payroll and related expenses represent approximately 63.6 percent of the total operating expenditures reported on the June 30, 2014 statement of revenues, expenses and changes in net position. As signed into law on June 13, 2013, the Education Omnibus Budget (PA 60 of 2013) will provide state appropriated funding to community colleges for fiscal years 2013 and 2014. This act results in state funding for the Unfunded Actuarial Accrued MPSERS liability in excess of the 20.96 percent cap and resulted in revenue of \$2.8 million for fiscal year 2014 and an estimated revenue of \$2.8 million for 2015 with a corresponding expense of equal amounts in each year respectively. Uncertainty remains regarding future MPSERS funding levels due to various factors including post-employment benefits funded on a cash basis, greater numbers of retirees receiving benefits from the pension system and a lawsuit filed in the Michigan Court of Claims against MPSERS, challenging the legality of Public Act 75 that requires all school employees to pay an additional 3 percent of their compensation into a fund for retiree health insurance with no guarantee that the benefits will be available to them upon retirement. In addition, a July 2009 report by Citizens Research Council of Michigan indicated that larger MPSERS employer contributions may be required due to the failure of some sponsoring governments to make the full required annual pension contributions compounded by steep declines in the value of pension fund assets, low yields on investments and the systemic weaknesses and failure of the marketplace.

The Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which requires governments providing defined benefit pension plans, such as the College's MPSERS plan, to recognize their share of the unfunded pension benefit obligation as a liability. The College has designated \$152 million of unrestricted net position as an estimate of the liability to be recognized on the financial statements for the year ended June 30, 2015 when the provisions of this Statement take effect.

Public Act 102 was approved by the Governor of the State of Michigan on July 3, 2013. This act provided a planning authorization for the renovation of the College's south campus C building. This renovation is estimated to cost \$8.5 million with the State and College sharing the costs equally at \$4.25 million each. Planning has begun for the C building renovation to meet the College's timeline of construction in 2015.

The College is committed to expanding educational and enrichment opportunities for our students and the community as well as the College's strategy to apply for grants to fund certain initiatives. The table below outlines future major construction and renovation projects as approved by the College Board of Trustees, which support this commitment and are to be financed by designated College funds.

Campus	Description	Future Cost
South and Center	Technology projects and updates	\$ 476,000
South and Center	Mechanical and chiller replacement	2,870,000
South and Center	Exterior maintenance and repair work	600,000
South and Center	Classroom and interior renovations	4,240,000
South	E building renovation	3,650,000
South	C building renovation	8,500,000
South	G and H building renovation	7,191,000
South	Front entrance, lot, canopy and crosswalk	1,300,000
Center	Roofing	76,000
Center	Paving	1,430,000
Center	F building renovation	2,355,000
Center	A building renovation	4,152,000
Center	K building roof	133,000
	Total	<u>\$ 36,973,000</u>

Macomb Community College

**Statement of Net Position
June 30, 2014 and 2013**

	College		Component Unit - Foundation	
	2014	2013	2014	2013
ASSETS				
Current Assets				
Cash and cash equivalents - Note 2	\$ 25,889,515	\$ 15,924,386	\$ 11,681	\$ 36,228
Short-term investments - Note 2	1,502,096	-	19,198,033	17,297,195
Property taxes receivable - net of allowance for doubtful accounts of \$180,000 in 2014 and \$200,000 in 2013	64,403	52,653	-	-
State appropriation receivable	6,423,054	6,949,737	-	-
Accounts receivable - net of allowance for doubtful accounts of \$200,000 in 2014 and 2013	2,036,215	2,762,720	-	-
Federal and state grants receivable	1,684,608	919,300	-	-
Student loans receivable	327,683	214,301	-	-
Inventories	245,862	216,539	-	-
Prepaid expenses and other assets	3,195,848	2,665,067	6,519	10,050
Total Current Assets	41,369,284	29,704,703	19,216,233	17,343,473
Restricted cash and investments - Note 2	961,304	2,418,597	-	-
Long-term investments - Note 2	178,118,248	170,761,755	-	-
Capital assets - Note 3	135,861,955	141,401,276	-	-
Total Assets	356,310,791	344,286,331	19,216,233	17,343,473
LIABILITIES				
Current Liabilities				
Current portion of debt obligations - Note 6	2,975,000	2,900,000	-	-
Accounts payable	5,550,061	4,028,786	(71,413)	(60,829)
Accrued interest payable	72,435	32,786	-	-
Accrued payroll and other compensation	6,115,384	5,859,623	-	-
Other accrued liabilities	1,549,089	976,419	-	-
Deposits	274,770	323,365	-	-
Unearned revenue	3,164,846	2,667,310	-	-
Total Current Liabilities	19,701,585	16,788,289	(71,413)	(60,829)
Long-term Debt Obligations - Note 6	3,020,000	6,010,942	-	-
Accrued Vacation - Note 6	2,873,898	2,777,730	-	-
Total Liabilities	25,595,483	25,576,961	(71,413)	(60,829)
NET POSITION				
Net investment in capital assets	129,866,955	133,458,499	-	-
Restricted for:				
Nonexpendable endowments	-	-	5,731,462	5,621,149
Expendable endowments, scholarships and grants	1,020,533	1,172,355	2,715,607	2,005,009
Expendable debt service	961,304	1,450,432	-	-
Unrestricted - Note 1	198,866,516	182,628,084	10,840,577	9,778,144
Total Net Position	\$ 330,715,308	\$ 318,709,370	\$ 19,287,646	\$ 17,404,302

The accompanying notes are an integral part of these statements.

Macomb Community College
**Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013**

	College		Component Unit - Foundation	
	2014	2013	2014	2013
OPERATING REVENUES				
Tuition and fees - Net of scholarship allowances of \$11,300,000 in 2014 and \$11,600,000 in 2013	\$ 44,883,755	\$ 43,642,309	\$ -	\$ -
Federal grants and contracts	3,542,649	4,719,085	-	-
State and local grants and contracts	343,137	345,277	-	-
Nongovernmental grants	373,464	580,424	-	-
Center for Performing Arts revenue	1,748,767	1,715,520	-	-
Miscellaneous	4,157,518	4,270,251	-	-
Total Operating Revenues	<u>55,049,290</u>	<u>55,272,866</u>	<u>-</u>	<u>-</u>
OPERATING EXPENSES				
Instruction	53,928,495	52,735,880	126,081	-
Public service	4,171,916	3,784,058	253,839	260,083
Instructional support	19,982,287	19,347,435	-	-
Student services	32,984,456	32,577,464	338,977	291,521
Institutional administration	10,654,524	13,606,937	329,667	295,986
Operation and maintenance of plant	16,165,665	16,209,478	-	-
Depreciation	13,120,008	13,923,512	-	-
Total Operating Expenses	<u>151,007,351</u>	<u>152,184,764</u>	<u>1,048,564</u>	<u>847,590</u>
OPERATING LOSS	<u>(95,958,061)</u>	<u>(96,911,898)</u>	<u>(1,048,564)</u>	<u>(847,590)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	34,922,836	32,645,737	-	-
Property tax levy	37,143,926	38,447,770	-	-
Federal Pell grants	29,295,246	29,933,412	-	-
Investment income	4,258,470	3,754,474	538,088	629,230
Net realized and unrealized gain (loss) on investments	1,657,403	(8,977,239)	1,704,626	948,060
Interest expense	(187,052)	(243,802)	-	-
Gifts between College and Foundation	873,170	716,020	175,394	131,570
Gifts	-	-	441,254	317,262
Net Nonoperating Revenues	<u>107,963,999</u>	<u>96,276,372</u>	<u>2,859,362</u>	<u>2,026,122</u>
OTHER REVENUES				
Additions to permanent endowments	-	-	72,546	186,630
Total Other Revenues	<u>-</u>	<u>-</u>	<u>72,546</u>	<u>186,630</u>
CHANGE IN NET POSITION	12,005,938	(635,526)	1,883,344	1,365,162
Net Position - Beginning of year	318,709,370	319,344,896	17,404,302	16,039,140
NET POSITION - END OF YEAR	<u>\$ 330,715,308</u>	<u>\$ 318,709,370</u>	<u>\$ 19,287,646</u>	<u>\$ 17,404,302</u>

The accompanying notes are an integral part of these statements.

Macomb Community College

**Statement of Cash Flows
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 46,107,796	\$ 43,327,850
Grants and contracts	3,493,942	6,132,777
Payments to suppliers	(72,263,700)	(73,610,141)
Payments to employees	(63,780,033)	(63,764,207)
Center for Performing Arts charges	1,748,767	1,715,520
Other	<u>4,157,518</u>	<u>4,270,251</u>
Net Cash Used For Operating Activities	(80,535,710)	(81,927,950)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local property taxes	34,474,373	34,728,313
Gifts and contributions for other than capital purposes	873,170	716,020
William D. Ford direct lending receipts	9,317,265	7,006,466
William D. Ford direct lending disbursements	(9,430,647)	(7,068,468)
Federal Pell grants	29,295,246	29,933,412
State appropriations	<u>35,449,519</u>	<u>31,239,692</u>
Net Cash Provided By Noncapital Financing Activities	99,978,926	96,555,435
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(7,587,121)	(7,246,980)
Principal paid on capital debt	(2,900,000)	(2,825,000)
Debt fund property tax	2,657,803	3,666,804
Interest paid on capital debt	<u>(163,346)</u>	<u>(258,846)</u>
Net Cash Used For Capital and Related Financing Activities	(7,992,664)	(6,664,022)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment	20,048,194	133,695,651
Interest on investments	4,315,092	3,592,123
Purchase of investments	<u>(24,887,405)</u>	<u>(149,656,956)</u>
Net Cash Used For Investing Activities	<u>(524,119)</u>	<u>(12,369,182)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,926,433	(4,405,719)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>15,924,386</u>	<u>20,330,105</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 26,850,819</u>	<u>\$ 15,924,386</u>

The accompanying notes are an integral part of these statements.

Macomb Community College**Statement of Cash Flows (continued)
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
STATEMENT OF NET POSITION CLASSIFICATIONS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 25,889,515	\$ 15,924,386
Restricted cash	961,304	-
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 26,850,819</u>	<u>\$ 15,924,386</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	\$ (95,958,061)	\$ (96,911,898)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Depreciation	13,120,007	13,923,512
Net disposal of capital assets	6,435	5,095
(Increase) decrease in assets:		
Accounts receivable	726,506	(127,250)
Federal and state grant receivable	(765,308)	487,991
Inventories	(29,323)	(23,264)
Prepaid assets and other current assets	(530,781)	227,692
(Decrease) increase in liabilities:		
Accounts payable	1,521,275	468,698
Accrued payroll and other compensation	351,929	245,146
Other accrued liabilities	572,670	(103,193)
Deposits	(48,595)	66,730
Unearned tuition and fees	497,536	(187,209)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (80,535,710)</u>	<u>\$ (81,927,950)</u>

The accompanying notes are an integral part of these statements.

Note 1 - Basis of Presentation and Significant Accounting Policies

Reporting Entity - Macomb Community College (the College) is a Michigan community college whose financial statements have been prepared in accordance with generally accepted accounting principles 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 GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College.

The Macomb Community College Foundation (the Foundation) is a separate legal entity established as a 501(c)(3) corporation to accept, collect, hold and invest donations made for the promotion of educational and cultural activities at and on behalf of the College. The Foundation is discretely presented in the financial statements of the College. Separate audited financial statements of the Foundation are available by contacting the Macomb Community College Foundation at 14500 E. 12 Mile Road, Warren, MI 48088-3896.

Basis of Accounting Macomb Community College - The financial statements have been prepared using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Basis of Accounting Component Unit - The Foundation reports under the provisions of Accounting Standards Codification Topic 958, *Not-For-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the College's financial report for these differences.

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

Significant Accounting Policies - Significant accounting policies followed by Macomb Community College are described below.

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 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 deposit accounts and highly liquid investments with an initial maturity of three months or less.

Restricted Cash and Investments - Restricted cash and investments consist of cash and investments that have restrictions for the purpose of unspent bond proceeds and unspent debt service funds.

Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on historical loss experience.

Investments - Investments are recorded at fair value, based on quoted market prices and may not be indicative of net realizable value or reflective of future fair values.

Risks and Uncertainties - The College invests in various investments which are exposed to risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net position.

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

Inventories - Inventories are stated at the lower of cost or market using the first-in, first-out method.

Property and Equipment - Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Depreciation is provided for property and equipment on a straight-line basis over the estimated useful life of the asset.

Unearned Revenue - Revenue received prior to year-end that relates to the next fiscal period is recorded as unearned revenue. Unearned tuition and fee revenue at June 30, 2014 includes \$2,657,000 for the 2014 summer semester, which began on May 27, 2014 and ended on August 16, 2014. Unearned revenue at June 30, 2013 included \$2,082,000 for the 2013 summer semester, which began on May 20, 2013 and ended on August 10, 2013.

Gifts and Pledges - Gifts are recorded at estimated fair value when received and pledges are recorded at their net present value when it is determined that the gift is probable of collection.

Accrued Vacation - Accrued vacation represents 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.

Net Position – GASB Statement No. 34 establishes standards for external financial reporting of public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories.

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.

Restricted Net Position - Restricted net position represent amounts over which third parties have imposed restrictions that cannot be changed by the College. The restricted balance consists primarily of funds restricted for endowments, scholarships, grants, unspent debt service funds and other purposes.

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

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

Unrestricted Net Position - The College has designated the use of unrestricted net position as follows:

	<u>2014</u>	<u>2013</u>
Designated for future capital outlay and major maintenance	\$ 31,000,000	\$ 28,200,000
Designated for estimated GASB 68 retirement liability	152,000,000	140,000,000
Designated for University Center	4,100,000	3,900,000
Designated for technology	3,000,000	2,700,000
Designated for future service contracts	2,600,000	1,740,000
Designated for encumbrances	950,000	740,000
Unrestricted and unallocated	5,216,516	5,348,084
Total unrestricted net position	<u>\$ 198,866,516</u>	<u>\$ 182,628,084</u>

Revenue - All transactions that result in sales and / or receipts from goods and services, such as tuition and fees and ticket sales from the Center for Performing Arts are classified as operating revenue. All revenue sources that are primarily non-exchange in nature in which the College received value without directly giving equal value in return are classified as nonoperating revenue.

Property tax revenue is recognized in the year for which taxes have been levied. Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships and cities within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to Macomb County for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the County's tax revolving funds.

Property tax revenue levied for general operating/technology purposes was \$34,486,000 and \$34,781,000 based on \$1.4212 of tax per \$1,000 of taxable property value in the College's taxing district for the years ended June 30, 2014 and 2013, respectively. Property tax revenue for the infrastructure/technology debt levy was \$2,658,000 and \$3,667,000 based on \$0.11 and \$0.15 of tax per \$1,000 of taxable property value in the College's taxing district for the years ended June 30, 2014 and 2013, respectively.

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

Upcoming Accounting Pronouncement - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governmental units providing defined benefit pensions, such as the College's participation in the Michigan Public School Employees' Retirement System (MPSERS) plan, to recognize their allocation of the unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The College is currently evaluating the impact this standard will have on the financial statements when adopted. Under GASB 68, the College's pension liability will be computed on a different basis than the current actuarial accrued liability, and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. However, the approximated liability based on the actuarial accrued liability as computed by the Office of Retirement Services and allocated based on covered payroll, results in an estimated liability of \$152 million. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

Note 2 - Cash and Investments

Cash and Bank Deposits - Investment policies for cash and bank deposits as set forth by the Board of Trustees are in accordance with Michigan State law and authorize the College to invest in demand accounts, negotiable certificates of deposit, saving accounts, or other interest-earning deposit accounts of banks that are members of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). An estimated \$1,010,000 and \$1,010,000 of cash and deposits was covered by FDIC or NCUA insurance and an estimated \$28,758,000 and \$19,325,000 of cash and deposits was not covered by FDIC or NCUA insurance at June 30, 2014 and 2013, respectively. The standard maximum deposit covered by FDIC and NCUA insurance is \$250,000 per financial institution.

Investments - Investment policies as set forth by the Board of Trustees also authorize the College to invest in bonds, bills or notes of the United States or of an agency of instrumentality of the United States or obligations of the state of Michigan and rated prime by at least one of the standard rating agencies. Funds may also be invested in commercial paper that is supported by an irrevocable letter of credit issued by a bank that is a member of the FDIC and commercial paper of corporations located in Michigan. Reports are submitted to the Board of Trustees on a monthly basis to ensure compliance with the prescribed policy.

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 2 – Cash and Investments (continued)

Credit Risk - Investments in U.S. agency bonds consist of Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bureau and Government National Mortgage Association and are rated AA+ by Standard & Poor's, Aaa by Moody's and AAA by Fitch. The College also has investments in Michigan Municipal Bonds that are rated at or above Aa by Moody's and AA by Standard & Poor's.

Interest Rate Risk - The College's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2014, the College had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	More Than 5 Years
Certificates of deposit	\$ 3,005,065	\$ 1,502,096	\$ 1,502,969	\$ -
U.S. agency bonds	169,582,734	-	1,502,912	168,079,822
Michigan municipal bonds	7,032,545	-	827,992	6,204,553
Total Investments	<u>\$ 179,620,344</u>	<u>\$ 1,502,096</u>	<u>\$ 3,833,873</u>	<u>\$ 174,284,375</u>

As of June 30, 2013, the College had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	More Than 5 Years
Certificates of deposit	\$ 4,130,238	\$ 4,130,238	\$ -	\$ -
U.S. agency bonds	163,639,763	-	1,510,042	162,129,721
Michigan municipal bonds	5,410,351	-	-	5,410,351
Total Investments	<u>\$ 173,180,352</u>	<u>\$ 4,130,238</u>	<u>\$ 1,510,042</u>	<u>\$ 167,540,072</u>

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 2 - Cash and Investments (continued)

Portions of these investments are reported as cash equivalents or restricted cash and investments on the statement of net position.

Custodial Credit Risk - The College's investment policy does not address custodial credit risk. However, all of the investments are in the name of the College, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased.

Concentration of Credit Risk - Certificates of deposit and commercial paper investments are limited in any given financial institution or issuer to no more than 50 percent of the capitalization value of the institution and not greater than \$15,100,000. The College's investment policy does not limit investments in U.S. agency or Michigan municipal bonds.

More than five percent of the College's investments at June 30, 2014 and 2013 were invested as follows:

<u>Issuer</u>	<u>2014</u>	<u>2013</u>
Federal Home Loan Bank	26%	25%
Federal National Mortgage Association	38%	39%
Federal Home Loan Mortgage Co.	17%	18%
Federal Farm Credit Bureau	6%	6%
Government National Mortgage Association	7%	6%

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2014:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance	Estimated Useful Life (in years)
Nondepreciable capital assets:					
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470	
Constuction in progress	1,351,736	1,619,217	(1,351,736)	1,619,217	
Total nondepreciable capital assets	10,123,206	1,619,217	(1,351,736)	10,390,687	
Depreciable capital assets:					
Land improvements	5,268,400	39,359	101,239	5,408,998	10
Building and improvements	240,216,532	2,777,999	1,250,497	244,245,028	10-40
Infrastructure	15,447,123	200,607		15,647,730	10-20
Furniture, fixtures and equipment	48,032,395	2,814,260	(3,182,982)	47,663,673	3-10
Library materials	2,662,732	135,679	(227,094)	2,571,317	10
Total depreciable capital assets	311,627,182	5,967,904	(2,058,340)	315,536,746	
Total capital assets	321,750,388	7,587,121	(3,410,076)	325,927,433	
Less accumulated depreciation:					
Land improvements	5,160,701	32,131	-	5,192,832	
Building and improvements	127,974,895	7,658,606		135,633,501	
Infrastructure	7,288,487	889,616		8,178,103	
Furniture, fixtures and equipment	38,121,966	4,356,798	(3,176,547)	39,302,217	
Library materials	1,803,063	182,856	(227,094)	1,758,825	
Total accumulated depreciation	180,349,112	13,120,007	(3,403,641)	190,065,478	
Total capital assets, net	\$ 141,401,276	\$ (5,532,886)	\$ (6,435)	\$ 135,861,955	

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Property and Equipment (continued)

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2013:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance	Estimated Useful Life (in years)
Nondepreciable capital assets:					
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470	
Constuction in progress	1,635,477	1,220,432	(1,504,173)	1,351,736	
Total nondepreciable capital assets	10,406,947	1,220,432	(1,504,173)	10,123,206	
Depreciable capital assets:					
Land improvements	5,268,400	-	-	5,268,400	10
Building and improvements	237,048,322	1,989,432	1,178,778	240,216,532	10-40
Infrastructure	13,354,120	1,790,941	302,062	15,447,123	10-20
Furniture, fixtures and equipment	47,788,650	2,110,496	(1,866,751)	48,032,395	3-10
Library materials	2,726,626	135,679	(199,573)	2,662,732	10
Total depreciable capital assets	306,186,118	6,026,548	(585,484)	311,627,182	
Total capital assets	316,593,065	7,246,980	(2,089,657)	321,750,388	
Less accumulated depreciation:					
Land improvements	5,136,771	23,930	-	5,160,701	
Building and improvements	120,065,643	7,926,648	(17,396)	127,974,895	
Infrastructure	6,434,873	859,545	(5,931)	7,288,487	
Furniture, fixtures and equipment	35,057,139	4,926,488	(1,861,661)	38,121,966	
Library materials	1,815,736	186,901	(199,574)	1,803,063	
Total accumulated depreciation	168,510,162	13,923,512	(2,084,562)	180,349,112	
Total capital assets, net	\$ 148,082,903	\$ (6,676,532)	\$ (5,095)	\$ 141,401,276	

Three buildings on campus were partially 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. The cost and accumulated depreciation for these facilities is included in the accompanying balance sheet.

Note 4 - Retirement Plans

Defined Benefit Pension Plan

Plan Description - The College participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers most employees of the College. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. MPERS issues a financial report that is available to the public. That report includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the internet at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the effects of implementing the School Finance Reform Act. Under these procedures, the College is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rates for plan members ranged from 15.44 to 18.34 percent of covered payroll for July 1, 2013 through June 30, 2014 and 12.78 to 16.25 percent of covered payroll for the period, July 1, 2012 through June 30, 2013 based on the plan option selected. The plan options include Basic, Member Investment Plan (MIP), MIP Fixed, MIP Graded, MIP Plus, Pension Plus; beginning February 1, 2013 employees could transition to a defined contribution plan (DC) and could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF) depending upon their date of hire and retirement plan election. Based on the plan selected, plan member contributions range from 0 percent up to 6 percent of gross wages. Plan members electing into the DC plan are not required to make additional contributions. The College's required and actual pension contributions to the plan for the years ended June 30, 2014, 2013 and 2012 were \$12,919,000, \$9,885,000 and \$8,642,000, respectively.

Post-employment Benefits - Under the MPERS' Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage through MPERS. Retirees electing this coverage currently contribute an amount equivalent to the monthly cost for Part B Medicare and 20 percent of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at the rate. The employer contribution rate was 8.5 percent of covered payroll for the period July 1, 2012 through September 30, 2012. The employer contribution rate ranged from 8.18 to 9.11 percent of covered payroll for the period October 1, 2012

Note 4 - Retirement Plans (continued)

through September 30, 2013 and 5.52 to 6.45 percent of covered payroll for the period from October 1, 2013 through September 30, 2014, dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013 members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The College's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2014, 2013 and 2012 were \$3,863,000, \$5,104,000 and \$4,880,000 respectively.

Optional Defined Contribution Plan

Professional employees of the College may elect to participate in an optional retirement program (ORP) in lieu of participating in the MPSERS plan. The ORP is a defined contribution plan affiliated with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under the ORP, the College contributes 11.5 percent, and the participant contributes 3.9 percent of the participant's compensation. Total covered payroll and College contributions for the years ended June 30, 2014 and 2013 were approximately \$6,057,000 and \$697,000 and \$6,132,000 and \$705,000, respectively.

In addition to the MPSERS and ORP plans, the College also provides deferred compensation plans to all of its full-time employees under Sections 403(b) and 457(b) of the U.S. Internal Revenue Code. The College contributes varying amounts up to 7 percent of salary for certain employee groups. Employees may make elective deferrals up to amounts allowable by current tax law.

In accordance with these requirements, the College contributed approximately \$990,000 and \$938,000 and the employees contributed approximately \$2,756,000 and \$2,663,000 for the years ended June 30, 2014 and 2013, respectively.

Note 5 - Federal Direct Lending Program

The College distributed \$9,430,647 and \$7,068,468 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2014 and 2013, respectively. These distributions and related funding source are not included as revenues or expenses in the accompanying financial statements.

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 6 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 8,910,942	\$ -	\$ 2,915,942	\$ 5,995,000	\$ 2,975,000
Accrued vacation	2,928,754	291,146	107,366	3,112,534	238,636
	<u>\$ 11,839,696</u>	<u>\$ 291,146</u>	<u>\$ 3,023,308</u>	<u>\$ 9,107,534</u>	<u>\$ 3,213,636</u>

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 11,741,568	\$ -	\$ 2,830,626	\$ 8,910,942	\$ 2,900,000
Accrued vacation	2,769,431	280,494	121,171	2,928,754	151,024
	<u>\$ 14,510,999</u>	<u>\$ 280,494</u>	<u>\$ 2,951,797</u>	<u>\$ 11,839,696</u>	<u>\$ 3,051,024</u>

In 1996, the voters approved the issuance of up to \$19.6 million of debt for the purpose of improving, restoring and equipping existing college facilities. An additional \$19.2 million in bonds was approved in 1998 for technology improvements.

On March 31, 2011 the College issued the remaining approved amounts of \$7.4 million of the 1996 bond authorization and \$6.9 million of the 1998 bond authorization. The total amount of \$5,995,000 and \$8,910,942 was outstanding as of June 30, 2014 and June 30, 2013, respectively. Bond principal payments are due annually each May through maturity in fiscal year 2016. Interest payments are due semi-annually through maturity at rates ranging from 2.125 to 2.5 percent.

As of June 30, 2014 bond maturities are as follows:

Year	Principal	Interest	Total
2015	2,975,000	138,719	3,113,719
2016	3,020,000	75,500	3,095,500
	<u>\$ 5,995,000</u>	<u>\$ 214,219</u>	<u>\$ 6,209,219</u>

Note 7 – Self Insurance

Beginning January 1, 2014, the College is partially self-insured for vision and healthcare benefits. The self-insured healthcare plan covers approximately 300 employees and their dependents. Claims are funded by the College and paid by the plan administrator; actual payments are based on claims filed. An insurance policy covers claims in excess of \$75,000 per covered employee and/or their dependent. The College pays the administrative costs of the plan.

Self-insured employee benefit liabilities for the period January 1, 2014 to June 30, 2014 were as follows:

	2014
Balance, beginning of plan	\$ -
Claims incurred, premiums paid and changes in estimates	1,909,569
Claim and premium payments	<u>(1,570,116)</u>
Balance, end of year	<u>\$ 339,453</u>

Note 8 - Risk Management

The College is exposed to various risks of loss related to property loss, errors and omissions, workers' compensation, as well as medical benefits provided to employees.

The College has purchased commercial insurance for medical benefit and workers' compensation claims and participates in the Michigan Community College Risk Management Authority risk pool for all other types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Community College Risk Management Authority risk pool 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 Authority, which the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 9 - Commitments, Contingencies and Capital Outlay

There are various lawsuits in which the College is a defendant. It is the opinion of College officials that the potential claims in excess of insurance coverage resulting from the remaining litigation would not have a material effect on the financial statements.

The College has numerous renovation and capital improvement projects in process at June 30, 2014. Total future commitments related to these projects approximates \$7.4 million.

Note 10 - Macomb Community College Foundation

All investments of the Foundation are either donor-restricted endowments, Foundation designated endowments or College designated endowments. The Foundation's investments are stated at fair value based on quoted market prices for active market assets.

The market value of the Foundation investments in mutual funds at June 30 are as follows:

<u>Investment Fund Type</u>	<u>June 30, 2014 Market Value</u>	<u>June 30, 2013 Market Value</u>
Fixed Income	\$ 7,308,134	\$ 8,013,783
Equity	10,906,817	8,315,899
Balanced	983,082	967,513
	<u>\$ 19,198,033</u>	<u>\$ 17,297,195</u>

The net position and all activity of the Foundation are reported as a discretely presented component unit in the College's financial statements. The net position of the Foundation totaled \$19,287,646 and \$17,404,302 for the years ended June 30, 2014 and 2013, respectively.

Macomb Community College

Notes to Financial Statements June 30, 2014 and 2013

Note 10 - Macomb Community College Foundation (continued)

Unrestricted net position, expendable endowments, scholarships and grants and nonexpendable endowments are available at June 30, 2014 and 2013 for the following purposes:

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2014
College designated	\$ 10,586,483	\$ -	\$ -	\$ 10,586,483
Center for Performing Arts	-	1,238,137	2,635,043	3,873,180
Scholarships and financial aid	-	1,232,629	2,540,977	3,773,606
Foundation designated	254,094	-	-	254,094
Library and other	-	244,841	555,442	800,283
Total	\$ 10,840,577	\$ 2,715,607	\$ 5,731,462	\$ 19,287,646

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2013
College designated	\$ 9,554,521	\$ -	\$ -	\$ 9,554,521
Center for Performing Arts	-	924,958	2,624,633	3,549,591
Scholarships and financial aid	-	905,135	2,996,516	3,901,651
Foundation designated	223,623	-	-	223,623
Library and other	-	174,916	-	174,916
Total	\$ 9,778,144	\$ 2,005,009	\$ 5,621,149	\$ 17,404,302

Through a resolution by the Foundation's Board of Directors, the Foundation distributes 4 percent of the three year average fair market value of the investment total to the College for purposes specified by donors not to exceed the Foundation's temporarily restricted net position. In addition, the Foundation distributes all donations and grant awards received by the Foundation on behalf of the College for educational and cultural activities. The College provides personnel support, supplies, equipment and office space to the Foundation.

Macomb Community College

**Combining Statement of Net Position
June 30, 2014**

	Combined Total	General Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 25,889,515	\$ 25,889,515	\$ -	\$ -	\$ -	\$ -
Short-Term investments	1,502,096	1,502,096	-	-	-	-
Property taxes receivable	64,403	64,403	-	-	-	-
State appropriation receivable	6,423,054	6,423,054	-	-	-	-
Accounts receivable	2,036,215	2,036,215	-	-	-	-
Federal and state grants receivable	1,684,608	-	1,654,225	-	-	30,383
Student loans receivable	327,683	-	-	327,683	-	-
Inventories	245,862	245,862	-	-	-	-
Prepaid expenses and other assets	3,195,848	3,161,388	34,460	-	-	-
Total Current Assets	41,369,284	39,322,533	1,688,685	327,683	-	30,383
Restricted cash and investments	961,304	-	-	-	961,304	-
Long-term investments	178,118,248	178,118,248	-	-	-	-
Capital Assets, net						
Land and improvements	8,987,636	-	-	-	8,987,636	-
Infrastructure	7,469,627	-	-	-	7,469,627	-
Buildings and improvements	108,611,527	-	-	-	108,611,527	-
Equipment and library materials	9,173,948	-	-	-	9,173,948	-
Construction in progress	1,619,217	-	-	-	1,619,217	-
Total Capital Assets	135,861,955	-	-	-	135,861,955	-
Total Assets	356,310,791	217,440,781	1,688,685	327,683	136,823,259	30,383
LIABILITIES						
Current Liabilities						
Current portion of debt obligations	2,975,000	-	-	-	2,975,000	-
Accounts payable	5,550,061	5,550,061	-	-	-	-
Accrued interest payable	72,435	-	-	-	72,435	-
Accrued payroll and other compensation	6,115,384	6,036,064	76,390	-	2,930	-
Other accrued liabilities	1,549,089	1,066,909	-	-	482,180	-
Deposits	274,770	-	-	-	-	274,770
Unearned revenue	3,164,846	3,164,846	-	-	-	-
Due to (from) other funds	-	171,615,711	591,762	327,683	(172,290,769)	(244,387)
Total Current Liabilities	19,701,585	187,433,591	668,152	327,683	(168,758,224)	30,383
Long-term Debt Obligations	3,020,000	-	-	-	3,020,000	-
Accrued Vacation	2,873,898	2,873,898	-	-	-	-
Total Liabilities	25,595,483	190,307,489	668,152	327,683	(165,738,224)	30,383
NET POSITION						
Net investment in capital assets	129,866,955	-	-	-	129,866,955	-
Restricted for						
Expendable endowments, scholarships and grants	1,020,533	-	1,020,533	-	-	-
Expendable debt service	961,304	-	-	-	961,304	-
Unrestricted	198,866,516	27,133,292	-	-	171,733,224	-
Total Net Position	\$ 330,715,308	\$ 27,133,292	\$ 1,020,533	\$ -	\$ 302,561,483	\$ -

Macomb Community College

**Combining Statement of Revenues, Expenses and Changes in Net Position
June 30, 2014**

	Combined Total	Elimination	General Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund
OPERATING REVENUES						
Tuition and fees (net of scholarship allowance of \$11,300,000)	\$ 44,883,755	\$ (11,300,000)	\$ 56,183,755	\$ -	\$ -	\$ -
Federal grants and contracts	3,542,649	-	29,841	3,512,808	-	-
State and local grants and contracts	343,137	-	-	343,137	-	-
Nongovernmental grants	373,464	-	151,198	222,266	-	-
Center for Performing Arts revenue	1,748,767	-	1,748,767	-	-	-
Indirect cost recoveries	-	(239,450)	239,450	-	-	-
Miscellaneous	4,157,518	-	3,793,122	-	-	364,396
Total Operating Revenues	55,049,290	(11,539,450)	62,146,133	4,078,211	-	364,396
OPERATING EXPENSES						
Instruction	53,928,495	(66,655)	52,421,054	1,574,096	-	-
Public services	4,171,916	-	4,171,916	-	-	-
Instructional support	19,982,287	(10,895)	18,532,993	1,460,189	-	-
Student services	32,984,456	(11,449,780)	13,060,846	31,373,390	-	-
Institutional administration	10,654,524	(12,120)	10,507,369	159,275	-	-
Operation and maintenance of plant	16,165,665	-	14,397,150	6,955	-	1,761,560
Depreciation	13,120,008	-	-	-	-	13,120,008
Total Operating Expenses	151,007,351	(11,539,450)	113,091,328	34,573,905	-	14,881,568
OPERATING LOSS	(95,958,061)	-	(50,945,195)	(30,495,694)	-	(14,517,172)
NONOPERATING REVENUES (EXPENSES)						
State appropriations	34,922,836	-	34,922,836	-	-	-
Property tax levy	37,143,926	-	34,486,123	-	-	2,657,803
Federal Pell grants	29,295,246	-	-	29,295,246	-	-
Investment income	4,258,470	-	694,971	-	-	3,563,499
Net realized and unrealized gain on investments	1,657,403	-	1,657,403	-	-	-
Interest expense	(187,052)	-	-	-	-	(187,052)
Gifts between College and Foundation	873,170	922,483	(175,394)	-	-	126,081
Gifts	-	(922,483)	571,024	351,459	-	-
Net Nonoperating Revenues	107,963,999	-	72,156,963	29,646,705	-	6,160,331
OTHER REVENUE						
Additions to permanent endowments	-	-	-	-	-	-
Total Other Revenue	-	-	-	-	-	-
Transfers In (Out)	-	-	(20,319,167)	697,167	-	19,622,000
CHANGE IN NET POSITION	12,005,938	-	892,601	(151,822)	-	11,265,159
Net Position - Beginning of Year	318,709,370	-	26,240,691	1,172,355	-	291,296,324
NET POSITION - END OF YEAR	\$ 330,715,308	\$ -	\$ 27,133,292	\$ 1,020,533	\$ -	\$ 302,561,483