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MACOMB COMMUNITY COLLEGE

**FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2016

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**Macomb  
Community College**

Education • Enrichment • Economic Development

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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, 2016 and 2015 and the related notes to the financial statements, which collectively comprise Macomb Community College 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 opinions.

### ***Opinions***

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, 2016 and 2015 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  
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, schedule of pension funding progress and pension contributions on pages 3 through 13, and page 38 respectively, 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 audits were 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 presented for purposes 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 audits 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 September 13, 2016 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.



September 13, 2016

# 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, 2016, 2015 and 2014 and its activities for the three years ended June 30, 2016. 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 three supplemental schedules: the GASB 68 required supplementary information, 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, 2016.

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, 2016 and 2015 and changes in net position for the two years ended June 30, 2016. The College's financial position remained strong at June 30, 2016 and 2015, with assets of \$387.5 million and \$369.3 million, respectively and liabilities of \$193.8 million and \$170.6 million, respectively. An adjustment to restate the College's net position and record the unfunded Michigan Public School Employees' Retirement System (MPERS) pension liability of \$147.0 million as required by GASB 68 was reflected as of July 1, 2014. MPERS 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. For the fiscal year ended June 30, 2016, the College's revenues and other support exceeded expenses, thereby increasing the net position of the College by \$14.1 million as compared to \$14.3 million in the previous year.

# 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:

	2016	2015	2014
<b>Assets</b>			
Current assets	\$ 34,832,544	\$ 33,170,189	\$ 41,369,284
Restricted cash and investments	-	429,292	961,304
Long-term investments	202,211,919	194,844,266	178,118,248
Capital assets	150,444,804	140,864,286	135,861,955
<b>Total Assets</b>	<b>387,489,267</b>	<b>369,308,033</b>	<b>356,310,791</b>
<b>Deferred Outflows of Resources</b>	<b>23,891,260</b>	<b>15,402,255</b>	<b>-</b>
<b>Liabilities</b>			
Current liabilities	21,996,988	22,251,100	19,701,585
Long-term liabilities	3,025,128	2,828,868	5,893,898
Long-term pension liability	168,757,285	145,510,485	-
<b>Total Liabilities</b>	<b>193,779,401</b>	<b>170,590,453</b>	<b>25,595,483</b>
<b>Deferred Inflows of Resources</b>	<b>5,477,133</b>	<b>16,086,243</b>	<b>-</b>
<b>Net Position</b>			
Net Investment in capital assets	150,444,804	137,844,286	129,866,955
Restricted for:			
Expendable endowments, scholarships and grants	2,127,319	2,096,763	1,020,533
Expendable debt service	-	429,292	961,304
Unrestricted	59,551,870	57,663,251	198,866,516
<b>Total Net Position</b>	<b>\$ 212,123,993</b>	<b>\$ 198,033,592</b>	<b>\$ 330,715,308</b>

At June 30, 2016, unrestricted net position is designated for future capital outlay and maintenance improvements as well as for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Additional information regarding this upcoming accounting pronouncement can be found in Note 1.

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 MPERS plan, to recognize their share of the unfunded pension benefit obligation as a liability. The College restated net position at July 1, 2014 to reflect a proportionate share of the pension liability of \$147 million.

# 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:

	2016	2015	2014
<b>Operating Revenues</b>			
Tuition and fees	\$ 44,836,151	\$ 47,493,206	\$ 44,883,755
Federal grants and contracts	7,009,778	6,390,917	3,542,649
State and local grants and contracts	327,134	378,599	343,137
Nongovernmental grants	443,452	199,038	373,464
Center for Performing Arts revenue	1,715,752	1,849,291	1,748,767
Miscellaneous	4,231,490	4,375,226	4,157,518
<b>Total Operating Revenues</b>	<b>58,563,757</b>	<b>60,686,277</b>	<b>55,049,290</b>
<b>Operating Expenses</b>	<b>159,386,206</b>	<b>159,356,691</b>	<b>151,007,351</b>
<b>Operating Loss</b>	<b>(100,822,449)</b>	<b>(98,670,414)</b>	<b>(95,958,061)</b>
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	33,415,600	32,982,219	32,087,744
State appropriations for UAAL	2,156,690	4,996,437	2,835,092
Property tax levy	39,030,300	37,577,936	37,143,926
Federal Pell grants	25,757,348	29,089,997	29,295,246
Investment income	4,502,068	4,507,080	4,258,470
Net realized and unrealized gain on investments	4,980,253	3,726,944	1,657,403
Interest expense	(62,917)	(128,182)	(187,052)
Gifts between College and Foundation	1,312,254	(126,343)	873,170
<b>Net Nonoperating Revenues</b>	<b>111,091,596</b>	<b>112,626,088</b>	<b>107,963,999</b>
<b>Other Revenues</b>			
State capital appropriations	3,774,873	267,362	-
Capital gifts and grants	46,381	106,947	-
<b>Total Other Revenues</b>	<b>3,821,254</b>	<b>374,309</b>	<b>-</b>
<b>Change in Net Position</b>	<b>14,090,401</b>	<b>14,329,983</b>	<b>12,005,938</b>
<b>Net Position - Beginning of year</b>	<b>198,033,592</b>	<b>330,715,308</b>	<b>318,709,370</b>
Adjustment for change in accounting principle	-	(147,011,699)	-
<b>Net Position - Beginning of year, as restated</b>	<b>198,033,592</b>	<b>183,703,609</b>	<b>318,709,370</b>
<b>Net Position - End of year</b>	<b>\$ 212,123,993</b>	<b>\$ 198,033,592</b>	<b>\$ 330,715,308</b>



# Macomb Community College

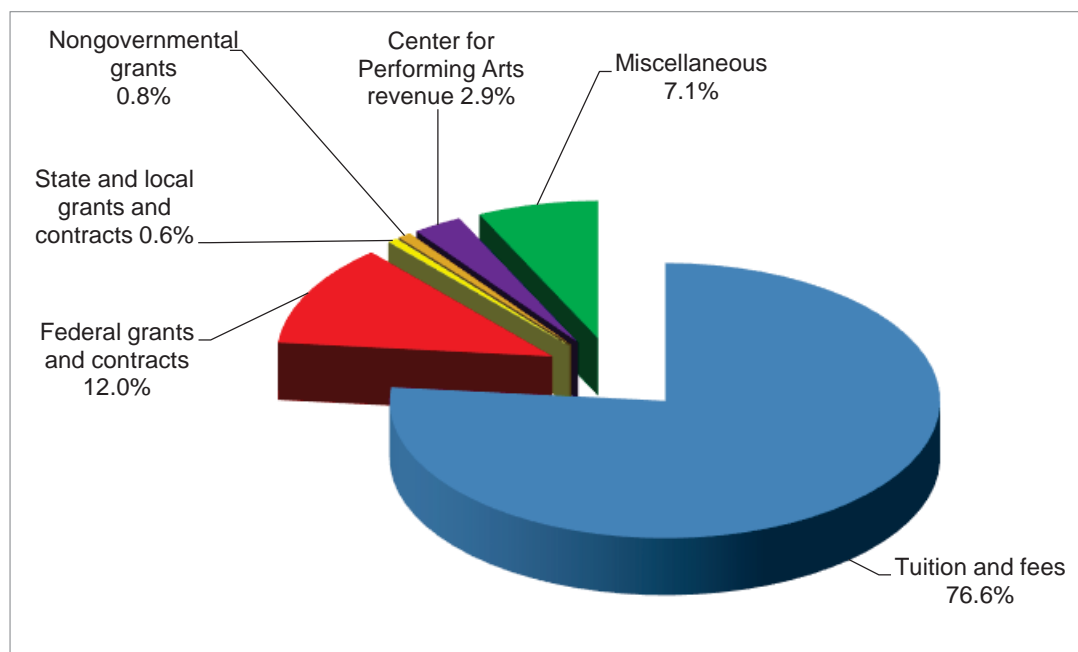
## Management's Discussion and Analysis – Unaudited (Continued)

### 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:

	2016	2015	2014
<b>Operating Revenues</b>			
Tuition and fees	\$ 44,836,151	\$ 47,493,206	\$ 44,883,755
Federal grants and contracts	7,009,778	6,390,917	3,542,649
State and local grants and contracts	327,134	378,599	343,137
Nongovernmental grants	443,452	199,038	373,464
Center for Performing Arts revenue	1,715,752	1,849,291	1,748,767
Miscellaneous	4,231,490	4,375,226	4,157,518
<b>Total Operating Revenues</b>	<b>\$ 58,563,757</b>	<b>\$ 60,686,277</b>	<b>\$ 55,049,290</b>

The following is a graphic illustration of operating revenues for fiscal year 2016:



# Macomb Community College

## Management's Discussion and Analysis – Unaudited (Continued)

For the three years ended June 30, 2016, there was a 0.1 percent decline in net tuition and fee revenue of \$48,000. This revenue decrease is due to a combination of an 8.0 percent increase in tuition rates, a 6.2 percent decline in credit hours and a 20.4 percent increase in the amount of tuition and fees paid with financial aid during the three year period.

The increase in federal grants from 2014 is a result of a September 2013 award of \$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 the period of four years through September 30, 2017.

The College also received an award of \$4.0 million from the Department of Labor for the American Apprenticeship Initiative on October 1, 2015. This initiative is intended to provide a catalyst in supporting a uniquely American apprenticeship system that meets our country's particular economic, industry and workforce needs. The College's revenue will be received over the five year grant period that ends September 30, 2020.

Ticket sales at the Center for Performing Arts had a slight decrease of \$33,000 or 1.9 percent during the three years ended June 30, 2016. 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 \$74,000 or 1.8 percent from 2014 through 2016 due to increasing food service and facility rental revenue.

### Operating Expenses

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

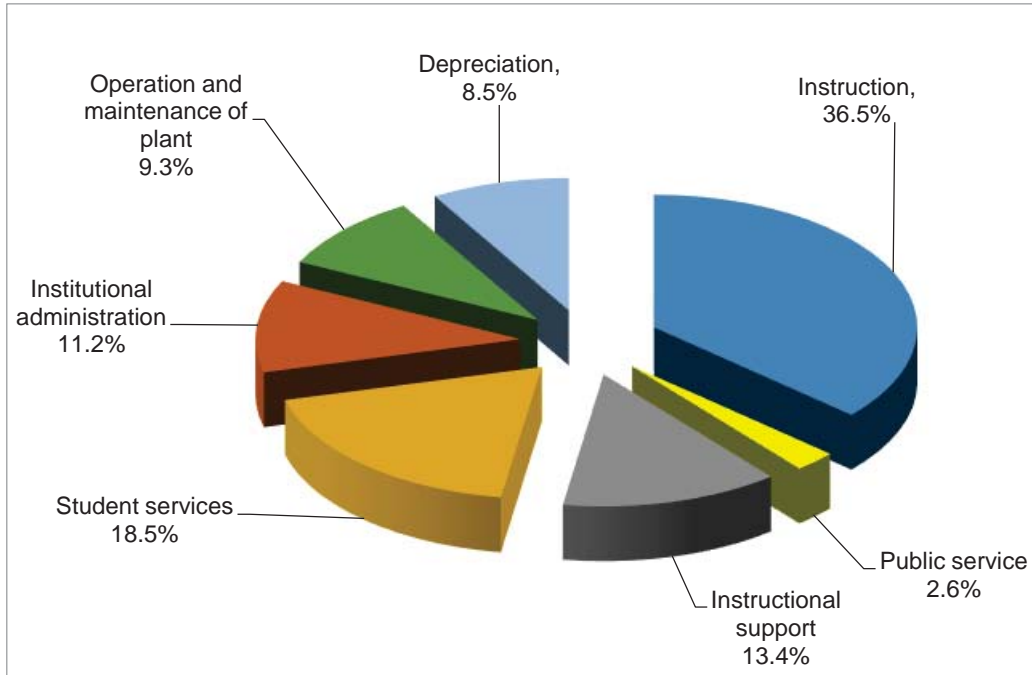
	2016	2015	2014
<b>Operating Expenses</b>			
Instruction	\$ 58,227,253	\$ 55,436,881	\$ 53,928,495
Public service	4,079,316	4,213,662	4,171,916
Instructional support	21,312,410	19,932,531	19,982,287
Student services	29,501,305	34,438,939	32,984,456
Institutional administration	17,908,057	16,520,901	10,654,524
Operation and maintenance of plant	14,887,054	16,005,641	16,165,665
Depreciation	13,470,811	12,808,136	13,120,008
<b>Total Operating Expenses</b>	<u>\$ 159,386,206</u>	<u>\$ 159,356,691</u>	<u>\$ 151,007,351</u>

Included in expenses are amounts funded through state appropriations to pay the College's portion of the MPERS Unfunded Actuarial Accrued Liability (UAAL). Funds received from the State and paid to the Office of Retirement Services were \$7.1 million, \$5.0 million and \$2.8 million for the years ended June 30, 2016, 2015 and 2014, respectively.

# 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, 2016:



The primary operating expenses of the College are salaries, payroll taxes and related fringe benefits. The College incurred approximately \$106.2 million, \$101.8 million, and \$96.0 million of payroll-related expenses during the three years ended June 30, 2016. This represents 66.6 percent, 63.9 percent and 63.6 percent of the College's operating expenses during those years, respectively.

Wage expenses have increased \$4.1 million or 6.5 percent during the three years ended June 30, 2016 primarily due to contractual increases, filling vacant positions, renovation related work and grant-funded positions.

Benefit expenses have increased \$6.0 million or 18.8 percent during the three years ended June 30, 2016. This increase is offset by a \$4.2 million increase in state appropriations for UAAL received over the same period, the purpose of the UAAL state appropriation is to assist in funding the MPSERS unfunded pension liability. The UAAL state appropriations received were \$7.1 million, resulting in \$2.2 million of revenue after consideration of GASB 68 in 2016, \$5.0 million in 2015 and \$2.8 million in 2014.

# Macomb Community College

## Management's Discussion and Analysis – Unaudited (Continued)

### Nonoperating Revenues

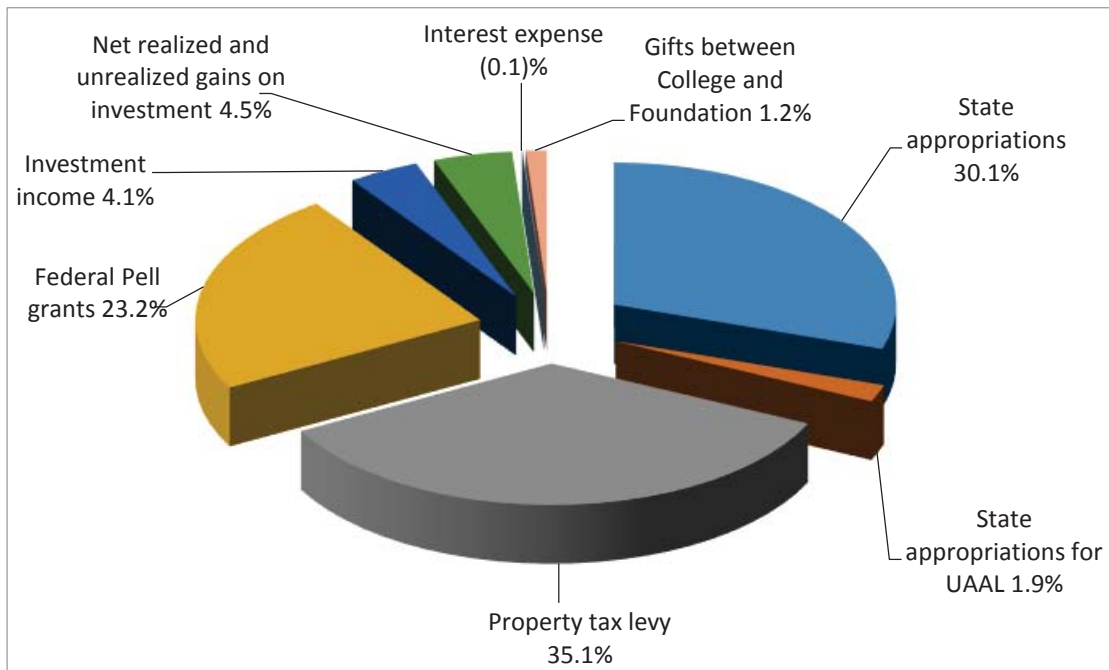
The College receives substantial nonoperating support from state appropriations, property tax revenue and Federal Pell grants thus operating expenses normally exceed operating revenues resulting in an operating loss. Nonoperating revenues and expenses are an integral component in funding annual operations.

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, 2016:

	2016	2015	2014
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	\$ 33,415,600	\$ 32,982,219	\$ 32,087,744
State appropriations for UAAL	2,156,690	4,996,437	2,835,092
Property tax levy	39,030,300	37,577,936	37,143,926
Federal Pell grants	25,757,348	29,089,997	29,295,246
Investment income	4,502,068	4,507,080	4,258,470
Net realized and unrealized gain on investments	4,980,253	3,726,944	1,657,403
Interest expense	(62,917)	(128,182)	(187,052)
Gifts between College and Foundation	1,312,254	(126,343)	873,170
<b>Net Nonoperating Revenues</b>	<b>\$ 111,091,596</b>	<b>\$ 112,626,088</b>	<b>\$ 107,963,999</b>

The following is a graphic illustration of nonoperating revenues (expenses) for the year ended June 30, 2016:



# Macomb Community College

## Management's Discussion and Analysis – Unaudited (Continued)

Due to stabilizing economic conditions within the State, there was an increase of \$433,000 or 1.3 percent in state appropriations during 2016. In addition, Public Act 300 of 2012 instituted a 20.96 percent cap on the employer's share of the UAAL for reported MPSERS wages. This resulted in a state appropriation for UAAL of \$7.1 million, resulting in \$2.2 million of revenue after consideration of GASB 68 in 2016 and \$5.0 million in 2015, as well as MPSERS related cash outlay and expenses of equal amounts.

Property tax values increased by 3.7 percent in 2016 as compared to a 1.9 percent increase in 2015. Recent changes in housing market values and new construction have increased property taxes \$1,886,000 over the three year period. The property tax revenue from the College's debt levy of \$2.8 million, \$2.6 million and \$2.7 million for the years ending June 2016, 2015 and 2014, respectively ended in 2016 as the final bond payment was made on May 1, 2016 and the debt levy concluded. The combined operating and technology millage rate was 1.4212 for years 2014, 2015 and 2016. The debt retirement millage rate was 0.11 in 2014, 0.105 in 2015 and 0.109 in 2016.

Improving economic conditions and related job markets in southeastern Michigan as well as a declining number of high school graduates in the county contributed to a 4.9 percent enrollment decline and a 14.0 percent decline in the number of financial aid students over the three year period. As a result, Federal Pell grants decreased by \$3,538,000 or 12.1 percent during the three year period.

Stable interest rates resulted in a minimal decrease in investment income of \$5,000 in 2016 after an increase in investment income of \$249,000 in 2015. The weighted average interest rates on cash and investments for the years 2016, 2015, and 2014 were 2.21, 2.25, and 2.14 percent, respectively.

The market value for government agency bonds increased in 2016 as a result of stable interest rates and a continued increase in demand for government agency bond investments. The net realized and unrealized gain on investments was \$5.0 million, \$3.7 million and \$1.7 million in 2016, 2015 and 2014 respectively. 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.

In 2016, the College recorded \$3.8 million of state capital outlay revenue for the renovation of south campus C building. This \$8.5 million renovation project is funded by the State and College equally sharing the costs at \$4.25 million each. The project is substantially complete and the remaining funds will be provided by the State next fiscal year.

### **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:

	2016	2015	2014
<b>Cash provided by (used in):</b>			
Operating activities	\$ (79,429,877)	\$ (84,806,041)	\$ (80,535,710)
Noncapital financing activities	99,061,858	101,587,091	99,978,926
Capital and related financing activities	(20,201,483)	(18,456,664)	(7,992,664)
Investing activities	2,114,634	(8,505,617)	(524,119)
<b>Net change in cash and equivalents</b>	1,545,132	(10,181,231)	10,926,433
Cash and equivalents- Beginning of year	16,669,588	26,850,819	15,924,386
<b>Cash and equivalents- End of year</b>	<u>\$ 18,214,720</u>	<u>\$ 16,669,588</u>	<u>\$ 26,850,819</u>

Net cash and equivalents used in operating activities totaled \$79.4 million in 2016. This was financed by \$99.1 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 \$20.2 million during 2016, which is primarily the result of capital expenditures. Net cash provided by investing activities totaled approximately \$2.1 million. The net result of all cash flows is an increase in cash and equivalents of \$1.5 million in 2016.

Net cash and equivalents used in operating activities totaled \$84.8 million in 2015. This was financed by \$101.6 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 \$18.5 million during 2015, which is primarily the result of capital expenditures. Net cash used in investing activities totaled approximately \$8.5 million. The net result of all cash flows is a decrease in cash and equivalents of \$10.2 million in 2015.

#### Capital Assets

The College had \$150.4 million and \$140.9 million invested in capital assets, net of accumulated depreciation of \$209.3 million and \$200.6 million at June 30, 2016 and 2015 respectively. Depreciation charges totaled \$13.5 million and \$12.8 million, respectively, for the years then ended.

	2016	2015	2014
<b>Capital assets</b>			
Land and improvements	\$ 15,907,123	\$ 15,888,774	\$ 14,180,468
Infrastructure	16,957,057	16,957,058	15,647,730
Building and improvements	260,868,556	251,506,824	244,245,028
Furniture, fixtures and equipment	56,080,007	49,042,079	47,663,673
Library materials	2,443,327	2,509,627	2,571,317
Construction in progress	7,442,196	5,594,901	1,619,217
Accumulated depreciation	(209,253,462)	(200,634,977)	(190,065,478)
<b>Total Capital assets</b>	<u>\$ 150,444,804</u>	<u>\$ 140,864,286</u>	<u>\$ 135,861,955</u>

# Macomb Community College

## Management's Discussion and Analysis – Unaudited (Continued)

Major capital additions during 2016 were as follows:

<u>Campus</u>	<u>Description</u>	<u>Amount</u>
South	F building renovation	\$ 3,070,000
South	C building renovation	8,460,000
South, Center	Renovation projects	3,160,000
Center	Mechanical upgrades	630,000
	Total	<u>\$ 15,320,000</u>

### Debt

At year-end, the College had completed payments on the outstanding debt from the issuance of the bonds authorized on March 31, 2011. Bond principal payments were due annually each May through maturity in fiscal year 2016. Interest payments were due semi-annually through maturity at the rate of 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 2016 they were 22 percent of College revenues. State appropriations increased by 1.9 percent for the fiscal year ending 2016 and are anticipated to increase by an additional 1.3 percent in 2017. 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 pension liabilities.

Macomb County taxable value and the resulting property tax revenue increased by 3.7 percent in 2015-16. These values are expected to decline 0.8 percent in 2016-17 due to the stabilization of home values and new construction offset by the loss of taxable value due to Personal Property tax reforms legislated by the State. The current year increase has helped offset prior year property tax losses, however over a ten year period there has been a decline in operating property tax revenue of approximately \$6.8 million or 16.1 percent. Home sales and new construction have improved particularly in the northern areas of the county, indicating that property tax declines associated with prior years are beginning to reverse. At approximately 25 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 cannot increase at a rate greater than inflation.

To partially offset property tax revenue losses and state appropriation declines, tuition rates will increase approximately 3.2 percent beginning in the fall 2016 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 66.6 percent of the total operating expenditures reported on the June 30, 2016 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 2014, 2015 and 2016. This act results in state funding for the Unfunded Actuarial Accrued MPSERS liability in excess of the 20.96 percent cap and resulted in receipts of \$2.8 million, \$5.0 million and \$7.1 million for fiscal year 2014, 2015 and 2016 respectively with corresponding payments of equal amounts in each year. 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, investment performance 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.

The Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* which requires governments that provide postemployment benefits other than pensions (OPEB) to recognize their share of the net OPEB liability related to participation in the MPSERS plan. The College has designated \$77 million of unrestricted net position as an estimate of the liability to be recognized in the financial statements for the year ended June 30, 2018 when the provisions of this Statement take effect.

The College has expended \$2.4 million in 2016 for equipment subject to reimbursement under a state grant. The related revenue for this grant will be recorded when the grant restrictions are met, this is expected to occur in 2017.

Capital outlay appropriations from the State are being requested to cost share in the renovation of the Robert E. Turner Advanced Technology Center at South Campus. If the request is approved, planning will begin on this priority project.

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 a future, multi-year major construction and renovation program as approved by the College Board of Trustees, which support this commitment and is to be financed by designated College funds.

Year	Campus	Description	Future Cost
2017	South	B building renovation	\$ 4,900,000
	Center	N building renovation	1,900,000
2018	South	F building renovation	3,500,000
	South	J building renovation	2,500,000
	Center	E building renovation	3,800,000
2019	Center	L & M building renovation	3,200,000
	South	D building renovation	5,600,000
	South	K building renovation	2,900,000
	Center	B building renovation	2,700,000
multi-year	South and Center	Classroom and other renovations	4,500,000
	South and Center	Mechanical upgrades	1,400,000
	South and Center	Parking lots and roadways	3,700,000
	South and Center	Technology	2,000,000
		Total	<u>\$ 42,600,000</u>



**Macomb Community College**

**Statement of Net Position  
June 30, 2016 and 2015**

	<b>College</b>		<b>Component Unit - Foundation</b>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents - Note 2	\$ 18,214,720	\$ 16,240,296	\$ 51,399	\$ 37,940
Short-term investments - Note 2	1,515,754	1,515,719	20,701,259	21,308,287
Property taxes receivable - net of allowance for doubtful accounts of \$145,000 in 2016 and \$160,000 in 2015	58,576	62,005	-	-
State appropriation receivable	7,419,700	6,961,770	-	-
Accounts receivable - net of allowance for doubtful accounts of \$200,000 in 2016 and 2015	1,777,791	2,727,764	-	-
Federal and state grants receivable	2,351,339	2,341,129	-	-
Student loans receivable	148,655	149,512	-	-
Inventories	182,467	233,530	-	-
Prepaid expenses and other assets	<u>3,163,542</u>	<u>2,938,464</u>	<u>4,613</u>	<u>5,779</u>
Total Current Assets	34,832,544	33,170,189	20,757,271	21,352,006
Restricted cash and investments - Note 2	-	429,292	-	-
Long-term investments - Note 2	202,211,919	194,844,266	-	-
Capital assets - Note 3	<u>150,444,804</u>	<u>140,864,286</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u>387,489,267</u>	<u>369,308,033</u>	<u>20,757,271</u>	<u>21,352,006</u>
<b>DEFERRED OUTFLOWS OF RESOURCES - Note 4</b>				
Deferred pension amounts	<u>23,891,260</u>	<u>15,402,255</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Current Liabilities				
Current portion of debt obligations - Note 6	-	3,020,000	-	-
Accounts payable	8,900,492	7,156,427	(99,505)	(75,093)
Accrued interest payable	-	12,583	-	-
Accrued payroll and other compensation	7,366,578	6,739,058	-	-
Other accrued liabilities	2,137,136	2,238,632	-	-
Deposits	829,458	281,502	-	-
Unearned revenue	<u>3,009,388</u>	<u>2,802,898</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	22,243,052	22,251,100	(99,505)	(75,093)
Accrued Vacation - Note 6	2,779,064	2,828,868	-	-
Net pension liability - Note 4	<u>168,757,285</u>	<u>145,510,485</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>193,779,401</u>	<u>170,590,453</u>	<u>(99,505)</u>	<u>(75,093)</u>
<b>DEFERRED INFLOWS OF RESOURCES - Note 4</b>				
Deferred pension amounts	<u>5,477,133</u>	<u>16,086,243</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	150,444,804	137,844,286	-	-
Restricted for:				
Nonexpendable endowments	-	-	6,434,092	5,883,395
Expendable endowments, scholarships and grants	2,127,319	2,096,763	2,853,098	3,673,438
Expendable debt service	-	429,292	-	-
Unrestricted - Note 1	<u>59,551,870</u>	<u>57,663,251</u>	<u>11,569,586</u>	<u>11,870,266</u>
<b>Total Net Position</b>	<u>\$ 212,123,993</u>	<u>\$ 198,033,592</u>	<u>\$ 20,856,776</u>	<u>\$ 21,427,099</u>

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, 2016 and 2015**

	<b>College</b>		<b>Component Unit - Foundation</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>				
Tuition and fees - Net of scholarship allowances of \$13,600,000 in 2016 and \$11,100,000 in 2015	\$ 44,836,151	\$ 47,493,206	\$ -	\$ -
Federal grants and contracts	7,009,778	6,390,917	-	-
State and local grants and contracts	327,134	378,599	-	-
Nongovernmental grants	443,452	199,038	-	1,000,000
Center for Performing Arts revenue	1,715,752	1,849,291	-	-
Miscellaneous	4,231,490	4,375,226	45,787	4,998
<b>Total Operating Revenues</b>	<b>58,563,757</b>	<b>60,686,277</b>	<b>45,787</b>	<b>1,004,998</b>
<b>OPERATING EXPENSES</b>				
Instruction	58,227,253	55,436,881	-	-
Public service	4,079,316	4,213,662	-	-
Instructional support	21,312,410	19,932,531	-	-
Student services	29,501,305	34,438,939	-	-
Institutional administration	17,908,057	16,520,901	-	-
Operation and maintenance of plant	14,887,054	16,005,641	-	-
Depreciation	13,470,811	12,808,136	-	-
Foundation operations and awards	-	-	562,644	75,000
<b>Total Operating Expenses</b>	<b>159,386,206</b>	<b>159,356,691</b>	<b>562,644</b>	<b>75,000</b>
<b>OPERATING LOSS</b>	<b>(100,822,449)</b>	<b>(98,670,414)</b>	<b>(516,857)</b>	<b>929,998</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	33,415,600	32,982,219	-	-
State appropriations for UAAL - Note 4	2,156,690	4,996,437	-	-
Property tax levy	39,030,300	37,577,936	-	-
Federal Pell grants	25,757,348	29,089,997	-	-
Investment income	4,502,068	4,507,080	673,091	772,246
Net realized and unrealized gain (loss) on investments	4,980,253	3,726,944	(643,286)	(213,104)
Interest expense	(62,917)	(128,182)	-	-
Gifts between College and Foundation	1,312,254	(126,343)	(1,312,254)	126,343
Gifts	-	-	678,286	372,037
<b>Net Nonoperating Revenues</b>	<b>111,091,596</b>	<b>112,626,088</b>	<b>(604,163)</b>	<b>1,057,522</b>
<b>OTHER REVENUES</b>				
State capital appropriations	3,774,873	267,362	-	-
Capital gifts and grants	46,381	106,947	-	-
Additions to permanent endowments	-	-	550,697	151,933
<b>Total Other Revenues</b>	<b>3,821,254</b>	<b>374,309</b>	<b>550,697</b>	<b>151,933</b>
<b>CHANGE IN NET POSITION</b>	<b>14,090,401</b>	<b>14,329,983</b>	<b>(570,323)</b>	<b>2,139,453</b>
Net Position - Beginning of Year	198,033,592	330,715,308	21,427,099	19,287,646
Adjustment for change in accounting principle - Note 1	-	(147,011,699)	-	-
Net Position - Beginning of year, as restated	<u>198,033,592</u>	<u>183,703,609</u>	<u>21,427,099</u>	<u>19,287,646</u>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 212,123,993</b>	<b>\$ 198,033,592</b>	<b>\$ 20,856,776</b>	<b>\$ 21,427,099</b>

The accompanying notes are an integral part of these statements.

**Macomb Community College**

**Statement of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 45,992,614	\$ 46,439,709
Grants and contracts	7,770,154	6,686,342
Payments to suppliers	(71,440,385)	(77,769,053)
Payments to employees	(67,699,502)	(66,387,556)
Center for Performing Arts charges	1,715,752	1,849,291
Other	4,231,490	4,375,226
Net Cash Used For Operating Activities	(79,429,877)	(84,806,041)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Local property taxes	36,877,039	35,005,326
Gifts and contributions for other than capital purposes	1,312,254	(126,343)
William D. Ford direct lending receipts	9,482,090	10,268,703
William D. Ford direct lending disbursements	(9,481,233)	(10,090,532)
Federal Pell grants	25,757,348	29,089,997
State appropriations	35,114,360	37,439,940
Net Cash Provided By Noncapital Financing Activities	99,061,858	101,587,091
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(23,083,927)	(17,868,638)
Principal paid on capital debt	(3,020,000)	(2,975,000)
Capital grant and gift proceeds	3,821,254	-
Debt fund property tax	2,156,690	2,575,008
Interest paid on capital debt	(75,500)	(188,034)
Net Cash Used For Capital and Related Financing Activities	(20,201,483)	(18,456,664)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment	188,647,884	61,785,485
Interest on investments	5,135,297	4,418,738
Purchase of investments	(191,668,547)	(74,709,840)
Net Cash Provided By (Used For) Investing Activities	2,114,634	(8,505,617)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,545,132	(10,181,231)
CASH AND CASH EQUIVALENTS - Beginning of year	16,669,588	26,850,819
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 18,214,720</b>	<b>\$ 16,669,588</b>

The accompanying notes are an integral part of these statements.

**Macomb Community College**

**Statement of Cash Flows (continued)  
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>STATEMENT OF NET POSITION CLASSIFICATIONS OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 18,214,720	\$ 16,240,296
Restricted cash	-	429,292
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 18,214,720</u>	<u>\$ 16,669,588</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED FOR OPERATING ACTIVITIES:</b>		
Operating loss	\$ (100,822,449)	\$ (98,670,414)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Depreciation	13,470,811	12,808,136
Net disposal of capital assets	32,597	58,171
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	949,973	(317,239)
Federal and state grant receivable	(10,210)	(656,521)
Inventories	51,063	12,332
Prepaid assets and other current assets	(225,078)	257,384
Deferred outflows of resources	(8,489,005)	(15,402,255)
(Decrease) increase in liabilities and deferred inflows of resources:		
Accounts payable	1,744,065	1,606,366
Accrued payroll and other compensation	577,716	578,644
Other accrued liabilities	(101,496)	689,542
Deposits	547,956	6,732
Unearned tuition and fees	206,490	(361,948)
Deferred inflows of resources	(10,609,110)	16,086,243
Pension liability	23,246,800	(1,501,214)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>\$ (79,429,877)</u>	<u>\$ (84,806,041)</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 East 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.

**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.

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

**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 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 or other observable inputs 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.

**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.

**Deferred Outflows of Resources** - In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time. The College's outflows of resources relates to the net pension liability. Additional disclosure is found in Note 4.

**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, 2016 includes \$2,518,000 for the 2016 summer semester, which began on May 23, 2016 and ended on August 13, 2016. Unearned revenue at June 30, 2015 included \$2,593,000 for the 2015 summer semester, which began on May 26, 2015 and ended on August 15, 2015.

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

**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.

**Deferred Inflows of Resources** - In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The College's inflows of resources relates to the net pension liability. Deferred inflows of resources at June 30, 2016 include \$4,902,848 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date and \$574,285 related to the pension plan as described in Note 4.

**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 represents 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. As of June 30, 2016, the College has a grant with negative restricted net position. This State grant has expenses of \$2.4 million, the related revenue for this grant will be recorded when the grant restrictions are met by reaching the College's match portion of the grant which is expected to occur in 2017. Deficiencies of this nature are reported in unrestricted net position and as such, this \$2.4 million deficit has been classified as unrestricted net position on June 30, 2016.

**Unrestricted Net Position** - The College has designated the use of unrestricted net position for future capital outlay and maintenance improvements as well as for the implementation of the upcoming accounting pronouncement, GASB 75 as further described below.

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

**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 \$36,110,000 and \$35,003,000 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, 2016 and 2015, respectively. Property tax revenue for the infrastructure/technology debt levy was \$2,827,000 and \$2,575,000 based on \$0.109 and \$0.105 of tax per \$1,000 of taxable property value in the College's taxing district for the years ended June 30, 2016 and 2015, respectively. During 2016, the College completed payments for the remaining bond debt, as such the debt tax levy is also concluded.

**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.

**Reclassification** – Certain prior year amounts have been reclassified to conform to the current year presentation. Deferred outflows of resources of \$15,402,255 related to the MPSERS pension plan have been reclassified to the deferred outflows of resources line on the statement of net position at June 30, 2015. These amounts were presented net with deferred inflows of resources in 2015. There was no impact on the net position of the College as a result of the reclassification.



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

**Adoption of New Standard** – As of June 30, 2016, the College prospectively applied GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the College has reported a Net Pension Liability of \$147 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014.

**Upcoming Accounting Pronouncements** - In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the College to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. 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 \$77 million. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2018.

### 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 \$1,455,000 and

## Note 2 – Cash and Investments (continued)

\$1,364,000 of cash and deposits were covered by FDIC and an estimated \$19,935,000 and \$20,015,000 of cash and deposits were not covered by FDIC insurance at June 30, 2016 and 2015, respectively. The standard maximum deposit covered by FDIC 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 or 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.

**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.

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

### Note 2 – Cash and Investments (continued)

The College has investments with the following recurring fair value measurements as of June 30, 2016 and 2015:

	Balance at June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
U.S. agency bonds	\$ 179,016,704	\$ -	\$ 179,016,704	-
Michigan municipal bonds	21,672,974	-	21,672,974	-
Total investments by fair value level	200,689,678	\$ -	\$ 200,689,678	\$ -
<b>Certificates of deposit - measured at cost</b>	3,037,995			
Total investments	<u>\$ 203,727,673</u>			

	Balance at June 30, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
U.S. agency bonds	\$ 185,506,635	\$ -	\$ 185,506,635	\$ -
Michigan municipal bonds	6,330,470	-	6,330,470	-
Total investments by fair value level	191,837,105	\$ -	\$ 191,837,105	\$ -
<b>Certificates of deposit - measured at cost</b>	4,522,880			
Total investments	<u>\$ 196,359,985</u>			

**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, 2016, the College investments mature as follows:

	Less Than One Year	1-5 Years	More Than 5 Years	Balance at June 30, 2016
Certificates of deposit	\$ 1,515,754	\$ 1,522,241	\$ -	\$ 3,037,995
U.S. agency bonds	-	4,734,619	174,282,085	179,016,704
Michigan municipal bonds	-	5,950,479	15,722,495	21,672,974
Total Investments	<u>\$ 1,515,754</u>	<u>\$ 12,207,339</u>	<u>\$ 190,004,580</u>	<u>\$ 203,727,673</u>

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 2 – Cash and Investments (continued)

As of June 30, 2015, the College investments mature as follows:

	Less Than One Year	1-5 Years	More Than 5 Years	Balance at June 30, 2015
Certificates of deposit	\$ 1,515,719	\$ 3,007,161	\$ -	\$ 4,522,880
U.S. agency bonds	-	12,505,330	173,001,305	185,506,635
Michigan municipal bonds	-	816,008	5,514,462	6,330,470
Total Investments	<u>\$ 1,515,719</u>	<u>\$ 16,328,499</u>	<u>\$ 178,515,767</u>	<u>\$ 196,359,985</u>

Portions of these investments are reported as short-term investments 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 \$15,300,000. 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, 2016 and 2015 were invested as follows:

Issuer	2016	2015
Federal Home Loan Bank	18%	23%
Federal National Mortgage Association	32%	41%
Federal Home Loan Mortgage Co.	11%	17%
Federal Farm Credit Bureau	17%	5%
Government National Mortgage Association	8%	8%

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 3 - Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2016:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance	Estimated Useful Life (in years)
Nondepreciable capital assets:					
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470	
Construction in progress	5,594,901	7,442,197	(5,594,901)	7,442,197	
Total nondepreciable capital assets	<u>14,366,371</u>	<u>7,442,197</u>	<u>(5,594,901)</u>	<u>16,213,667</u>	
Depreciable capital assets:					
Land improvements	7,117,304	18,349	-	7,135,653	10
Building and improvements	251,506,824	6,728,253	2,633,479	260,868,556	10-40
Infrastructure	16,957,057	-	-	16,957,057	10-20
Furniture, fixtures and equipment	49,042,079	8,744,095	(1,706,168)	56,080,006	3-10
Library materials	2,509,628	151,033	(217,334)	2,443,327	10
Total depreciable capital assets	<u>327,132,892</u>	<u>15,641,730</u>	<u>709,977</u>	<u>343,484,599</u>	
Total capital assets	341,499,263	23,083,927	(4,884,924)	359,698,266	
Less accumulated depreciation:					
Land improvements	5,330,473	209,891	-	5,540,364	
Building and improvements	143,588,972	8,621,827	(2,930,822)	149,279,977	
Infrastructure	9,097,840	918,961	-	10,016,801	
Furniture, fixtures and equipment	40,887,754	3,546,626	(1,704,170)	42,730,210	
Library materials	1,729,938	173,506	(217,334)	1,686,110	
Total accumulated depreciation	<u>200,634,977</u>	<u>13,470,811</u>	<u>(4,852,326)</u>	<u>209,253,462</u>	
Total capital assets, net	<u>\$ 140,864,286</u>	<u>\$ 9,613,116</u>	<u>\$ (32,598)</u>	<u>\$ 150,444,804</u>	

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### 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, 2015:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance	Estimated Useful Life (in years)
Nondepreciable capital assets:					
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470	
Construction in progress	1,619,217	5,488,756	(1,513,072)	5,594,901	
Total nondepreciable capital assets	10,390,687	5,488,756	(1,513,072)	14,366,371	
Depreciable capital assets:					
Land improvements	5,408,998	1,168,492	539,814	7,117,304	10
Building and improvements	244,245,028	6,559,539	702,257	251,506,824	10-40
Infrastructure	15,647,730	1,038,325	271,002	16,957,057	10-20
Furniture, fixtures and equipment	47,663,673	3,467,735	(2,089,329)	49,042,079	3-10
Library materials	2,571,317	145,791	(207,480)	2,509,628	10
Total depreciable capital assets	315,536,746	12,379,882	(783,736)	327,132,892	
Total capital assets	325,927,433	17,868,638	(2,296,808)	341,499,263	
Less accumulated depreciation:					
Land improvements	5,192,832	137,641	-	5,330,473	
Building and improvements	135,633,501	7,955,471	-	143,588,972	
Infrastructure	8,178,103	919,737	-	9,097,840	
Furniture, fixtures and equipment	39,302,217	3,616,694	(2,031,157)	40,887,754	
Library materials	1,758,825	178,593	(207,480)	1,729,938	
Total accumulated depreciation	190,065,478	12,808,136	(2,238,637)	200,634,977	
Total capital assets, net	\$ 135,861,955	\$ 5,060,502	\$ (58,171)	\$ 140,864,286	

Four 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 statement of net position.

### Note 4 – Retirement Plans

#### Defined Benefit Pension Plan

**Plan Description** – The College participates in the Michigan Public School Employees' Retirement System (MPSERS), 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. 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. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**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.

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

October 1, 2013 - September 30, 2014	15.44% - 18.34%
October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0.0 percent up to 6.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The College's required and actual contributions to the plan for the years ended June 30, 2016 and 2015 were \$16,740,000 and \$12,775,000, respectively. In addition, the College recognized contributions of \$2,157,000 and \$4,996,000 in revenue from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016 and 2015, respectively. These funds were also remitted to the plan.

### Note 4 – Retirement Plans (continued)

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

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

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

**Net Pension Liability, Deferrals, and Pension Expense** – At June 30, 2016 and 2015, the College reported a liability of \$168,757,285 and \$145,510,485 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 and 2013, which used updated procedures to roll forward the estimated liability to September 30, 2015 and 2014. 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, 2015 and September 30, 2014, the College's proportion was .69092 and .66062 percent, respectively.



# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 4 – Retirement Plans (continued)

For the year ended June 30, 2016 and 2015, the College recognized pension expense of \$15,779,000 and \$9,443,000, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	As of June 30, 2015		As of June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ 558,974
Changes of assumptions	5,369,026	-	4,155,162	-
Net difference between projected and actual earnings on pension plan assets	-	16,086,243	861,370	-
Changes in proportion and differences between College contributions and proportionate share of contributions	984	-	5,647,594	15,311
College contributions subsequent to the measurement date	10,032,245	-	13,227,134	-
Total	<u>\$ 15,402,255</u>	<u>\$ 16,086,243</u>	<u>\$ 23,891,260</u>	<u>\$ 574,285</u>

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
2017	\$ 1,989,382
2018	1,989,382
2019	1,764,041
2020	4,347,036
Thereafter	-
Total	<u>\$ 10,089,841</u>

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

### Note 4 – Retirement Plans (continued)

**Actuarial Assumptions** – The total pension liability as of September 30, 2015 and 2014, based on the results of an actuarial valuation dated September 30, 2014 and 2013 and rolled forward, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2008 to September 30, 2013. The actuarial assumptions used for the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of these studies, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.0 - 8.00 percent, depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**Note 4 – Retirement Plans (continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	2015		2016	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28%	4.8%	28%	5.9%
Alternative Investment Pools	18%	8.5%	18%	9.2%
International Equity Pools	16%	6.1%	16%	7.2%
Fixed Income Pools	11%	1.5%	11%	0.9%
Real Estate and Infrastructure Pools	10%	5.3%	10%	4.3%
Absolute Return Pools	16%	6.3%	16%	6.0%
Short Term Investment Pools	1%	-0.2%	1%	0.0%
Total	100%		100%	

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

	1.00 percent decrease (7.00/6.00 percent)	Current Discount Rate (8.00/7.00 percent)	1.00 percent increase (9.00/8.00 percent)
June 30, 2016 - net pension liability	\$ 217,517,401	\$ 168,757,285	\$ 127,604,987
June 30, 2015 - net pension liability	\$ 191,842,904	\$ 145,510,485	\$ 106,474,738

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

**Payable to the Pension Plan** – At June 30, 2016 and June 30, 2015, the College reported payables of \$2,219,000 and \$1,539,000 for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2016 and June 30, 2015.

## Note 4 - Retirement Plans (continued)

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. 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 on a pay as you go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through September 30, 2014, from 2.2 percent to 2.71 percent of covered payroll for the period October 1, 2014 through September 30, 2015 and from 6.4 to 6.83 percent of covered payroll for the period October 1, 2015 to September 30, 2016 dependent upon the employee's date of hire and plan election as noted above. 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 403(b) account.

The College's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2016, 2015 and 2014 were \$3,184,000, \$2,097,000 and \$3,863,000, 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, 2016 and 2015 were approximately \$6,291,000 and \$724,000 and \$6,278,000 and \$722,000, 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 \$1,053,000 and

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 4 - Retirement Plans (continued)

\$1,036,000 and the employees contributed approximately \$2,796,000 and \$2,780,000 for the years ended June 30, 2016 and 2015, respectively.

### Note 5 - Federal Direct Lending Program

The College distributed \$9,481,233 and \$10,090,532 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2016 and 2015, respectively. These distributions and related funding source are not included as revenues or expenses in the accompanying financial statements.

### Note 6 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,020,000	\$ -	\$ 3,020,000	\$ -	\$ -
Accrued vacation	3,075,662	207,253	257,787	3,025,128	246,064
	<u>\$ 6,095,662</u>	<u>\$ 207,253</u>	<u>\$ 3,277,787</u>	<u>\$ 3,025,128</u>	<u>\$ 246,064</u>

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 5,995,000	\$ -	\$ 2,975,000	\$ 3,020,000	\$ 3,020,000
Accrued vacation	3,112,534	150,903	187,775	3,075,662	246,794
	<u>\$ 9,107,534</u>	<u>\$ 150,903</u>	<u>\$ 3,162,775</u>	<u>\$ 6,095,662</u>	<u>\$ 3,266,794</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 bond liability was paid in full by June 30, 2016 and \$3,020,000 was outstanding at June 30, 2015. Bond principal payments were due annually each May through maturity in fiscal year 2016. Interest payments were due semi-annually through maturity at a rate of 2.5 percent.

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 7 – Self Insurance

The College is partially self-insured for vision and healthcare benefits. The self-insured healthcare plan covers approximately 540 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 \$100,000 per covered employee and/or their dependent. The College pays the administrative costs of the plan.

Self-insured employee benefit liability for the years ending June 30, 2016 and June 30, 2015 and for the period January 1, 2014 to June 30, 2014 were as follows:

	2016	2015	2014
Balance, beginning of year	\$ 260,000	\$ 339,453	\$ -
Claims incurred, premiums paid and changes in estimates	5,808,606	5,321,205	1,909,569
Claim and premium payments	(5,768,606)	(5,400,658)	(1,570,116)
Balance, end of year	<u>\$ 300,000</u>	<u>\$ 260,000</u>	<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, 2016 and 2015

### 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, 2016. Total future commitments related to these projects approximates \$7.5 million.

### Note 10 - Macomb Community College Foundation

All investments of the Foundation are either donor-restricted endowments, donor restricted grants, 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 using Level 1 inputs.

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

<u>Mutual Fund Type</u>	June 30, 2016	June 30, 2015
	<u>Fair Value</u>	<u>Fair Value</u>
Fixed Income	\$ 8,908,746	\$ 8,119,825
Equity	11,402,984	12,785,112
Balanced	389,529	403,350
	<u>\$ 20,701,259</u>	<u>\$ 21,308,287</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 \$20,856,776 and \$21,427,099 at June 30, 2016 and 2015, respectively.

# Macomb Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Macomb Community College Foundation (continued)

Unrestricted net position, expendable endowments, scholarships and grants and nonexpendable endowments are available at June 30, 2016 for the following purposes:

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2016
College designated	\$ 10,341,372	\$ -	\$ -	\$ 10,341,372
Center for Performing Arts	-	1,050,885	2,652,155	3,703,040
Innovation Fund	914,237	477,386	-	1,391,623
Scholarships and financial aid	-	1,108,625	3,074,725	4,183,350
Foundation designated	313,977	-	-	313,977
Library and other	-	216,202	707,212	923,414
Total	<u>\$ 11,569,586</u>	<u>\$ 2,853,098</u>	<u>\$ 6,434,092</u>	<u>\$ 20,856,776</u>

Unrestricted net position, expendable endowments, scholarships and grants and nonexpendable endowments were available at June 30, 2015 for the following purposes:

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2015
College designated	\$ 10,621,786	\$ -	\$ -	\$ 10,621,786
Center for Performing Arts	-	1,197,266	2,641,418	3,838,684
Innovation Fund	937,927	1,013,975	-	1,951,902
Scholarships and financial aid	-	1,220,155	2,649,749	3,869,904
Foundation designated	310,553	-	-	310,553
Library and other	-	242,042	592,228	834,270
Total	<u>\$ 11,870,266</u>	<u>\$ 3,673,438</u>	<u>\$ 5,883,395</u>	<u>\$ 21,427,099</u>

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****Required Supplementary Information  
June 30, 2015 and 2016****Schedule of Institutions' Proportionate Share of the Net Pension Liability**  
(As of the Plan's Year End, September 30)

	<u>2015</u>	<u>2014</u>
Macomb Community College's proportion of the collective MPSERS net pension liability :		
As a percentage	0.69092%	0.66062%
Amount	\$ 168,757,285	\$ 145,510,485
Macomb Community College's covered employee payroll	\$ 60,441,372	\$ 58,146,877
Macomb Community College's proportionate share of the collective MPSERS pension liability, as a percentage of covered-employee payroll percent	279.21%	250.25%
MPSERS fiduciary net position as a percentage of total pension liability	63.17%	66.20%

**Schedule of Institution Contributions**  
(As of the College's Year End, June 30)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 16,515,705	\$ 12,775,183
Contributions in relation to the actuarially determined contractually required contribution	\$ 16,515,705	\$ 12,775,183
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 60,996,256	\$ 60,027,383
Contributions as a percentage of covered employee payroll	27.08%	21.28%

**Macomb Community College**

**Combining Statement of Net Position  
June 30, 2016**

	Combined Total	General Fund	Pension Liability Fund *	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund
<b>ASSETS</b>							
Current Assets							
Cash and cash equivalents	\$ 18,214,720	\$ 18,214,720	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term investments	1,515,754	1,515,754	-	-	-	-	-
Property taxes receivable, net	58,576	58,576	-	-	-	-	-
State appropriation receivable	7,419,700	7,419,700	-	-	-	-	-
Accounts receivable, net	1,777,791	1,777,791	-	-	-	-	-
Federal and state grants receivable	2,351,339	-	-	1,867,531	-	316,730	167,078
Student loans receivable	148,655	-	-	-	148,655	-	-
Inventories	182,467	182,467	-	-	-	-	-
Prepaid expenses and other assets	3,163,542	3,120,501	-	43,041	-	-	-
<b>Total Current Assets</b>	<b>34,832,544</b>	<b>32,289,509</b>	<b>-</b>	<b>1,910,572</b>	<b>148,655</b>	<b>316,730</b>	<b>167,078</b>
Restricted cash and investments	-	-	-	-	-	-	-
Long-term investments	202,211,919	202,211,919	-	-	-	-	-
Capital Assets, net							
Land and improvements	10,366,759	-	-	-	-	10,366,759	-
Infrastructure	6,940,256	-	-	-	-	6,940,256	-
Buildings and improvements	111,588,577	-	-	-	-	111,588,577	-
Equipment and library materials	14,107,016	-	-	-	-	14,107,016	-
Construction in progress	7,442,196	-	-	-	-	7,442,196	-
<b>Total Capital Assets</b>	<b>150,444,804</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,444,804</b>	<b>-</b>
<b>Total Assets</b>	<b>387,489,267</b>	<b>234,501,428</b>	<b>-</b>	<b>1,910,572</b>	<b>148,655</b>	<b>150,761,534</b>	<b>167,078</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred pension amounts	23,891,260	-	23,891,260	-	-	-	-
<b>LIABILITIES</b>							
Current Liabilities							
Accounts payable	8,900,492	8,900,492	-	-	-	-	-
Accrued payroll and other compensation	7,366,578	7,232,651	-	102,089	-	27,838	4,000
Other accrued liabilities	2,137,136	1,231,513	-	-	-	905,623	-
Deposits	829,458	579,233	-	-	-	-	250,225
Unearned revenue	3,009,388	3,009,388	-	-	-	-	-
Due to (from) other funds	-	178,055,537	-	2,095,776	148,655	(180,212,821)	(87,147)
<b>Total Current Liabilities</b>	<b>22,243,052</b>	<b>199,008,814</b>	<b>-</b>	<b>2,197,865</b>	<b>148,655</b>	<b>(179,279,360)</b>	<b>167,078</b>
Accrued Vacation	2,779,064	2,779,064	-	-	-	-	-
Net pension liability	168,757,285	-	168,757,285	-	-	-	-
<b>Total Liabilities</b>	<b>193,779,401</b>	<b>201,787,878</b>	<b>168,757,285</b>	<b>2,197,865</b>	<b>148,655</b>	<b>(179,279,360)</b>	<b>167,078</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred pension amounts	5,477,133	-	5,477,133	-	-	-	-
<b>NET POSITION</b>							
Net investment in capital assets	150,444,804	-	-	-	-	150,444,804	-
Restricted for							
Expendable endowments, scholarships and grants	2,127,319	-	-	2,127,319	-	-	-
Unrestricted	59,551,870	32,713,550	(150,343,158)	(2,414,612)	-	179,596,090	-
<b>Total Net Position</b>	<b>\$ 212,123,993</b>	<b>\$ 32,713,550</b>	<b>\$ (150,343,158)</b>	<b>\$ (287,293)</b>	<b>\$ -</b>	<b>\$ 330,040,894</b>	<b>\$ -</b>

\* The Pension Liability Fund reflects GASB 68 adjustments and state appropriations for UAAL

**Macomb Community College**

**Combining Statement of Revenues, Expenses and Changes in Net Position  
June 30, 2016**

	Combined Total	Elimination	General Fund	Pension Liability Fund *	Expendable Restricted Fund	Student Loan Fund	Plant Fund
<b>OPERATING REVENUES</b>							
Tuition and fees (net of scholarship allowance of \$13,600,000)	\$ 44,836,151	\$ (13,600,000)	\$ 58,436,151	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	7,009,778	-	29,192	-	6,980,586	-	-
State and local grants and contracts	327,134	-	-	-	327,134	-	-
Nongovernmental grants	443,452	-	99,282	-	344,170	-	-
Center for Performing Arts revenue	1,715,752	-	1,715,752	-	-	-	-
Indirect cost recoveries	-	(452,873)	452,873	-	-	-	-
Miscellaneous	4,231,490	-	3,809,846	-	29,018	-	392,626
<b>Total Operating Revenues</b>	<b>58,563,757</b>	<b>(14,052,873)</b>	<b>64,543,096</b>	<b>-</b>	<b>7,680,908</b>	<b>-</b>	<b>392,626</b>
<b>OPERATING EXPENSES</b>							
Instruction	58,227,253	(294,418)	52,106,953	3,213,326	3,201,392	-	-
Public services	4,079,316	-	3,914,884	164,432	-	-	-
Instructional support	21,312,410	(15,620)	18,389,319	1,068,097	1,870,614	-	-
Student services	29,501,305	(13,696,270)	14,570,490	720,312	27,906,773	-	-
Institutional administration	17,908,057	(46,565)	15,448,098	648,379	1,858,145	-	-
Operation and maintenance of plant	14,887,054	-	14,150,584	490,829	2,421,032	-	(2,175,391)
Depreciation	13,470,811	-	-	-	-	-	13,470,811
<b>Total Operating Expenses</b>	<b>159,386,206</b>	<b>(14,052,873)</b>	<b>118,580,328</b>	<b>6,305,375</b>	<b>37,257,956</b>	<b>-</b>	<b>11,295,420</b>
<b>OPERATING LOSS</b>	<b>(100,822,449)</b>	<b>-</b>	<b>(54,037,232)</b>	<b>(6,305,375)</b>	<b>(29,577,048)</b>	<b>-</b>	<b>(10,902,794)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	33,415,600	-	33,415,600	-	-	-	-
State appropriations for UAAL	2,156,690	-	-	2,156,690	-	-	-
Property tax levy	39,030,300	-	36,203,554	-	-	-	2,826,746
Federal Pell grants	25,757,348	-	-	-	25,757,348	-	-
Investment income	4,502,068	-	461,952	-	-	-	4,040,116
Net realized and unrealized gain on investments	4,980,253	-	4,980,253	-	-	-	-
Interest expense	(62,917)	-	-	-	-	-	(62,917)
Gifts between College and Foundation	1,312,254	-	611,054	-	701,200	-	-
<b>Net Nonoperating Revenues</b>	<b>111,091,596</b>	<b>-</b>	<b>75,672,413</b>	<b>2,156,690</b>	<b>26,458,548</b>	<b>-</b>	<b>6,803,945</b>
<b>OTHER REVENUE</b>							
State capital appropriations	3,774,873	-	-	-	-	-	3,774,873
Capital gifts and grants	46,381	-	-	-	-	-	46,381
<b>Total Other Revenue</b>	<b>3,821,254</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,821,254</b>
Transfers In (Out)	-	-	(18,311,573)	-	734,444	-	17,577,129
<b>CHANGE IN NET POSITION</b>	<b>14,090,401</b>	<b>-</b>	<b>3,323,608</b>	<b>(4,148,685)</b>	<b>(2,384,056)</b>	<b>-</b>	<b>17,299,534</b>
Net Position - Beginning of Year	198,033,592	-	(116,804,531)	-	2,096,763	-	312,741,360
Transfer to Pension Liability Fund	-	-	146,194,473	(146,194,473)	-	-	-
Net Position - Beginning of Year, as restated	198,033,592	-	29,389,942	(146,194,473)	2,096,763	-	312,741,360
<b>NET POSITION - END OF YEAR</b>	<b>\$ 212,123,993</b>	<b>\$ -</b>	<b>\$ 32,713,550</b>	<b>\$ (150,343,158)</b>	<b>\$ (287,293)</b>	<b>\$ -</b>	<b>\$ 330,040,894</b>

\* The Pension Liability Fund reflects GASB 68 adjustments and state appropriations for UAAL