



MACOMB COMMUNITY COLLEGE

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018



**Macomb
Community College**

Education • Enrichment • Economic Development

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MACOMB COMMUNITY COLLEGE

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INDEPENDENT AUDITORS' REPORT

September 24, 2018

Board of Trustees
Macomb Community College
Warren, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Macomb Community College Foundation were not audited in accordance with *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 auditors' 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 College'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 College'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, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of *Macomb Community College* as of June 30, 2018 and 2017, and the results of their operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Notes 1 and 4, the College implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of business-type activities as of July 1, 2017 was restated. Application of this new standard to July 1, 2016, the earliest year presented, is not practical as complete information is not available. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and OPEB, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplementary combining statements identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September XX, 2018, on our consideration of *Macomb Community College's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the College's internal control over financial reporting and compliance.

Rehmann Johnson LLC

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, 2018, 2017 and 2016 and its activities for the three years ended June 30, 2018. 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 four supplemental schedules: the GASB 68 and GASB 75 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, 2018.

For the year ended June 30, 2018, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting for Postemployment Benefits Other than Pension (GASB 75)*. This standard for the first time requires the College to record its proportionate share of the other postemployment liability associated with providing healthcare to retirees in the Michigan Public School employees Retirement System (MPERS), the defined benefit plan in which the majority of the employees of the College participate. The standard, coupled with the pension related liability disclosures, first reported for fiscal year ended June 30, 2015 under GASB 68, *Accounting and Financial Reporting for Pensions (GASB 68)*, has had a significant impact on the liabilities and net position of the College as discussed below. In addition, Note 4 to the financial statements includes additional information related to the implementation of this standard, and two new schedules are included with the required supplementary information following the footnotes.

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, 2018 and 2017 and changes in net position for the two years ended June 30, 2018. The College's financial position remained strong at June 30, 2018 and 2017, with assets of \$390.7 million and \$386.5 million, respectively and liabilities of \$269.2 million and \$197.6 million, respectively. The College recorded additional net pension liability of \$6.7 million to reflect its share of the unfunded Michigan Public School Employees' Retirement System (MPERS) long-term net pension and \$63.1 million net Other Postemployment Benefits (OPEB) liability, as required by GASB No. 75. The change in net position was impacted by the change in market value of investments, as well

as the reported net OPEB liability. In 2018, the College had \$5.2 million in net realized and unrealized losses, compared to a net realized and unrealized losses of \$6.5 million in 2017. For the fiscal year ended June 30, 2018, the College's expenses exceeded revenue and other support, thereby decreasing the net position of the College by \$3.5 million as compared to \$1.1 million increase in the previous year.

The Pension and OPEB Liability Fund reported a deficit of \$220.4 million in the unrestricted net position as of June 30, 2018, which is partially offset by the unrestricted net position of the College's General Fund and Plant Fund, in the amount of \$207.6 million resulting in an overall unrestricted deficit of \$12.8 million at June 30, 2018.

The Statements of Net Position and the Statements 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:

	2018	2017	2016
Assets			
Current assets	\$ 36,860,934	\$ 31,940,831	\$ 34,832,544
Long-term investments	195,500,330	202,205,384	202,211,919
Capital assets, net	<u>158,364,109</u>	<u>152,350,384</u>	<u>150,444,804</u>
Total Assets	<u>390,725,373</u>	<u>386,496,599</u>	<u>387,489,267</u>
Deferred Outflows of Resources	<u>45,810,554</u>	<u>30,276,943</u>	<u>23,891,260</u>
Liabilities			
Current liabilities	19,159,011	17,139,120	22,243,052
Long-term liabilities, net	2,797,345	2,917,559	2,779,064
Net pension liability	184,192,399	177,493,906	168,757,285
Net OPEB liability	<u>63,099,138</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>269,247,893</u>	<u>197,550,585</u>	<u>193,779,401</u>
Deferred Inflows of Resources	<u>19,559,476</u>	<u>6,030,011</u>	<u>5,477,133</u>
Net Position			
Net Investment in capital assets	158,364,109	152,350,384	150,444,804
Restricted for:			
Expendable endowments, scholarships and grants	2,211,232	1,803,070	2,127,319
Pension & OPEB Deficits	(220,452,007)	(153,246,974)	(150,343,158)
Other Unrestricted	<u>207,605,224</u>	<u>212,286,466</u>	<u>209,895,028</u>
Total Net Position	<u>\$ 147,728,558</u>	<u>\$ 213,192,946</u>	<u>\$ 212,123,993</u>

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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 56,222,030	\$ 58,429,774	\$ 58,563,757
Operating Expenses	<u>160,869,285</u>	<u>159,111,085</u>	<u>159,386,206</u>
Operating Loss	(104,647,255)	(100,681,311)	(100,822,449)
Nonoperating Revenues	101,128,733	98,609,171	111,091,596
Other Revenues	<u>13,583</u>	<u>3,141,093</u>	<u>3,821,254</u>
Change in Net Position	<u>(3,504,939)</u>	<u>1,068,953</u>	<u>14,090,401</u>
Net Position - Beginning of year	213,192,946	212,123,993	198,033,592
Adjustment for change in accounting principle	(61,959,449)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Net Position - Beginning of year, as restated	<u>151,233,497</u>	<u>212,123,993</u>	<u>198,033,592</u>
Net Position - End of year	<u>\$ 147,728,558</u>	<u>\$ 213,192,946</u>	<u>\$ 212,123,993</u>

Operating Revenues

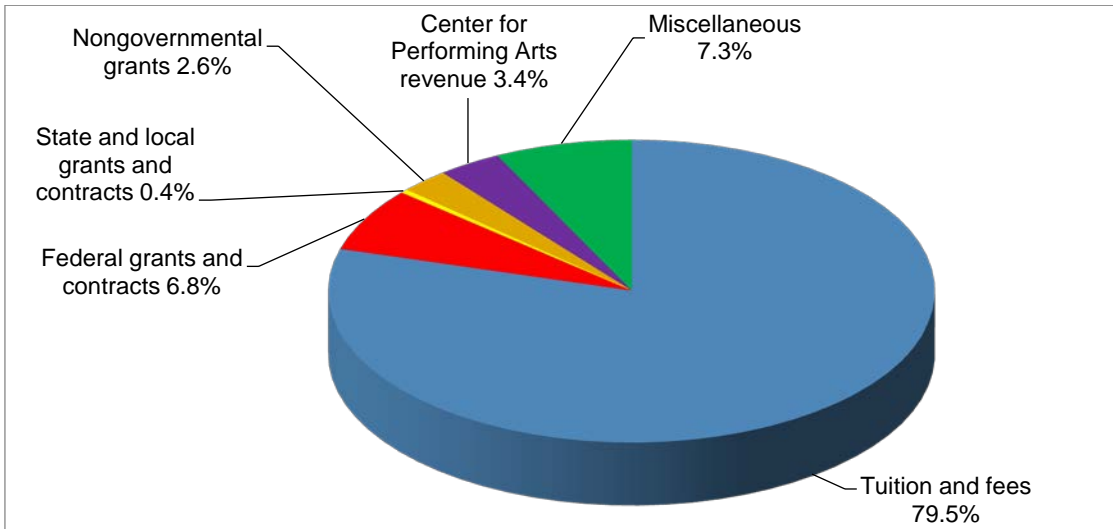
Operating revenues include all transactions that result in sales and / or receipts from goods and services, such as tuition and fees and ticket sales revenue from the Macomb Center for Performing Arts. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services. Operating revenues consisted of the following during the years ended June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Tuition and fees	\$ 44,593,742	\$ 45,215,543	\$ 44,836,151
Federal grants and contracts	3,843,286	6,670,569	7,009,778
State and local grants and contracts	235,055	211,401	327,134
Nongovernmental grants	1,483,906	124,511	443,452
Center for Performing Arts revenue	1,908,833	1,949,747	1,715,752
Miscellaneous	<u>4,157,208</u>	<u>4,258,003</u>	<u>4,231,490</u>
Total Operating Revenues	<u>\$ 56,222,030</u>	<u>\$ 58,429,774</u>	<u>\$ 58,563,757</u>

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

The following is a graphic illustration of operating revenues for fiscal year 2018:



For the three years ended June 30, 2018, there was a 0.50 percent decline in net tuition and fee revenue of \$242,000. This revenue decrease is due to a combination of a 3.70 percent increase in tuition rates, a 7.2 percent decline in credit hours and a 2.6 percent increase in the amount of tuition and fees paid with financial aid during the three year period.

In September 2013, the College received an 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 was 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.

Revenue at the Center for Performing Arts had an increase of \$194,000 or 11.3 percent during the three years ended June 30, 2018. The Performing Arts Center continues to be a popular venue for entertainment within the county.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

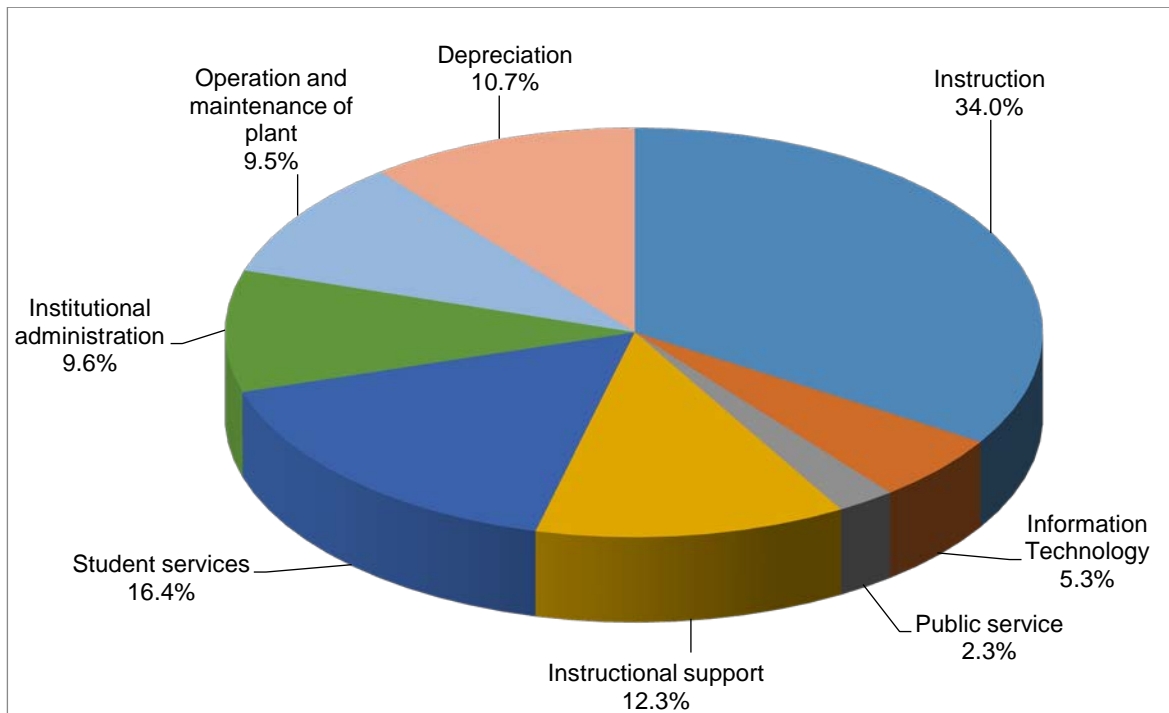
Operating Expenses

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:

	2018	2017	2016
Operating Expenses			
Instruction	\$ 54,689,516	\$ 54,471,479	\$ 54,167,827
Information Technology	8,543,832	8,263,189	8,195,894
Public service	3,715,328	4,009,056	3,779,915
Instructional support	19,738,491	20,351,970	19,896,918
Student services	26,382,476	26,984,139	28,379,208
Institutional administration	15,454,666	14,250,472	16,608,579
Operation and maintenance of plant	15,210,758	15,557,161	14,887,054
Depreciation	17,134,218	15,223,619	13,470,811
Total Operating Expenses	\$ 160,869,285	\$ 159,111,085	\$ 159,386,206

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 \$8.8 million, \$7.6 million and \$7.1 million for the years ended June 30, 2018, 2017 and 2016, respectively.

The following is a graphic illustration of operating expenses for the year ended June 30, 2018:



Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

The primary operating expenses of the College are salaries, payroll taxes and related fringe benefits. The College incurred approximately \$104.6 million, \$106.0 million, and \$106.2 million of payroll-related expenses during the three years ended June 30, 2018. This represents 66.3 percent, 66.6 percent and 66.6 percent of the College's operating expenses during those years, respectively.

Wage expenses have decreased \$563,000 or 1.5 percent during the three years ended June 30, 2018 primarily due to vacant positions and reorganizations resulting in a reduction in budgeted positions.

Benefit expenses have decreased \$1.0 million or 2.8 percent during the three years ended June 30, 2018 due primarily to pension expense, including adjustments to the College's UAAL. The College received \$1.8 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 \$8.8 million, \$7.6 million, and \$7.1 for the year ended June 30, 2018, 2017 and 2016, respectively.

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.

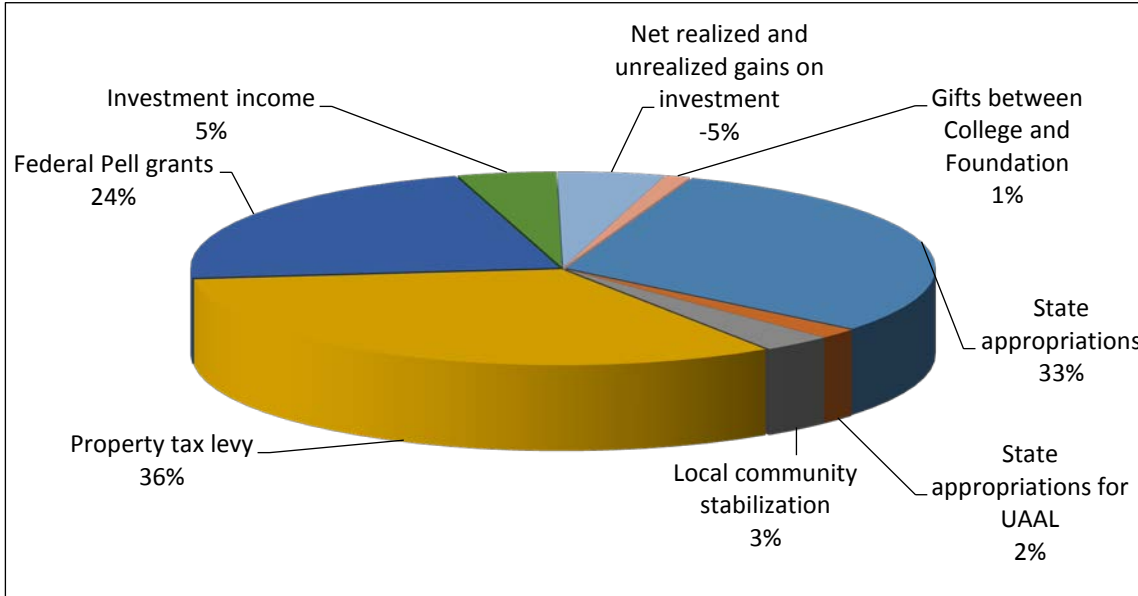
Nonoperating revenues (expenses) were comprised of the following for the three years ended June 30, 2018:

	2018	2017	2016
Nonoperating Revenues (Expenses)			
State appropriations	\$ 33,863,600	\$ 33,860,702	\$ 33,415,600
State appropriations for UAAL	1,939,694	2,048,692	2,156,690
Local community stabilization	3,397,661	3,059,502	-
Property tax levy	36,444,050	35,960,888	39,030,300
Federal Pell grants	24,672,349	24,302,742	25,757,348
Investment income	4,821,813	4,577,262	4,502,068
Net realized and unrealized (loss) gain on investments	(5,244,956)	(6,486,521)	4,980,253
Interest expense	-	-	(62,917)
Gifts between College and Foundation	1,234,522	1,285,904	1,312,254
Net Nonoperating Revenues	\$ 101,128,733	\$ 98,609,171	\$ 111,091,596

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

The following is a graphic illustration of nonoperating revenues for the year ended June 30, 2018:



Due to stabilizing economic conditions within the State, there was an increase of \$448,000 or 1.34 percent in state appropriations during the three years ended June 30, 2018. 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 \$8.8 million, \$7.6 million and \$7.1 million in 2018, 2017 and 2016, respectively, as well as MPSERS related cash outlay and expenses of equal amounts.

Although property tax values increased by 2.0 percent over the three year period due to changes in housing market values and new construction, property tax revenue decreased by \$2.6 million. Property tax revenue included the College's debt levy of \$2.8 million for the year ending June 2016, which also ended in 2016 as the final bond payment was made on May 1, 2016 and the debt levy concluded. In addition, legislation was enacted in 2012 that provides personal property tax exemption for small taxpayers and eligible manufacturing personal property impacted property taxes. The 2012 legislation also created the Local Community Stabilization Authority (Authority) to provide for the reimbursement of the lost personal property tax revenue through share of a 6% use tax levied by the Authority. The combined operating and technology millage rate was 1.4212, 1.4174, 1.4072 for the years 2016, 2017 and 2018, respectively. The debt retirement millage rate was 0.109 in 2016. At the May 8, 2018 election, the College's operating levy was renewed and restored to \$1.464 of tax per \$1000 of taxable property for 20 years or through 2038.

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 7.2 percent enrollment decline and a 7.78 percent decline in the number of financial aid students over the three year period. As a result, Federal Pell grants decreased by \$1.1 million or 4.21 percent during the three year period.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Stable interest rates resulted in an increase in investment income of \$321,000 over the three years ended June 30, 2018. The weighted average interest rates on cash and investments for the years 2018, 2017, and 2016 were 2.33, 2.33, and 2.21 percent, respectively.

The market value for government agency bonds decreased in 2018 as a result of market conditions and increased interest rates. The net realized and unrealized loss on investments was \$5.2 million and \$6.5 million in 2018 and 2017, respectively, and the net realized and unrealized gain was \$5.0 million in 2016. The College portfolio is heavily weighted in government instrumentalities and municipal bonds that fluctuate in value with rising and declining interest rates. As the College intends to hold the instrumentalities and 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.

The College received a \$2.8 million award from the State in March 2015 for skilled trades equipment, of which \$2.4 million and \$400,000 was expended in 2016 and 2017, respectively.

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 complete and the remaining funds of \$208,000 were provided by the State during the year ended June 30, 2017.

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

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

	2018	2017	2016
Cash provided by (used in):			
Operating activities	\$ (79,551,239)	\$ (86,788,741)	\$ (79,429,877)
Noncapital financing activities	101,510,530	100,376,829	99,061,858
Capital and related financing activities	(23,190,081)	(14,061,615)	(20,201,483)
Investing activities	5,008,020	(1,767,771)	2,114,634
Net change in cash and equivalents	3,777,230	(2,241,298)	1,545,132
Cash and equivalents- Beginning of year	15,973,422	18,214,720	16,669,588
Cash and equivalents- End of year	\$ 19,750,652	\$ 15,973,422	\$ 18,214,720

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

Net cash and equivalents used in operating activities totaled \$79.6 million in 2018. This was financed by \$101.5 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 \$23.2 million during 2018, which is primarily the result of capital expenditures. Net cash provided by investing activities totaled approximately \$5.0 million. The net result of all cash flows is an increase in cash and equivalents of \$3.8 million in 2018.

Net cash and equivalents used in operating activities totaled \$86.7 million in 2017. This was financed by \$100.4 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 \$14.1 million during 2017, which is primarily the result of capital expenditures. Net cash used in investing activities totaled approximately \$1.8 million. The net result of all cash flows is a decrease in cash and equivalents of \$2.2 million in 2017.

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.

Capital Assets

The College had \$158.3 million, \$152.4 million and \$150.4 million invested in capital assets, net of accumulated depreciation of \$235.1 million, \$221.1 million and \$209.3 million at June 30, 2018, 2017 and 2016, respectively. Depreciation charges totaled \$17.1 million, \$15.2 million and \$13.5 million respectively, for the years then ended.

	2018	2017	2016
Capital assets			
Land and improvements	\$ 15,785,806	\$ 15,785,806	\$ 15,907,123
Infrastructure	16,957,057	16,957,057	16,957,057
Building and improvements	294,530,852	276,773,907	260,868,556
Furniture, fixtures and equipment	61,355,812	59,753,870	56,080,007
Library materials	1,988,037	2,417,814	2,443,327
Construction in progress	2,829,266	1,809,821	7,442,196
Accumulated depreciation	<u>(235,082,721)</u>	<u>(221,147,891)</u>	<u>(209,253,462)</u>
Total Capital assets	<u>\$ 158,364,109</u>	<u>\$ 152,350,384</u>	<u>\$ 150,444,804</u>

Major capital additions during 2018 were as follows:

Campus	Description	Amount
South	B building renovation	\$ 6,859,000
Center	E building renovation	4,518,000
Center	N building renovation	3,934,000
Center	Library	1,122,000
Center/South	HVAC and Mechanical	932,000
Center/South	Audio Visual Equipment	667,000
Center	East Campus Gun Range	631,000
	Total	<u>\$ 18,663,000</u>

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

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 improvement 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 2018 they were 25 percent of College revenues. State appropriations increased by 0.5 percent for the fiscal year ending 2018. Public Act 265 was approved on June 28, 2018 and includes an increase of 0.8 percent in 2019. State appropriation revenue levels will continue to remain uncertain for future years as the State of Michigan continues to address balancing the state budget, including funding higher education from the school aid fund, as well as the unfunded pension and OPEB liabilities.

Macomb County taxable value and the resulting property tax revenue increased by 2.9 percent in 2017-18. These values are expected to increase 4.3 percent in 2018-19 due to an improvement in housing values, as well as new construction offset by the loss of taxable value due to personal property tax reform legislated by the State. Over a ten year period there has been a decline in operating property tax revenue of approximately \$9.5 million or 21 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 reversing. At approximately 26 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. At the May 8, 2018 election, the College's operating levy was renewed and restored to \$1.464 of tax per \$1,000 of taxable property for 20 years or through 2038.

Despite property tax revenue losses and lagging state appropriations, tuition and fee rates were not increased and will remain the same as the rates in 2017-18 for the 2018-19 academic year. Student affordability is important to the College and, as such, tuition rates continue to remain below the average rate charged by Michigan community colleges and are approximately one quarter of the university tuition rates in southeastern Michigan.

Payroll and related expenses represent approximately 66.3 percent of the total operating expenditures reported on the June 30, 2018 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) provides state appropriated funding to community colleges for fiscal years 2016, 2017 and 2018. 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 \$7.1 million, \$7.6 million and \$8.8 million for fiscal year 2016, 2017 and 2018 respectively with corresponding payments of equal amounts in each year.

Public Act 328 (PA 328) was signed into law on July 2, 2018. While PA 328 clarifies the reporting of student workers for MPSERS prospectively, it also required community colleges to provide a report of all student workers for the past four years to the Office of Retirement Services (ORS). Due to inconsistencies in the reporting of students based on the interpretation of the definition of a full-time student, the ORS may attempt to require community colleges to make contribution payments for student workers that were not previously reported to MPSERS. The outcome of this legislation is unknown.

Macomb Community College

Management's Discussion and Analysis – Unaudited (Continued)

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.

<u>Year</u>	<u>Campus</u>	<u>Description</u>	<u>Future Cost</u>
2018	Center	E building renovation	\$ 2,200,000
	Center	L & M building renovation	4,580,000
	South	F building renovation	3,980,000
	South	J building renovation	7,350,000
	South and Center	Various projects	1,500,000
2019-2020	South	D building renovation	5,300,000
	South	K building renovation	7,400,000
	Center	B building renovation	2,965,000
	South and Center	Various projects	1,500,000
		Total	<u>\$ 36,775,000</u>

A proposal for capital outlay appropriations has been submitted to the State 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, which could impact the renovation schedule noted above.

Macomb Community College

**Statements of Net Position
June 30, 2018 and 2017**

	College		Component Unit - Foundation	
	2018	2017	2018	2017
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 19,750,652	\$ 15,973,422	\$ 22,458	\$ 92,098
Short-term investments	2,814,133	1,540,241	24,218,548	22,498,767
Property taxes receivable - net of allowance for doubtful accounts of \$145,000 in 2018 and 2017	48,988	74,213	-	-
State appropriation receivable	7,628,929	7,568,452	-	-
Accounts receivable - net of allowance for doubtful accounts of \$200,000 in 2018 and 2017	1,610,778	1,713,699	-	-
Federal and state grants receivable	1,655,684	1,703,901	-	-
Student loans receivable	134,007	127,913	-	-
Inventories	206,328	187,689	-	-
Prepaid expenses and other assets	<u>3,011,435</u>	<u>3,051,301</u>	<u>4,442</u>	<u>3,792</u>
Total Current Assets	36,860,934	31,940,831	24,245,448	22,594,657
Long-term investments	195,500,330	202,205,384	-	-
Capital assets, net	<u>158,364,109</u>	<u>152,350,384</u>	<u>-</u>	<u>-</u>
Total Assets	390,725,373	386,496,599	24,245,448	22,594,657
DEFERRED OUTFLOWS OF RESOURCES - Note 4				
Deferred pension amounts	43,163,822	30,276,943	-	-
Deferred OPEB amounts	<u>2,646,732</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	45,810,554	30,276,943	-	-
LIABILITIES				
Current Liabilities				
Accounts payable	8,810,104	7,590,018	795,252	216,397
Accrued payroll and other compensation	4,580,422	4,160,603	-	-
Other accrued liabilities	2,213,340	1,761,239	-	-
Deposits	402,430	429,616	-	-
Unearned revenue	<u>3,152,715</u>	<u>3,197,644</u>	<u>-</u>	<u>25,000</u>
Total Current Liabilities	19,159,011	17,139,120	795,252	241,397
Accrued Vacation	2,797,345	2,917,559	-	-
Net pension liability	184,192,399	177,493,906	-	-
Net OPEB liability	<u>63,099,138</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	269,247,893	197,550,585	795,252	241,397
DEFERRED INFLOWS OF RESOURCES				
Deferred pension amounts	17,426,265	6,030,011	-	-
Deferred OPEB amounts	<u>2,133,211</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	19,559,476	6,030,011	-	-
NET POSITION				
Net investment in capital assets	158,364,109	152,350,384	-	-
Restricted for:				
Nonexpendable endowments	-	-	7,232,852	7,039,074
Expendable endowments, scholarships and grants	2,211,232	1,803,070	3,504,795	3,089,722
Unrestricted (deficit) (Note 1)	<u>(12,846,783)</u>	<u>59,039,492</u>	<u>12,712,549</u>	<u>12,224,464</u>
Total Net Position	\$ 147,728,558	\$ 213,192,946	\$ 23,450,196	\$ 22,353,260

The accompanying notes are an integral part of these financial statements.

Macomb Community College

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017**

	College		Component Unit - Foundation	
	2018	2017	2018	2017
OPERATING REVENUES				
Tuition and fees - Net of scholarship allowances of \$14,500,000 in 2018 and \$14,000,000 in 2017	\$ 44,593,742	\$ 45,215,543	\$ -	\$ -
Federal grants and contracts	3,843,286	6,670,569	-	-
State and local grants and contracts	235,055	211,401	-	-
Nongovernmental grants	1,483,906	124,511	-	-
Center for Performing Arts revenue	1,908,833	1,949,747	-	-
Miscellaneous	4,157,208	4,258,003	203,568	27,932
Total Operating Revenues	56,222,030	58,429,774	203,568	27,932
OPERATING EXPENSES				
Instruction	54,689,516	54,471,479	-	-
Information technology	8,543,832	8,263,189	-	-
Public service	3,715,328	4,009,056	-	-
Instructional support	19,738,491	20,351,970	-	-
Student services	26,382,476	26,984,139	-	-
Institutional administration	15,454,666	14,250,472	-	-
Operation and maintenance of plant	15,210,758	15,557,161	-	-
Depreciation	17,134,218	15,223,619	-	-
Foundation operations and awards	-	-	321,372	749,321
Total Operating Expenses	160,869,285	159,111,085	321,372	749,321
OPERATING LOSS	(104,647,255)	(100,681,311)	(117,804)	(721,389)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	33,863,600	33,860,702	-	-
State appropriations for UAAL	1,939,694	2,048,692	-	-
Local Community Stabilization	3,397,661	3,059,502	-	-
Property tax levy	36,444,050	35,960,888	-	-
Federal Pell grants	24,672,349	24,302,742	-	-
Investment income	4,821,813	4,577,262	968,851	584,449
Net realized and unrealized gain (loss) on investments	(5,244,956)	(6,486,521)	682,383	1,696,559
Gifts between College and Foundation	1,234,522	1,285,904	(1,234,522)	(1,285,904)
Gifts	-	-	618,534	631,247
Net Nonoperating Revenues	101,128,733	98,609,171	1,035,246	1,626,351
OTHER REVENUES				
State capital appropriations	-	3,036,811	-	-
Capital gifts and grants	13,583	104,282	-	-
Additions to permanent endowments	-	-	179,494	591,522
Total Other Revenues	13,583	3,141,093	179,494	591,522
CHANGE IN NET POSITION	(3,504,939)	1,068,953	1,096,936	1,496,484
Net Position - Beginning of year	213,192,946	212,123,993	22,353,260	20,856,776
Implementation of GASB 75 (Notes 1 and 4)	(61,959,449)	-	-	-
Adjusted net position, beginning of the year	151,233,497	212,123,993	22,353,260	20,856,776
NET POSITION - END OF YEAR	\$ 147,228,558	\$ 213,192,946	\$ 23,450,196	\$ 22,353,260

The accompanying notes are an integral part of these financial statements.

Macomb Community College

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 44,651,734	\$ 45,467,891
Grants and contracts	5,610,464	7,653,919
Payments to suppliers	(68,464,572)	(74,463,317)
Payments to employees	(67,414,906)	(71,654,984)
Center for Performing Arts charges	1,908,833	1,949,747
Other	4,157,208	4,258,003
Net Cash Used In Operating Activities	(79,551,239)	(86,788,741)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local property taxes	36,469,275	35,945,251
Gifts and contributions for other than capital purposes	1,234,522	1,285,904
William D. Ford direct lending receipts	8,202,841	9,211,469
William D. Ford direct lending disbursements	(8,208,935)	(9,188,681)
Federal Pell grants	24,672,349	24,302,742
Local community stabilization funding	3,397,661	3,059,502
State appropriations	35,742,817	35,760,642
Net Cash Provided By Noncapital Financing Activities	101,510,530	100,376,829
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(23,203,664)	(17,202,708)
Capital grant and gift proceeds	13,583	3,141,093
Net Cash Used In Capital and Related Financing Activities	(23,190,081)	(14,061,615)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	10,276,574	77,108,041
Interest on investments	5,463,146	5,232,602
Purchase of investments	(10,731,700)	(84,108,414)
Net Cash Provided By (Used In) Investing Activities	5,008,020	(1,767,771)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,777,230	(2,241,298)
CASH AND CASH EQUIVALENTS - Beginning of year	15,973,422	18,214,720
CASH AND CASH EQUIVALENTS - End of year	\$ 19,750,652	\$ 15,973,422

The accompanying notes are an integral part of these financial statements.

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES:**

Operating loss	\$ (104,647,255)	\$ (100,681,311)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	17,134,218	15,223,619
Net loss (gain) on disposal of capital assets	55,720	(87,977)
Change in operating assets and liabilities which provide (use) cash		
Accounts receivable	102,921	64,092
Federal and state grant receivable	48,217	647,438
Inventories	(18,639)	(5,222)
Prepaid assets and other current assets	39,866	112,241
Deferred outflows of resources	(15,533,611)	(6,385,683)
Accounts payable	1,220,086	(1,310,474)
Accrued payroll and other compensation	299,605	(3,067,480)
Other accrued liabilities	452,101	(375,897)
Deposits	(27,186)	(399,842)
Unearned tuition and fees	(44,929)	188,256
Deferred inflows of resources	13,529,465	552,878
Net pension and OPEB liabilities	<u>7,838,182</u>	<u>8,736,621</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (79,551,239)</u>	<u>\$ (86,788,741)</u>

The accompanying notes are an integral part of these financial 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 (MUFR)*.

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 College's functional expense classifications are in accordance with the guidance in the MUFR.

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. Based on this criteria, the College has determined that the Macomb Community College Foundation (the Foundation) meets the criteria of a component unit.

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.

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

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.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowance, net pension liability, net OPEB liability, and deferred outflows and inflows related to pension and OPEB amounts.

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

Cash and Cash Equivalents - Cash and cash equivalents consists of deposit accounts and highly liquid investments with an initial maturity of three months or less.

Investments - The College investments must conform to State statutes governing investment of public funds and are limited to allowable investments as stated in the statute. College investments held at June 30, 2018 and June 30, 2017 were in Certificates of Deposit, Governmental Instrumentalities or Michigan Municipal Bonds. Realized and unrealized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Position. Investments are classified as short-term or long-term based on the instruments maturity date. The Foundation maintains mutual fund investment accounts for its nonexpendable and expendable endowments. Realized and unrealized gains and losses from securities in the investment accounts are allocated annually.

The College carries its investments at fair value, which is determined generally by using quoted market prices. Realized and unrealized gains and losses are reflected in the Statements of Revenues, Expenses and Changes in Net Position. Realized and unrealized gains and losses from securities in the investment accounts are allocated monthly based on the relationship of the estimated market value of each account to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts.

Fair Value measurements – Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts for such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that give the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

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

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

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

Prepaid Expenses and Other Assets – Expenses, such as insurance premiums, that are expected to be of benefit within the next fiscal year are included in prepaid expenses.

Capital Assets – Capital assets are recorded at the estimated fair market value as of the date of acquisition. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Depreciation is provided for capital assets on a straight-line basis over the estimated useful life of the asset as follows:

Land improvements	10 years
Buildings and improvements	10 - 40 years
Furniture, fixtures and equipment	3 - 10 years
Infrastructure	10 - 20 years
Library materials	10 years

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 and net OPEB liabilities. 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, 2018 includes \$2,701,005 for the 2018 summer semester, which began on May 21, 2018 and ended on August 11, 2018. Unearned revenue at June 30, 2017 included \$2,587,850 for the 2017 summer semester, which began on May 22, 2017 and ended on August 12, 2017.

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 and paid time off (PTO) represents the accumulated liability to be paid under the College's current vacation and PTO pay policy. Under the College's policy, employees earn vacation or PTO time based on their contract and time of service with the College.

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

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 certain pension and OPEB related amounts, such as the difference between projected and actual earnings of the pension plan's investment and the pension portion of section 147c state aid revenue received subsequent to the measurement date. More detailed information can be found in Note 4.

Other PostEmployment Benefits (OPEB) - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of July 1, 2017, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement requires that the College recognize a net Other Postemployment Benefits (OPEB) liability in the statement of net position, equal to the College's proportionate share of the net OPEB liability of the Michigan Public School Employees Retirement System (MPERS), as defined and calculated in accordance with the new standard. More detailed information can be found in Note 4. As a result of this change, the College recognized a net OPEB liability of \$66,555,612, and deferred outflows of resources of \$4,596,163 which resulted in a decrease in net position of \$61,959,449 as of July 1, 2017. Application of this new standard to July 1, 2016, the earliest year presented, is not practical as complete information is not available.

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, and other purposes.

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

Unrestricted Net Position – The College’s unrestricted net position (deficit) is as follows at June 30:

	Unrestricted Net Position	
	June 30, 2018	June 30 2017
Pension & OPEB (deficits)	\$ (220,452,007)	\$ (153,246,974)
Other Unrestricted	207,605,224	212,286,466
Total	\$ (12,846,783)	\$ 59,039,492

Revenue and Expenses - 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, net of chargebacks, through the County’s tax revolving funds.

Property tax revenue levied for general operating/technology purposes was \$36,444,050 and \$35,960,000 based on \$1.4072 and \$1.4174 of tax per \$1,000 of taxable property value in the College’s taxing district for the years ended June 30, 2018 and 2017, respectively. At the May 8, 2018 election, the College’s operating levy was renewed and restored to \$1.464 of tax per \$1,000 of taxable property for 20 years or through 2038.

State appropriations revenue has been recorded in accordance with the MUFRR.

Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy an expense.

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

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

Reclassification – Certain prior year amounts have been reclassified to conform to the current year presentation. Information technology operating expenses are stated as a distinct expense classification in accordance with the State of Michigan's ACS reporting requirements, rather than allocated to the other categories. There was no impact on the net position of the College as a result of the reclassification.

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 \$1,249,000 and \$1,200,000 of cash and deposits were covered by FDIC and an estimated \$20,019,000 and \$16,630,000 of cash and deposits were not covered by FDIC insurance at June 30, 2018 and 2017, 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 or any of its political subdivisions 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 following is a description of the valuation methodology used for assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Certificates of deposit: Valued at face value plus accrued interest earned and classified as Level 1.

Government instrumentalities and municipal bonds: Level 1 fair value measurement is based upon the closing price reported in the active market in which the individual securities are traded.

Note 2 – Cash and Investments (continued)

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

	Fair Value Measurements Using			
	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Government instrumentality bonds	\$ 166,550,507	\$ 166,550,507	\$ -	\$ -
Michigan municipal bonds	30,204,353	30,204,353	-	-
Certificates of deposit	1,559,603	1,559,603	-	-
Total investments by fair value level	<u>\$ 198,314,463</u>	<u>\$ 198,314,463</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value Measurements Using			
	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Government instrumentality bonds	\$ 171,212,114	\$ 171,212,114	\$ -	\$ -
Michigan municipal bonds	30,993,270	30,993,270	-	-
Certificates of deposit	1,540,241	1,540,241	-	-
Total investments by fair value level	<u>\$ 203,745,625</u>	<u>\$ 203,745,625</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk - Investments in Government instrumentality 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, 2018, the College investments mature as follows:

	Less Than One Year	1-5 Years	More Than 5 Years	Balance at June 30, 2018
Certificates of deposit	\$ 1,559,603	\$ -	\$ -	\$ 1,559,603
Government instrumentality bond	-	17,121,275	149,429,232	166,550,507
Michigan municipal bonds	1,254,530	21,442,997	7,506,826	30,204,353
Total Investments	<u>\$ 2,814,133</u>	<u>\$ 38,564,272</u>	<u>\$ 156,936,058</u>	<u>\$ 198,314,463</u>

Note 2 – Cash and Investments (continued)

As of June 30, 2017, the College investments mature as follows:

	Less Than One Year	1-5 Years	More Than 5 Years	Balance at June 30, 2017
Certificates of deposit	\$ 1,540,241	\$ -	\$ -	\$ 1,540,241
Government instrumentality bonds	-	10,454,330	160,757,784	171,212,114
Michigan municipal bonds	-	12,387,959	18,605,311	30,993,270
Total Investments	<u>\$ 1,540,241</u>	<u>\$ 22,842,289</u>	<u>\$ 179,363,095</u>	<u>\$ 203,745,625</u>

Portions of these investments are reported as short-term investments on the statements 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.

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 \$15,800,000. The College's investment policy does not limit investments in Governmental instrumentality or Michigan municipal bonds.

More than five percent of the College's investments at June 30, 2018 and 2017 were invested as follows:

<u>Issuer</u>	<u>2018</u>	<u>2017</u>
Federal Home Loan Bank	21%	22%
Federal National Mortgage Association	21%	22%
Federal Home Loan Mortgage Co.	13%	14%
Federal Farm Credit Bureau	21%	20%
Government National Mortgage Association	10%	5%

Note 3 – Capital Assets

The following table presents the changes in the various capital asset class categories for the year ended June 30, 2018:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance
Nondepreciable capital assets:				
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470
Construction in progress	1,809,821	2,829,266	(1,809,821)	2,829,266
Total nondepreciable capital assets	<u>10,581,291</u>	<u>2,829,266</u>	<u>(1,809,821)</u>	<u>11,600,736</u>
Depreciable capital assets:				
Land improvements	7,014,336	-	-	7,014,336
Building and improvements	276,773,907	16,312,443	1,444,502	294,530,852
Infrastructure	16,957,057	-	-	16,957,057
Furniture, fixtures and equipment	59,753,870	3,857,711	(2,255,769)	61,355,812
Library materials	2,417,814	150,376	(580,153)	1,988,037
Total depreciable capital assets	<u>362,916,984</u>	<u>20,320,530</u>	<u>(1,391,420)</u>	<u>381,846,094</u>
Less accumulated depreciation:				
Land improvements	5,657,618	186,725	-	5,844,343
Building and improvements	157,934,068	10,974,365	-	168,908,433
Infrastructure	10,898,684	881,076	-	11,779,760
Furniture, fixtures and equipment	44,977,191	4,926,248	(2,619,235)	47,284,204
Library materials	1,680,330	165,804	(580,153)	1,265,981
Total accumulated depreciation	<u>221,147,891</u>	<u>17,134,218</u>	<u>(3,199,388)</u>	<u>235,082,721</u>
Capital assets being depreciated, net	<u>141,769,093</u>	<u>3,186,312</u>	<u>1,807,968</u>	<u>146,763,373</u>
Total capital assets, net	<u>\$ 152,350,384</u>	<u>\$ 6,015,578</u>	<u>\$ (1,853)</u>	<u>\$ 158,364,109</u>

The following table presents the changes in the various capital asset class categories for the year ended June 30, 2017:

	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance
Nondepreciable capital assets:				
Land	\$ 8,771,470	\$ -	\$ -	\$ 8,771,470
Construction in progress	7,442,197	1,809,821	(7,442,197)	1,809,821
Total nondepreciable capital assets	<u>16,213,667</u>	<u>1,809,821</u>	<u>(7,442,197)</u>	<u>10,581,291</u>
Depreciable capital assets:				
Land improvements	7,135,653	-	(121,317)	7,014,336
Building and improvements	260,868,556	9,741,405	6,163,946	276,773,907
Infrastructure	16,957,057	-	-	16,957,057
Furniture, fixtures and equipment	56,080,006	5,520,890	(1,847,026)	59,753,870
Library materials	2,443,327	145,060	(170,573)	2,417,814
Total depreciable capital assets	<u>343,484,599</u>	<u>15,407,355</u>	<u>4,025,030</u>	<u>362,916,984</u>
Less accumulated depreciation:				
Land improvements	5,540,364	191,641	(74,387)	5,657,618
Building and improvements	149,279,977	9,584,600	(930,509)	157,934,068
Infrastructure	10,016,801	881,883	-	10,898,684
Furniture, fixtures and equipment	42,730,210	4,400,702	(2,153,721)	44,977,191
Library materials	1,686,110	164,793	(170,573)	1,680,330
Total accumulated depreciation	<u>209,253,462</u>	<u>15,223,619</u>	<u>(3,329,190)</u>	<u>221,147,891</u>
Capital assets being depreciated, net	<u>134,231,137</u>	<u>183,736</u>	<u>7,354,220</u>	<u>141,769,093</u>
Total capital assets, net	<u>\$ 150,444,804</u>	<u>\$ 1,993,557</u>	<u>\$ (87,977)</u>	<u>\$ 152,350,384</u>

Note 3 – Capital Assets (continued)

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 Michigan Public School Employees' Retirement System (the "System" or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian of the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Pension 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 determined by the final average compensation, years of service and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system accounts if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Note 4 – Retirement Plans (Continued)

Other Postemployment Benefits Provided - Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of OPEB, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

Contributions – Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry-age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

Note 4 – Retirement Plans (Continued)

Employer contribution requirements for pension ranged from 13.54% to 19.03% of covered payroll for the College’s 2018 fiscal year. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College’s 2018 fiscal year.

Employer contribution requirements for pension ranged from 14.56% to 19.03% of covered payroll for the College’s 2017 fiscal year. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College’s 2017 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

The College’s contribution to the pension plans for the years ended June 30, 2018, 2017 and 2016 were \$18,986,000, \$17,387,000 and \$16,516,000, respectively.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the College were \$3,369,000 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018 and 2017, the College reported a liability of \$184,192,000 and \$177,494,000, respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016 and 2015, respectively. The College’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable

Note 4 – Retirement Plans (Continued)

employers during the measurement period. At September 30, 2017 the College’s proportion was .71078%, which was an decrease of -.000064% from its proportion measured as of September 30, 2016 of .71142%.

For the years ended June 30, 2018 and 2017, the College recognized pension expense of \$21,516,000 and \$14,832,000, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	As of June 30, 2017			As of June 30, 2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 2,212,043	\$ 420,665	\$ 1,791,378	\$ 1,600,757	\$ 903,793	\$ 696,965
Changes of assumptions	2,774,978	-	2,774,978	20,179,740	-	20,179,741
Net difference between projected and actual earnings on pension plan assets	2,949,947	-	2,949,947	-	8,805,609	(8,805,609)
Changes in proportion and differences between College contributions and proportionate share of contributions	7,949,427	103,864	7,845,563	5,375,864	226,448	5,149,417
SubTotal	\$ 15,886,395	\$ 524,529	\$ 15,361,866	\$ 27,156,361	\$ 9,935,850	\$ 17,220,514
College contributions subsequent to the measurement date	14,390,548	-	14,390,548	16,007,461	-	16,007,461
Pension portion of Sec 147c state aid award subsequent to the measurement date	-	5,505,482	(5,505,482)	-	7,490,415	(7,490,415)
Total	\$ 30,276,943	\$ 6,030,011	\$ 24,246,932	\$ 43,163,822	\$ 17,426,265	\$ 25,737,560

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date of \$16,007,461 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The \$7,490,415 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 147c of the State School Aid Act (PA 94 of 1979) will be recognized as State appropriation revenue for the year ending June 30, 2019.

Note 4 – Retirement Plans (Continued)

Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018 will be recognized in pension expense as follows:

Year Ending June 30	Amount
2019	\$ 5,779,710
2020	8,449,325
2021	3,398,300
2022	(406,821)
Total	<u>\$ 17,220,514</u>

OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June, 30, 2018 the College reported a liability of \$63,099,000 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The College’s proportionate share of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the College’s proportion was 0.71254%.

For the year ended June 30, 2018, the College recognized OPEB expenses of \$4,222,000. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 671,820	\$ (671,820)
Net difference between projected and actual earnings on OPEB plan investments	-	1,461,391	(1,461,391)
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,550	-	5,550
	<u>5,550</u>	<u>2,133,211</u>	<u>(2,127,661)</u>
College contributions subsequent to the measurement date	2,641,182	-	2,641,182
Total	<u>\$ 2,646,732</u>	<u>\$ 2,133,211</u>	<u>\$ 513,521</u>

Note 4 – Retirement Plans (Continued)

The amount of \$2,641,182 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ (514,254)
2020	(514,254)
2021	(514,254)
2022	(514,254)
2023	(70,645)
Total	<u>\$ (2,127,661)</u>

Actuarial Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liability in the September 30, 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage Inflation Rate	3.5%
Investment rate of return:	
MIP and Basic plans	7.5% (8% for 2015)
Pension Plus plan	7.0%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost-of-Living Adjustment	3% annual non-compounded for MIP Members
Healthcare Cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements in 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Note 4 – Retirement Plans (Continued)

Other OPEB Assumptions:

Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree’s death
Coverage elections at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017 is based on the results of an actuarial valuation date of September 30, 2016 and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining services lives of all employees. The recognition period for assets is 5 years.

Long-Term Expected Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2017 and 2016 are summarized in the following table:

Investment Category	Target	Long-term	Expected	Target	Long-term	Expected
	Allocation	Real Rate of	money-	Allocation	Real Rate of	money-
		Return	weighted		Return	weighted
		Rate of	Rate of		Rate of	Rate of
		Return	Return		Return	Return
		2017			2016	
Domestic Equity Pools	28.00%	5.60%	1.56%	28.00%	5.90%	1.64%
Alternative Investment Pools	18.00%	8.70%	1.57%	18.00%	9.20%	1.66%
International Equity Pools	16.00%	7.20%	1.15%	16.00%	7.20%	1.15%
Fixed Income Pools	10.50%	-0.10%	-0.01%	10.50%	90.00%	0.09%
Real Estate and Infrastructure Pools	10.00%	4.20%	0.42%	10.00%	4.30%	0.43%
Absolute Return Pools	15.50%	5.00%	0.78%	15.50%	6.00%	0.93%
Short Term Investment Pools	2.00%	-0.90%	-0.02%	2.00%	0.00%	0.00%
Total	100.00%		5.45%	100.00%		5.90%
Inflation			2.05%			2.10%
Investment rate of return			7.50%			8.00%

Note 4 – Retirement Plans (Continued)

Discount Rate – A discount rate of 7.5% and 8.0% was used to measure the total pension and OPEB liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only) as of September 30, 2017 and 2016, respectively. This discount rate was based on the long term expected rate of return on pension and OPEB plan investments of 7.5% and 8.0% (7.0% for the Pension Plus plan) as of September 30, 2017 and 2016, respectively. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

Sensitivity of College’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the College’s proportionate share of the net pension liability as of June 30, 2018 calculated using the discount rate of 7.5% (7.0% for the Hybrid plan), as well as what the College’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

College's proportionate share of the net pension liability	1% decrease (6.5%)	Current Rate (7.5%)	1% increase (8.5%)
June 30, 2018 - net pension liability	\$ 239,941,432	\$ 184,192,399	\$ 137,255,264

The following presents the College’s proportionate share of the net pension liability as of June 30, 2017 calculated using the discount rate of 8.0% (7.0% for the Hybrid plan), as well as what the College’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

College's proportionate share of the net pension liability	1% decrease (7.0%)	Current Discount Rate (8.0%)	1% increase (9.0%)
June 30, 2017 - net pension liability	\$ 228,567,474	\$ 177,493,906	\$ 134,433,977

Sensitivity of College’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the College’s proportionate share of the net OPEB liability as of June 30, 2018 calculated using the discount rate of 7.5% as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

College's proportionate share of the net OPEB liability	1% decrease (6.5%)	Current Discount Rate (7.5%)	1% increase (8.5%)
College's proportionate share of the net OPEB liability	\$ 73,907,328	\$ 63,099,138	\$ 53,926,369

Note 4 – Retirement Plans (Continued)

Sensitivity of College’s Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate – The following presents the College’s proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using a Healthcare Cost Trend rate that is 1 percentage point lower or 1 percentage higher:

	1% decrease (6.5%)	Current Rate (7.5%)	1% increase (8.5%)
College's proportionate share of the net OPEB liability	\$ 53,436,488	\$ 63,099,138	\$ 74,070,404

Change in Pension Plan Actuarial Assumption – On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees’ Retirement System’s Board approved a decrease in the assumed investment rate of return (discount rate) used in the System’s annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the September 30, 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for the fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions for fiscal year 2019 and beyond and the net pension liability as of June 30, 2019 and beyond will increase as a result of lowering the assumed investment rate of return.

Pension and OPEB Plans Fiduciary Net Position – Detailed information about the pension and OPEB plan’s fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan – At June 30, 2018 and June 30, 2017, the College reported payables of \$1,824,000 and \$1,373,000 for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2018 and June 30, 2017, respectively.

Payable to the OPEB Plan – At June 30, 2018 the College reported a payable of \$189,000 for the outstanding contributions to the Plan for the year ended June 30, 2018.

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, 2018 and 2017 were approximately \$6,882,000 and \$791,000 and \$6,774,000 and \$779,000, respectively.

Note 4 – Retirement Plans (Continued)

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 \$1,112,000 and \$1,107,000 and the employees contributed approximately \$2,403,000 and \$2,835,000 for the years ended June 30, 2018 and 2017, respectively.

Note 5 - Federal Direct Lending Program

The College distributed \$8,208,935 and \$9,188,681 for student loans through the U.S. Department of Education federal direct lending program for the years ended June 30, 2018 and 2017, 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, 2018 was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>one year</u>
Accrued vacation and PTO	\$ 3,099,815	\$ 212,153	\$ 312,186	\$ 2,999,781	\$ 202,436

Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Accrued vacation and PTO	\$ 3,025,128	\$ 274,967	\$ 200,280	\$ 3,099,815	\$ 182,256

Note 7 – Self Insurance

The College is partially self-insured for vision and healthcare benefits. The self-insured healthcare plan covers approximately 523 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 \$150,000 per covered employee and/or their dependent. The College pays the administrative costs of the plan.

Self-insured employee benefit liability at June 30 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 230,000	\$ 300,000	\$ 260,000
Claims incurred, premiums paid and changes in estimates	6,824,588	6,681,077	5,808,606
Claim and premium payments	(6,702,588)	(6,751,077)	(5,768,606)
Balance, end of year	<u>\$ 352,000</u>	<u>\$ 230,000</u>	<u>\$ 300,000</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.

Note 9 - Commitments, Contingencies and Capital Outlay

The College may be subject to various legal proceedings and claims which arise in the ordinary course of its business. The College believes that the amount, if any, of ultimate liability with respect to legal actions will be immaterial or will be covered by insurance.

The College conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these governmental agencies. Any liabilities for reimbursements which may arise as the result of these audits is not believed to be material.

Public Act 328 (PA 328) was signed into law on July 2, 2018. While PA 328 clarifies the reporting of student workers for MPSERS prospectively, it also required community colleges to provide a report of all student workers for the past four years to the Office of Retirement Services (ORS). Due to inconsistencies in the reporting of students based on the interpretation of the definition of a full-time student, the ORS may attempt to require community colleges to make contribution payments for student workers that were not previously reported to MPSERS. The outcome of this legislation is unknown.

The College has numerous renovation and capital improvement projects in process at June 30, 2018. Total future Plant Fund commitments related to these projects approximates \$18.1 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.

Note 10 - Macomb Community College Foundation (continued)

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

Mutual Fund Type	2018	2017
Fixed Income	\$ 9,211,257	\$ 9,482,813
Equity	14,423,150	12,660,587
Balanced	584,141	355,367
	\$ 24,218,548	\$ 22,498,767

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 \$23,450,196 and \$22,353,260 at June 30, 2018 and 2017, respectively.

Unrestricted net position, expendable endowments, scholarships and grants and nonexpendable endowments are available for the following purposes at June 30, 2018 and 2017, respectively:

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2018
College designated	\$ 11,732,485	\$ -	\$ -	\$ 11,732,485
Center for Performing Arts		1,440,504	2,667,676	4,108,180
Innovation Fund	596,276	-	-	596,276
Scholarships and financial aid	-	1,707,153	3,700,562	5,407,715
Foundation designated	383,788	-	-	383,788
Library and other	-	357,138	864,614	1,221,752
Total	\$ 12,712,549	\$ 3,504,795	\$ 7,232,852	\$ 23,450,196

	Unrestricted Net Position	Expendable endowments, scholarships and grants	Nonexpendable endowments	Total June 30, 2017
College designated	\$ 11,165,301	\$ -	\$ -	\$ 11,165,301
Center for Performing Arts	-	1,303,640	2,658,976	3,962,616
Innovation Fund	732,790	26,645	-	759,435
Scholarships and financial aid	-	1,467,168	3,565,498	5,032,666
Foundation designated	326,373	-	-	326,373
Library and other	-	292,269	814,600	1,106,869
Total	\$ 12,224,464	\$ 3,089,722	\$ 7,039,074	\$ 22,353,260

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 \$440,000 in personnel support, supplies, equipment and office space to the Foundation.

Macomb Community College

Required Supplementary Information (Unaudited)
June 30, 2015 through June 30, 2018

Schedule of College's Proportionate Share of the Net Pension Liability

	2018	2017	2016	2015
College's proportion of the net pension liability				
As a percentage	0.71078%	0.71142%	0.69092%	0.66062%
Amount	\$ 184,192,399	\$ 177,493,906	\$ 168,757,285	\$ 145,510,485
College's covered -employee payroll	\$ 59,740,411	\$ 62,468,744	\$ 60,441,372	\$ 58,164,877
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	308.32%	284.13%	279.21%	250.25%
Plan fiduciary net position as a percentage of the total pension liability	64.21%	63.27%	63.17%	66.20%

Note: The amounts presented for the fiscal year were determined as of September 30 of the preceding year.

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

	2018	2017	2016	2015
Contractually required contributions	\$ 18,986,085	\$ 17,387,065	\$ 16,515,705	\$ 12,775,183
Contributions in relation to the contractually required contributions	\$ (18,968,085)	\$ (17,387,065)	\$ (16,515,705)	\$ (12,775,183)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
College's covered employee payroll	\$ 59,064,225	\$ 60,170,241	\$ 60,996,256	\$ 60,027,383
Contributions as a percentage of covered employee payroll	32.14%	28.90%	27.08%	21.28%

Note: GASB 68 was implemented in fiscal year 2015. These schedules are being built prospectively. Ultimately, ten years of data will be presented.

Macomb Community College

Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2018

Schedule of the College's Proportionate Share of the Net Other Postemployment Benefits Liability

	<u>2018</u>
College's proportion of the net OPEB liability	63,099,138
College's proportion of the net OPEB liability	0.71254%
College's covered payroll	59,740,411
College's proportionate share of the net OPEB liability as OPEB liability	105.62%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

Schedule of College's Other Postemployment Benefits Contributions

(As of the College's Year End, June 30)

	<u>2018</u>
Contractually required contribution	\$3,368,794
Contributions in relation to the contractually required contribution	\$ (3,368,794)
Contribution deficiency (excess)	<u>\$ -</u>
College's covered payroll	\$ 59,064,225
Contributions as a percentage of covered payroll	5.70%

Note: GASB 75 was implemented in fiscal year 2018. These schedules are being built prospectively. Ultimately, ten years of data will be presented.

	Combined Total	General Fund	Pension and OPEB Liability Fund *	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund
ASSETS							
Current Assets							
Cash and cash equivalents	\$ 19,750,652	\$ 19,750,652	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term investments	2,814,133	2,814,133	-	-	-	-	-
Property taxes receivable, net	48,988	48,988	-	-	-	-	-
State appropriation receivable	7,628,929	6,210,715	1,418,214	-	-	-	-
Accounts receivable, net	1,610,778	1,610,778	-	-	-	-	-
Federal and state grants receivable	1,655,684	-	-	1,602,774	-	-	52,910
Student loans receivable	134,007	-	-	-	134,007	-	-
Inventories	206,328	206,328	-	-	-	-	-
Prepaid expenses and other assets	3,011,435	2,965,551	-	45,884	-	-	-
Total Current Assets	36,860,934	33,607,145	1,418,214	1,648,658	134,007	-	52,910
Long-term investments	195,500,330	195,500,330	-	-	-	-	-
Capital Assets, net							
Land and improvements	9,941,462	-	-	-	-	9,941,462	-
Infrastructure	5,177,297	-	-	-	-	5,177,297	-
Buildings and improvements	125,622,416	-	-	-	-	125,622,416	-
Equipment and library materials	14,793,668	-	-	-	-	14,793,668	-
Construction in progress	2,829,266	-	-	-	-	2,829,266	-
Total Capital Assets	158,364,109	-	-	-	-	158,364,109	-
Total Assets	390,725,373	229,107,475	1,418,214	1,648,658	134,007	158,364,109	52,910
DEFERRED OUTFLOWS OF RESOURCES							
Deferred pension amounts	43,163,822	-	43,163,822	-	-	-	-
Deferred OPEB amounts	2,646,732	-	2,646,732	-	-	-	-
Total Deferred Outflows of Resources	45,810,554	-	45,810,554	-	-	-	-
LIABILITIES							
Current Liabilities							
Accounts payable	8,810,104	7,460,726	1,349,378	-	-	-	-
Accrued payroll and other compensation	4,580,422	4,521,695	-	41,228	-	16,799	700
Other accrued liabilities	2,213,340	1,148,470	-	-	-	1,064,870	-
Deposits	402,430	261,469	-	-	-	-	140,961
Unearned revenue	3,152,715	3,152,715	-	-	-	-	-
Due to (from) other funds	-	174,615,632	(519,617)	(603,801)	134,007	(173,537,471)	(88,750)
Total Current Liabilities	19,159,011	191,160,707	829,761	(562,573)	134,007	(172,455,802)	52,911
Accrued Vacation	2,797,345	2,797,345	-	-	-	-	-
Net pension liability	184,192,399	-	184,192,399	-	-	-	-
Net OPEB liability	63,099,138	-	63,099,138	-	-	-	-
Total Liabilities	269,247,893	193,958,052	248,121,298	(562,573)	134,007	(172,455,802)	52,911
DEFERRED INFLOWS OF RESOURCES							
Deferred pension amounts	17,426,265	-	17,426,265	-	-	-	-
Deferred OPEB amounts	2,133,211	-	2,133,211	-	-	-	-
Total deferred inflows of resources	19,559,476	-	19,559,476	-	-	-	-
NET POSITION (DEFICIT)							
Net investment in capital assets	158,364,109	-	-	-	-	158,364,109	-
Restricted for							
Expendable endowments, scholarships and grants	2,211,232	-	-	2,211,232	-	-	-
Unrestricted (deficit)	(12,846,783)	35,149,423	(220,452,007)	-	-	172,455,801	-
Total Net Position (Deficit)	\$ 147,728,558	\$ 35,149,423	\$ (220,452,007)	\$ 2,211,232	\$ -	\$ 330,819,910	\$ -

* The Pension and OPEB Liability Fund reflects GASB 68 and 75 adjustments.

Macomb Community College

**Combining Statement of Revenues, Expenses, Transfers and Changes in Net Position (Unaudited)
Year Ended June 30, 2018**

	Combined Total	Elimination	General Fund	Pension and OPEB Liability Fund *	Expendable Restricted Fund	Student Loan Fund	Plant Fund
OPERATING REVENUES							
Tuition and fees (net of scholarship allowance of \$14,500,000)	\$ 44,593,742	\$ (14,500,000)	\$ 59,093,742	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	3,843,286	-	17,167	-	3,826,119	-	-
State and local grants and contracts	235,055	-	-	-	235,055	-	-
Nongovernmental grants	1,483,906	-	43,569	-	1,440,337	-	-
Center for Performing Arts revenue	1,908,833	-	1,908,833	-	-	-	-
Indirect cost recoveries	-	(238,629)	238,629	-	-	-	-
Miscellaneous	4,157,208	-	3,693,240	-	1,950	-	462,018
Total Operating Revenues	56,222,030	(14,738,629)	64,995,180	-	5,503,461	-	462,018
OPERATING EXPENSES							
Instruction	54,689,516	(6,130)	49,081,155	3,521,955	2,092,536	-	-
Information Technology	8,543,832	-	8,200,048	343,784	-	-	-
Public services	3,715,328	-	3,560,329	152,999	2,000	-	-
Instructional support	19,738,491	(27,251)	16,813,129	1,135,790	1,816,823	-	-
Student services	26,382,476	(14,661,399)	13,378,539	694,310	26,971,026	-	-
Institutional administration	15,454,666	(43,849)	14,278,033	798,654	421,828	-	-
Operation and maintenance of plant	15,210,758	-	13,520,388	537,786	38,483	-	1,114,101
Depreciation	17,134,218	-	-	-	-	-	17,134,218
Total Operating Expenses	160,869,285	(14,738,629)	118,831,621	7,185,278	31,342,696	-	18,248,319
OPERATING LOSS	(104,647,255)	-	(53,836,441)	(7,185,278)	(25,839,235)	-	(17,786,301)
NONOPERATING REVENUES (EXPENSES)							
State appropriations	35,803,294	-	33,863,600	1,939,694	-	-	-
Local Community Stabilization	3,397,661	-	3,397,661	-	-	-	-
Property tax levy	36,444,050	-	36,444,050	-	-	-	-
Federal Pell grants	24,672,349	-	-	-	24,672,349	-	-
Investment income	4,821,813	-	632,137	-	-	-	4,189,676
Net realized and unrealized gain (loss) on investments	(5,244,956)	-	(5,244,743)	-	(213)	-	-
Gifts between College and Foundation	1,234,522	-	576,541	-	657,981	-	-
Net Nonoperating Revenues	101,128,733	-	69,669,246	1,939,694	25,330,117	-	4,189,676
OTHER REVENUES							
Capital gifts and grants	13,583	-	-	-	-	-	13,583
Transfers In (Out)	-	-	(13,608,280)	-	917,280	-	12,691,000
CHANGE IN NET POSITION	(3,504,939)	-	2,224,525	(5,245,584)	408,162	-	(892,042)
Net Position - Beginning of Year	213,192,946	-	32,924,898	(153,246,974)	1,803,070	-	331,711,952
Implementation of GASB 75	(61,959,449)	-	-	(61,959,449)	-	-	-
Adjusted net position, beginning of the year	151,233,497	-	32,924,898	(215,206,423)	1,803,070	-	331,711,952
NET POSITION - END OF YEAR	\$ 147,728,558	\$ -	\$ 35,149,423	\$ (220,452,007)	\$ 2,211,232	\$ -	\$ 330,819,910

* The Pension and OPEB Liability Fund reflects GASB 68 and 75 adjustments.