

Montcalm  
Community  
College



Years Ended  
June 30, 2016  
and 2015

Financial  
Statements  
and  
Supplementary  
Information

# MONTCALM COMMUNITY COLLEGE

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June 30, 2016

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# MONTCALM COMMUNITY COLLEGE

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Management's Discussion and Analysis**

The discussion and analysis of Montcalm Community College's (the "College") financial statements provides an overview of the College's financial activities for the years ended June 30, 2016, 2015 and 2014. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

## **Using this Report**

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above referred format, and notes to financial statements. Following the basic financial statements and footnotes are required supplementary information and two supplementary schedules, the Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Transfers and Changes in Net Position. Though the Governmental Accounting Standards Board (GASB) does not require this information be present for a fair and complete presentation, these additional statements do provide additional information regarding the various funds and activities of the College that is not disclosed in the basic statements.

## **Financial Highlights**

In 2015 the College was one of 18 Community Colleges awarded a Community College Skilled Trades Equipment Program grant (CCSTEP). The award, a total of \$1,716,709 was funded 75% by the State of Michigan. The additional 25% of funding came from a combination of institutional matching, donations and the MCC Foundation. The funds were used to purchase equipment for several programs such as Healthcare, Advanced Manufacturing and Robotic training. As of June 30, 2016, the College had expended \$1,650,224 of the original award.

In the year ended June 30, 2016, the College's revenues and other support exceeded expenses, creating an increase in net position of \$432,538.

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

One of the most important questions asked about the College's finances is, "Is Montcalm Community College as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as Montcalm Community College's operating results.

These two statements report Montcalm Community College's net position and changes in them. You can think of Montcalm Community College's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in college applicants, student retention, condition of the buildings, and strength of the faculty and staff, to assess the overall health of the College.

These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Following is a comparative analysis of the major components of the net position of the College as of June 30, 2016 and 2015, and as of June 30, 2015 and 2014 (in millions):

	<u>2016</u>	<u>2015</u>	Increase (Decrease)	<u>2015</u>	<u>2014</u>	Increase (Decrease)
Current Assets	\$ 4.9	\$ 3.8	\$ 1.1	\$ 3.8	\$ 4.0	\$ (0.2)
Restricted Assets	13.3	13.8	(0.5)	13.8	11.0	2.8
Property and Equipment (net)	<u>16.9</u>	<u>16.5</u>	<u>0.4</u>	<u>16.5</u>	<u>17.4</u>	<u>(0.9)</u>
Total Assets	<u>35.1</u>	<u>34.1</u>	<u>1.0</u>	<u>34.1</u>	<u>32.4</u>	<u>1.7</u>
Deferred Outflows of Resources	<u>1.8</u>	<u>2.0</u>	<u>(0.2)</u>	<u>2.0</u>	<u>-</u>	<u>2.0</u>
Current Liabilities	1.9	1.6	0.3	1.6	1.8	(0.2)
Long-term Liabilities	<u>20.5</u>	<u>19.4</u>	<u>1.1</u>	<u>19.4</u>	<u>4.5</u>	<u>14.9</u>
Total Liabilities	<u>22.4</u>	<u>21.0</u>	<u>1.4</u>	<u>21.0</u>	<u>6.3</u>	<u>14.7</u>
Deferred Inflows of Resources	<u>0.7</u>	<u>1.7</u>	<u>(1.0)</u>	<u>1.7</u>	<u>-</u>	<u>1.7</u>
Net Assets						
Invested in capital assets	12.7	12.1	0.6	12.1	12.7	(0.6)
Restricted – expendable	8.9	9.0	(0.1)	9.0	6.1	2.9
Restricted – nonexpendable	0.3	0.3	-	0.3	0.3	-
Unrestricted (deficit)	<u>(8.1)</u>	<u>(8.1)</u>	<u>-</u>	<u>(8.1)</u>	<u>7.0</u>	<u>(15.1)</u>
Total Net Position	<u>\$ 13.8</u>	<u>\$ 13.3</u>	<u>\$ .5</u>	<u>\$ 13.3</u>	<u>\$ 26.1</u>	<u>\$ (12.8)</u>

There were no significant changes between June 30, 2016 and 2015.

A net pension liability of approximately \$15.2 million was recorded as of July 1, 2015 in compliance with GASB 68. Deferred outflows of resources of approximately \$2.0 million were recorded at June 30, 2015 as a result of changes in assumptions to the net pension liability and College contributions to the MPSERS plan subsequent to the plan's measurement date. Deferred inflows of resources of approximately \$1.7 million were recorded at June 30, 2015 as a result of the difference between projected and actual earnings on pension plan investments. See Note 8 to the financial statements for more information.

Following is a comparative analysis of the major components of the operating results of the College as of June 30, 2016 and 2015, and as of June 30, 2015 and 2014 (in millions):

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Operating Revenues:						
Tuition and Fees	\$ 3.0	\$ 2.6	\$ 0.4	\$ 2.6	\$ 2.9	\$ (0.3)
Federal Grants and Contracts	0.3	0.3	-	0.3	0.3	-
State Grants and Contracts	1.6	-	1.6	-	-	-
Other	<u>.3</u>	<u>.2</u>	<u>0.1</u>	<u>.2</u>	<u>.4</u>	<u>(0.2)</u>
Total Operating Revenues	<u>5.2</u>	<u>3.1</u>	<u>2.1</u>	<u>3.1</u>	<u>3.6</u>	<u>(0.5)</u>
Operating Expenses						
Instruction	7.3	6.7	0.6	6.7	6.9	(0.2)
Public Service	0.3	0.3	-	0.3	0.3	-
Instructional Support	2.7	2.4	0.3	2.4	2.5	(0.1)
Student Services	2.2	2.2	-	2.2	2.9	(0.7)
Institutional Administration	2.3	2.1	0.2	2.1	2.0	0.1
Operation and Maintenance of Physical Plant	1.5	1.6	(0.1)	1.6	1.4	0.2
Depreciation and other	<u>1.5</u>	<u>1.4</u>	<u>0.1</u>	<u>1.4</u>	<u>1.9</u>	<u>(0.5)</u>
Total Operating Expenses	<u>17.8</u>	<u>16.7</u>	<u>1.1</u>	<u>16.7</u>	<u>17.9</u>	<u>(1.2)</u>
Net Operating Loss	<u>(12.6)</u>	<u>(13.6)</u>	<u>1.0</u>	<u>(13.6)</u>	<u>(14.3)</u>	<u>(0.7)</u>
Non operating Revenues:						
State Appropriations	3.6	3.7	(0.1)	3.7	3.4	0.3
Federal Grants – Pell	2.7	3.1	(0.4)	3.1	3.8	(0.7)
Property Taxes	5.9	5.8	0.1	5.8	5.7	0.1
Other Non operating Revenues (Expenses)	<u>(0.2)</u>	<u>3.0</u>	<u>(3.2)</u>	<u>3.0</u>	<u>1.2</u>	<u>1.8</u>
Net Non operating Revenues	<u>12.0</u>	<u>15.6</u>	<u>(3.6)</u>	<u>15.6</u>	<u>14.1</u>	<u>1.5</u>
Other Revenue	<u>1.0</u>	<u>0.4</u>	<u>0.6</u>	<u>0.4</u>	<u>1.6</u>	<u>(1.2)</u>
Increase in Net Position	.4	2.4	(2.0)	2.4	1.4	1.0
Net Position – Beginning	13.3	26.1		26.1	24.7	
Implementation of GASB 68	<u>-</u>	<u>(15.2)</u>		<u>(15.2)</u>	<u>-</u>	
Adjusted Net Position – beginning	<u>13.3</u>	<u>10.9</u>		<u>10.9</u>	<u>24.7</u>	
Net Position – Ending	<u>\$ 13.7</u>	<u>\$ 13.3</u>		<u>\$ 13.3</u>	<u>\$ 26.1</u>	

**Operating Revenues**

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, food services and auxiliary operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes between 2016 and 2015 were the result of the following factors:

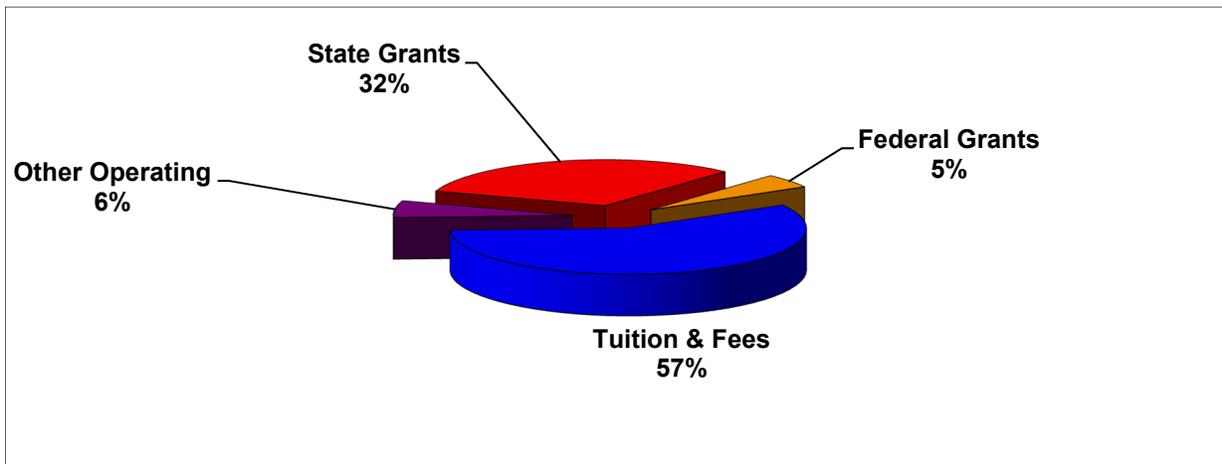
- Student tuition and fee revenue increased from the Board approved tuition increase of 5% and additional fees, but enrollment in regard to contact hours decreased 6.1%.
- Grants and contracts revenues, and other revenues, increased from 2015 due to the state of Michigan awarded CCSTEP grant.

Operating revenue changes between 2015 and 2014 were the result of the following factors:

- Student tuition and fee revenue increased from the Board approved tuition increase of 5%, but decreased due to a 9.7% in headcount enrollments.
- Grants and contracts revenues decreased from 2014. This decrease was primarily due to a decrease in the amounts awarded to students under the federal work study and the Federal Supplemental Educational Opportunity Grant programs.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Tuition and fees	\$ 2,970,709	\$ 2,574,369	\$ 2,895,811
Federal grants and contracts	253,750	250,210	295,833
State grants and contracts	1,630,846	-	-
Other operating revenues	<u>305,756</u>	<u>281,549</u>	<u>420,406</u>
Total operating revenue	<u>\$ 5,161,061</u>	<u>\$ 3,106,128</u>	<u>\$ 3,612,050</u>

The following is a graphic illustration of 2016 operating revenues by source:



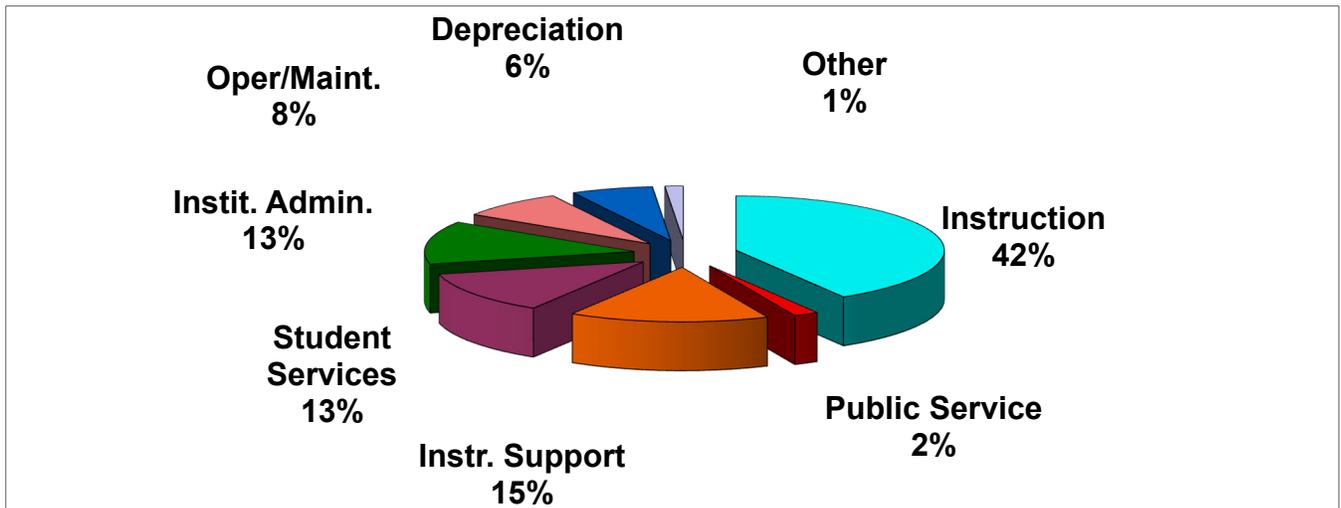
**Operating Expenses**

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. The operating expense changes were the result of increases due to rising costs for personnel, goods and services, and variations due to enrollment changes. Enrollment, measured in student contact hours, declined 6.1% during the year ended June 30, 2016 and declined 9.7% during the year ended June 30, 2015. The operating expense changes were the result of the following factors:

- Instruction costs increased in 2016 and decreased in 2015 due to variations in enrollment, the cost of instructional technologies and average class sizes.
- Instructional support costs increased in 2016 due to the cost of unique software, equipment, and instructional technologies.
- Student services costs increased in 2016 and decreased in 2015 due to the enrollment changes noted above, changes in Pell grants, and due to personnel changes.
- Institutional administration costs increased in 2016 and 2015 due to fluctuating technology and similar costs.
- Operation and maintenance of plant decreased in 2016 due to improvement projects and energy efficiencies.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Instruction	\$ 7,317,784	\$ 6,715,477	\$ 6,871,833
Public services	343,677	328,308	332,462
Instructional support	2,713,402	2,365,087	2,480,595
Student services	2,225,648	2,195,284	2,906,635
Institutional administration	2,266,177	2,142,408	2,033,409
Operation & maintenance of plant	1,464,280	1,561,928	1,390,750
Depreciation	1,139,615	1,105,507	1,105,706
Other	<u>254,415</u>	<u>283,384</u>	<u>749,191</u>
Total operating expenses	<u>\$17,724,998</u>	<u>\$16,697,383</u>	<u>\$17,870,581</u>

The following is a graphic illustration of 2016 operating expenses by function:



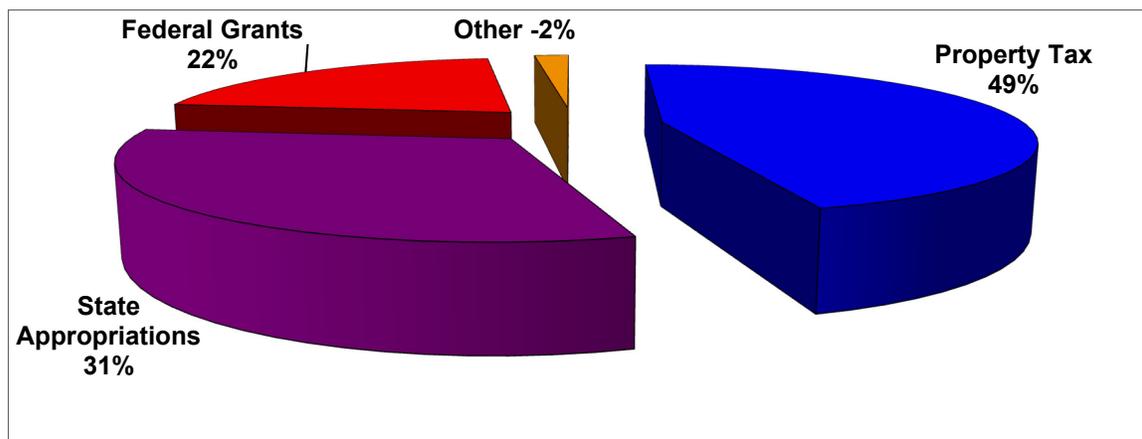
## Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Nonoperating revenue changes were principally due to changes in state appropriations and property tax collection. Federal Pell grants continue to be a funding source for students for financial aid but have continued to decrease over the last three years, 2016, 2015, and 2014, due to enrollment decreases. Investment income of the Foundation also decreased in 2016 due to declining market values. Included in investment income in 2016 and 2015 were gifts in the amount of \$29,940 and \$2,976,536.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
State appropriations	\$ 3,607,744	\$ 3,674,967	\$ 3,430,109
Property tax levy	5,904,506	5,796,244	5,747,251
Federal grants - Pell	2,699,020	3,149,873	3,811,547
Investment income (loss) and other	<u>(209,615)</u>	<u>3,029,330</u>	<u>1,147,948</u>
	<u>\$12,001,655</u>	<u>\$15,650,414</u>	<u>\$14,136,855</u>

The following is a graphic illustration of 2016 nonoperating revenues by source:



## Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Other revenue for the year ended June 30, 2016 consists of gifts and grants and additions to permanent endowments totaling \$994,820, compared to \$80,298 for the year ended June 30, 2015 and \$289,986 for the year ended June 30, 2014. During 2015, the College also received construction funds from the State of Michigan in the amount of \$288,940.

## Statement of Cash Flows

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

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

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Cash Provided (Used) by:			
Operating Activities	\$ (10,837,002)	\$ (12,825,132)	\$ 1,501,860
Noncapital Financing Activities	12,111,006	15,715,258	(3,117,982)
Capital and Related Financing Activities	(940,199)	(288,717)	(651,482)
Investing Activities	<u>324,983</u>	<u>(2,654,618)</u>	<u>2,979,601</u>
Net Increase (Decrease) in Cash	658,788	(53,209)	711,997
Cash – beginning	<u>2,486,328</u>	<u>2,539,537</u>	
Cash – ending	<u>\$ 3,145,116</u>	<u>\$ 2,486,328</u>	

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Cash Provided (Used) by:			
Operating Activities	\$ (12,825,132)	\$ (12,964,347)	\$ 139,215
Noncapital Financing Activities	15,715,258	13,454,311	2,260,947
Capital and Related Financing Activities	(288,717)	668,586	(957,303)
Investing Activities	<u>(2,654,618)</u>	<u>(555,974)</u>	<u>(2,098,644)</u>
Net Increase (Decrease) in Cash	(53,209)	602,576	(655,785)
Cash – beginning	<u>2,539,537</u>	<u>1,936,961</u>	
Cash – ending	<u>\$ 2,486,328</u>	<u>\$ 2,539,537</u>	

The College's liquidity increased significantly during 2016. The following discussion amplifies the overview of cash flows presented above.

Cash used in operating activities was approximately \$10.8 million. Major sources of funds came from student tuition and fees (\$2.9 million), and grants and contracts (\$1.6 million). Primary uses were payments to employees and suppliers (\$15.6 million).

Capital/construction gifts from donors increased cash by approximately \$1.0 million. Cash flows from Pell grants for tuition and fees decreased during 2016, while property tax revenue for operations increased slightly, which resulted in the overall decrease. Tuition and fees noted on above line are not part of noncapital financing activities and operating activities. Cash used for capital and related financing activities amounted to \$.9 million, primarily the result of purchase and construction of capital assets less, state funds and donations related thereto, and debt payments during the year. Cash provided by investing activities related primarily to the investing of donated funds.

**Capital Asset and Debt Administration**

Capital Assets:

At June 30, 2016, the College had approximately \$16.9 million invested in capital assets, net of accumulated depreciation of approximately \$23.2 million. Depreciation charges totaled \$1,139,615 for 2016. Details of these assets are shown below.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land and infrastructure	\$ 3,604,501	\$ 3,604,501	\$ 3,604,501
Buildings	32,005,573	32,005,573	31,958,432
Furniture, fixtures and equipment	<u>4,511,440</u>	<u>3,165,874</u>	<u>2,999,923</u>
	<u>\$40,121,514</u>	<u>\$38,775,948</u>	<u>\$38,562,856</u>

In 2008, the State of Michigan authorized the College to proceed with planning for the construction of an Advanced Technology Center to be located on its Greenville Campus. In September 2012, the State authorized the College to begin construction of that facility. The new building, projected to cost \$5.4 million (50% state funds, 50% local fundraising and/or bonds), was opened in the fall of 2013. The College also completed a program of energy conservation measures. The approximately \$1.2 million dollar cost of these improvements is financed over a 10 year period. The energy savings resulting from these changes are expected to exceed the construction and financing costs.

More detailed information about the College’s capital assets is presented in the footnotes to the financial statements.

Debt:

At year-end, the College had \$4,142,270 in debt outstanding versus \$4,475,180 at June 30, 2015 and \$4,769,852 at June 30, 2014. These include general obligation bonds related to the extensive construction and renovation projects that occurred in years prior to June 30, 2008, new bonds issued for the Advanced Technology Center construction project, and the installment purchase agreement described in the following paragraph.

During the year ended June 30, 2012, the College entered into an Installment Purchase Agreement to finance a program of energy conservation improvements. The approximately \$1.2 million cost of these improvements is being repaid in monthly installments over a ten-year period.

The College made scheduled debt repayments of \$332,910 during 2016. More detailed information about the College’s long-term liabilities is presented in the footnotes to the financial statement.

## **Economic Factors That Will Affect The Future**

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources, the current state budget provides an approximate 1.9% increase in funding to the College in 2016-17. Property values, and related property tax revenues, are expected to remain steady for 2016-17. A significant portion (43%, or approximately \$2.5 million) of the College's operating property tax millage was renewed by voters in November 2015. Enrollment for the fall 2016 semester is down less than 2% from the previous year, indicating that recent enrollment declines may be leveling off.

To address these challenges, and to allow the College to maintain its present level of services and plan for future needs, the Board of Trustees approved a 5% tuition increase for the 2016-2017 fiscal year, along with increases in per-contact-hour and course fees. The College is working with its three collective bargaining groups to address continual increases in fringe benefit costs. College personnel are also working with area economic development officials to bring new employers into the area, creating job training opportunities for the College. A new advanced manufacturing facility in the area is creating significant demand for high-skill, high-wage employment. The College is providing much of the training necessary for these workers.

The impact of GASB 68, which took effect beginning with the year ended June 30, 2015, will continue to be felt. GASB 68 established new requirements for colleges to report a "net pension liability" for the unfunded portion of its pension plan. Since the College participates in the MPSERS plan, it is reporting a liability for its "proportionate share" of the "net pension liability" of the MPSERS plan. The College recorded a net pension liability of \$16,617,926 as of June 30, 2016 (\$15,213,706 as of June 30, 2015) for its proportionate share and an increase in pension expense of \$655,506 for the year ended June 30, 2016 (a reduction of pension expense of \$312,280 for the year ended June 30, 2015) related to GASB 68 reporting requirements. We expect these amounts to change annually based on actuarial calculations and updating of related assumptions. This change in accounting is expected to be taken into consideration by the bond rating agencies. It is important to note that while this new standard raises awareness of potential future obligations of the College, its implementation has no immediate impact on the cash position of the College or its ability to meet current obligations. MPSERS was created and is administered by the State of Michigan. The College has no input into the benefits it provides, its investments or investment strategies, the rate that MPSERS charges the College, or its resulting net pension liability.

In fiscal 2018, GASB 75, Postemployment Benefits Other than Pensions, will be effective for the College. The College will be required to recognize its proportionate share of the OPEB/healthcare liability on its statement of net position as a result of its participation in the MPSERS OPEB plan. While the exact amount of the impact on the College is not yet determinable, it is expected to be significant based on the high level data shared by MPSERS to date.

# **INDEPENDENT AUDITORS' REPORT**

**INDEPENDENT AUDITORS' REPORT**

November 7, 2016

To the Board of Trustees  
Montcalm Community College  
Sidney, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of **Montcalm Community College** (the "College"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of **Montcalm Community College** as of June 30, 2016 and 2015, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Implementation of GASB Statement No. 68**

As described in Notes 2 and 8, the College implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the prior year. Accordingly, beginning net position of business-type activities as of July 1, 2014 was restated. 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 required schedules for the pension plan, 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 GASB, 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 audits were conducted for the purpose of forming an opinion 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 audits 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 November 7, 2016, on our consideration of **Montcalm 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 **Montcalm Community College's** internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

## **FINANCIAL STATEMENTS**

# MONTCALM COMMUNITY COLLEGE

## STATEMENTS OF NET POSITION

	June 30	
	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,145,116	\$ 2,486,328
Short-term investments	1,450	1,450
Accounts receivable, less allowance for uncollectible accounts of \$771,885 (\$883,919 in 2015)	333,958	235,571
Property taxes receivable	202,439	172,308
State appropriations receivable	723,781	586,674
Federal and state grants receivable	328,213	60,059
Pledges receivable	69,150	106,184
Prepays and other assets	83,852	118,180
<b>Total current assets</b>	<b>4,887,959</b>	<b>3,766,754</b>
<b>Noncurrent assets</b>		
Investments	13,346,020	13,768,442
Capital assets		
Nondepreciable	808,786	808,786
Depreciable, net	16,069,854	15,751,007
<b>Total noncurrent assets</b>	<b>30,224,660</b>	<b>30,328,235</b>
<b>Total assets</b>	<b>35,112,619</b>	<b>34,094,989</b>
<b>Deferred outflows of resources</b>		
Deferred pension amounts	1,780,492	1,980,193
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	278,145	238,176
Accrued interest	29,111	30,642
Accrued payroll, vacation (current portion) and other compensation	792,622	638,674
Deposits	316,307	292,600
Unearned revenue	133,425	99,375
Current portion of bonds and note payable	315,179	322,563
<b>Total current liabilities</b>	<b>1,864,789</b>	<b>1,622,030</b>
Bonds and note payable, net of current portion	3,827,091	4,152,617
Net pension liability	16,617,926	15,213,706
Accrued vacation, net of current portion	80,805	68,452
<b>Total liabilities</b>	<b>22,390,611</b>	<b>21,056,805</b>
<b>Deferred inflows of resources</b>		
Deferred pension amounts	733,403	1,681,818
<b>Net position</b>		
Net investment in capital assets	12,736,370	12,084,613
Restricted for		
Expendable scholarships and grants	8,884,010	9,058,383
Nonexpendable endowments	312,539	309,539
Unrestricted deficit (Note 7)	(8,163,822)	(8,115,976)
<b>Total net position</b>	<b>\$ 13,769,097</b>	<b>\$ 13,336,559</b>

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

# MONTCALM COMMUNITY COLLEGE

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2016	2015
<b>Operating revenues</b>		
Tuition and fees, net of scholarship allowance of \$2,122,832 (\$2,450,639 in 2015)	\$ 2,970,709	\$ 2,574,369
Federal grants and contracts	253,750	250,210
State grants and contracts	1,630,846	-
Nongovernmental grant	-	10,500
Auxiliary activities	130,642	145,637
Other	175,114	125,412
<b>Total operating revenues</b>	<b>5,161,061</b>	<b>3,106,128</b>
<b>Operating expenses</b>		
Instruction	7,317,784	6,715,477
Public services	343,677	328,308
Instructional support	2,713,402	2,365,087
Student services	2,225,648	2,195,284
Institutional administration	2,266,177	2,142,408
Operation and maintenance of plant	1,464,280	1,561,928
Depreciation	1,139,615	1,105,507
Other	254,415	283,384
<b>Total operating expenses</b>	<b>17,724,998</b>	<b>16,697,383</b>
<b>Operating loss</b>	<b>(12,563,937)</b>	<b>(13,591,255)</b>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	3,607,744	3,674,967
Federal Pell grants	2,699,020	3,149,873
Property taxes	5,904,506	5,796,244
Interest and dividend income	233,202	76,935
Net realized and unrealized (loss) gain on investments	(330,641)	124,762
Interest on capital asset - related debt	(142,116)	(148,903)
Gifts	29,940	2,976,536
<b>Net nonoperating revenues</b>	<b>12,001,655</b>	<b>15,650,414</b>
<b>Other revenue</b>		
State capital appropriations	-	288,940
Capital gifts and grants	929,583	10,598
Additions to permanent endowment	65,237	69,700
<b>Total other revenue</b>	<b>994,820</b>	<b>369,238</b>
<b>Increase in net position</b>	<b>432,538</b>	<b>2,428,397</b>
Net position - beginning of year	13,336,559	26,135,773
Implementation of GASB 68 (Notes 2 and 8)	-	(15,227,611)
Net position, beginning of year, as restated	13,336,559	10,908,162
<b>Net position - end of year</b>	<b>\$ 13,769,097</b>	<b>\$ 13,336,559</b>

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

# MONTCALM COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
<b>Cash flows from operating activities</b>		
Tuition and fees, net	\$ 2,906,372	\$ 2,680,429
Grants and contracts	1,616,442	221,521
Payments to suppliers	(5,576,764)	(4,930,539)
Payments to employees	(10,088,808)	(11,067,592)
Auxiliary enterprises	130,642	145,637
Other	175,114	125,412
<b>Net cash used in operating activities</b>	<b>(10,837,002)</b>	<b>(12,825,132)</b>
<b>Cash flows from noncapital financing activities</b>		
Property taxes	5,874,375	5,788,323
Federal Pell grants	2,699,020	3,149,873
State appropriations	3,470,637	3,654,113
Direct loans/FFEL receipts	2,867,178	3,101,853
Direct loans/FFEL disbursements	(2,867,178)	(3,101,853)
Other nonoperating receipts	37,034	146,413
Gifts	29,940	2,976,536
<b>Net cash provided by noncapital financing activities</b>	<b>12,111,006</b>	<b>15,715,258</b>
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(1,458,462)	(213,092)
Principal paid on bonds and note payable	(332,910)	(294,672)
Capital grant and gift proceeds	994,820	80,298
State capital appropriations	-	288,940
Interest paid on capital asset - related debt	(143,647)	(150,191)
<b>Net cash used in capital and related financing activities</b>	<b>(940,199)</b>	<b>(288,717)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	6,430,512	2,291,821
Interest and dividends on investments	233,202	76,935
Purchase of investments	(6,338,731)	(5,023,374)
<b>Net cash provided by (used in) investing activities</b>	<b>324,983</b>	<b>(2,654,618)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>658,788</b>	<b>(53,209)</b>
<b>Cash and cash equivalents</b>		
Beginning of year	2,486,328	2,539,537
<b>End of year</b>	<b>\$ 3,145,116</b>	<b>\$ 2,486,328</b>

(Continued...)

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

# MONTCALM COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS (CONCLUDED)

	Year Ended June 30	
	2016	2015
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (12,563,937)	\$ (13,591,255)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,139,615	1,105,507
Change in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(98,387)	141,642
Federal and state grants receivable	(268,154)	(39,189)
Prepaid items and other assets	34,328	31,749
Accounts payable	39,969	(105,449)
Accrued payroll, vacation and other compensation	166,301	(53,655)
Deposits	23,707	33,380
Unearned revenue	34,050	(35,582)
Change in net pension liability and deferred amounts	655,506	(312,280)
<b>Net cash used in operating activities</b>	<b><u>\$ (10,837,002)</u></b>	<b><u>\$ (12,825,132)</u></b>

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

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 1. MISSION

*Montcalm Community College* (the “College”) is a Michigan community college whose mission is to create a learning community, contributing to shared economic, cultural and social prosperity for all citizens. The College offers associate degrees, numerous certificate programs, and other educational programs while being accredited by the Higher Learning Commission. The primary education centers for the College are its main campus situated northeast of Greenville, and extension centers located in Greenville, Ionia, and Howard City.

### 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The College’s financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

The College reports as a business-type activity, as defined by governmental accounting standards. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

The Montcalm Community College Foundation (the “Foundation”) is a legally separate, tax-exempt not-for-profit organization that was formed to solicit, collect, and invest donations made for the promotion of educational activities at and to augment the facilities of the College. The Foundation acts primarily as a fundraising organization to supplement the resources of the College in support of its programs and facilities. Since the restricted resources held by the Foundation can be used only by, or for the benefit of, the College, the Foundation is considered a component unit of the College under governmental accounting standards. Because College management has operational responsibility for the Foundation in addition to meeting other criteria, the Foundation is blended into the College’s financial statements.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

The condensed financial information for the Foundation as of and for the years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Condensed statement of net assets		
Total assets	\$ 13,995,270	\$ 13,781,450
Total liabilities	<u>(29,502)</u>	<u>(765)</u>
Total net assets	<u>\$ 13,965,768</u>	<u>\$ 13,780,685</u>
Condensed statement of revenues, expenses and changes in net assets		
Nonoperating revenues	\$ 144,519	\$ 3,337,232
Capital contributions and additions to permanent and term endowments	994,820	80,298
Operating expenses	<u>(954,256)</u>	<u>(429,143)</u>
Changes in net assets	185,083	2,988,387
Beginning net assets	<u>13,780,685</u>	<u>10,792,298</u>
<b>Ending net assets</b>	<b><u>\$ 13,965,768</u></b>	<b><u>\$ 13,780,685</u></b>
Condensed statement of cash flow		
Net cash provided by (used in)		
Operating activities	\$ (203,198)	\$ 2,962,008
Financing activities	52,034	60,700
Investing activities	<u>91,782</u>	<u>(2,731,553)</u>
Net change in cash and cash equivalents	(59,382)	291,155
Beginning cash and cash equivalents	<u>435,722</u>	<u>144,567</u>
<b>Ending cash and cash equivalents</b>	<b><u>\$ 376,340</u></b>	<b><u>\$ 435,722</u></b>

Significant accounting policies followed by the College and Foundation are described below:

### Basis of Accounting

The financial statements have been prepared using the economic resource management focus and accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met. The College follows all applicable GASB pronouncements. Certain revenue recognition criteria and presentation features are different under the Financial Accounting Standards Board, which is applicable to the Foundation, from GASB.

### Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash on hand, and all highly liquid investments with an original maturity of three months or less.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 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.

### Revenue Recognition

Revenue from state appropriations are recognized in accordance with the accounting method described in the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*, which provides that state appropriations are recorded as revenue in the period for which such amounts are appropriated. Student tuition and related revenues and expenses of an academic semester are reported in the fiscal year in which the program is conducted.

Operating revenues of the College consist of tuition and fees, grants other than Federal Pell grants, and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities, state appropriations, property taxes and Federal Pell grants are components of nonoperating and other revenues. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy any expenses.

Property taxes levied by the College are collected by various municipalities and periodically remitted to the College. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied to the extent that they are determined to be collectible. For the years ended June 30, 2016 and 2015, the College levied 2.720 and 2.7292 mills, respectively per \$1,000 of taxable value for general operations.

### Investments

The Foundation carries investments in cash as well as in investment securities of mutual funds and exchange traded funds 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. The Foundation maintains investment accounts for its nonexpendable and expendable endowments. Realized and unrealized gains and losses from securities in the investment accounts are allocated quarterly based on the relationship of the market value of each endowment fund to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts.

### Fair Value Measurements

The Foundation has categorized its financial assets and liabilities carried at fair value into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value.

The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). For a further discussion of fair value, refer to Note 4.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### Capital Assets

Capital assets, which the College defines as property and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year, are recorded at cost or, if acquired by gift, at the fair value on the date of acquisition. Management annually reviews capital assets for impairment. Depreciation is provided for property and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Classification	Estimated Useful Lives
Buildings	40
Infrastructure and land improvements	15
Building improvements	10
Furniture and fixtures	5
Computer equipment	4
Library materials	7

### Accrued Vacation

Accrued vacation represents the accumulated liability to be paid under the College's current vacation pay policy.

### Unearned Revenue

Unearned revenue at June 30, 2016 and 2015, consists of revenue received prior to year-end that relates to summer semester tuition for the period subsequent to July 1 for the semester, which began May 16 and concluded August 1 in 2016 and began May 18 and concluded on July 24 in 2015.

### 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.

### Internal Service Activities

Both revenue and expenses related to internal service activities including office equipment, maintenance, and telecommunications have been eliminated in the presentation of these financial statements.

### 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, and deferred outflows and inflows related to pension amounts.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### Income Taxes

The Internal Revenue (IRS) has determined that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been recorded. The Foundation analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Foundation also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its operating expenses.

The Foundation has evaluated its income tax position for the years 2013 through 2016, the years which remain subject to examination by major tax jurisdictions as of June 30, 2016. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in these financial statements. The Foundation does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2016 or 2015, and it is not aware of any claims for such amounts by federal or state income tax authorities.

### Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The College reports deferred outflows of resources for certain pension-related amounts. More detailed information can be found in Note 8.

### Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The College reports deferred inflows of resource for certain pension-related amounts. More detailed information can be found in Note 8.

### 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 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.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### New Accounting Pronouncement

As of July 1, 2014, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires that the College recognize a net pension liability on the statement of net position, equal to the College's proportionate share of the net pension liability of the Michigan Public School Employees Retirement System (MPSERS), as defined and calculated in accordance with the new standard. More detailed information can be found in Note 8. As a result of this change, the College recognized a net pension liability of \$16,184,354 and deferred outflows of resources of \$956,743, which resulted in a decrease in net position of \$15,227,611 as of July 1, 2014.

### Subsequent Events

In preparing these financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of net position presented herein, through November 7, 2016, the date these financial statements were available to be issued. No significant such events or transactions were identified by the Foundation.

## 3. DEPOSITS AND INVESTMENTS

State of Michigan ("State") statutes authorize the College to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in this state rated prime by at least one of the standard rating services. The College is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The College's investment policy allows for all of these types of investments. The Foundation invests donations primarily in mutual and exchange traded funds. Short-term investments include those with maturities of more than 90 days and less than one year.

The College's deposits and investments are included on the statement of net position under the following classifications as of June 30:

2016	College	Foundation	Total
Cash and cash equivalents	\$ 2,768,776	\$ 376,340	\$ 3,145,116
Short-term investments	1,450	-	1,450
Investments	-	13,346,020	13,346,020
<b>Total</b>	<b>\$ 2,770,226</b>	<b>\$ 13,722,360</b>	<b>\$ 16,492,586</b>

2015	College	Foundation	Total
Cash and cash equivalents	\$ 2,050,607	\$ 435,721	\$ 2,486,328
Short-term investments	1,450	-	1,450
Investments	-	13,768,442	13,768,442
<b>Total</b>	<b>\$ 2,052,057</b>	<b>\$ 14,204,163</b>	<b>\$ 16,256,220</b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

The above amounts are categorized as follows at June 30:

2016	College	Foundation	Total
Bank deposits (checking, savings and cash sweep accounts)	\$ 2,764,776	\$ 376,340	\$ 3,141,116
Petty cash	4,000	-	4,000
Short-term investments	1,450	-	1,450
Mutual funds and cash	-	3,207,939	3,207,939
Exchange traded funds	-	10,138,081	10,138,081
<b>Total</b>	<b><u>\$ 2,770,226</u></b>	<b><u>\$ 13,722,360</u></b>	<b><u>\$ 16,492,586</u></b>

2015	College	Foundation	Total
Bank deposits (checking, savings and cash sweep accounts)	\$ 2,046,607	\$ 435,721	\$ 2,482,328
Petty cash	4,000	-	4,000
Short-term investments	1,450	-	1,450
Mutual funds and cash	-	3,181,981	3,181,981
Exchange traded funds	-	10,586,461	10,586,461
<b>Total</b>	<b><u>\$ 2,052,057</u></b>	<b><u>\$ 14,204,163</u></b>	<b><u>\$ 16,256,220</u></b>

As of June 30, 2016 and 2015, all deposits with financial institutions consist of depository accounts.

**Interest Rate Risk.** The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** State law limits the College's investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The College has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk.** The College's investment policy does not have specific limits on concentration of credit risk. The Foundation's investment policy limits the cost basis of individual equity securities to 12% of its total investment portfolio as measured at market value or 5% as measured at cost.

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned. State law does not require and the College and the Foundation do not have a policy for deposit custodial credit risk. As of June 30, 2016 and 2015, \$2,228,291 and \$1,603,225, respectively, of the College's bank deposits balance of \$3,141,116 and \$2,482,328, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

**Custodial Credit Risk - Investments.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments that are in the possession of an outside party. State law does not require and the College and the Foundation do not have a policy for investment custodial credit risk. However, all investments are in the name of the College or Foundation, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased. Custodial credit risk for the mutual funds cannot be determined as these investments are not evidenced by specifically identifiable securities.

**Foreign Currency Risk.** The College is not authorized by state law to invest in investments which have this type of risk.

### 4. FAIR VALUE MEASUREMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to its investment securities and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

#### **Fair Value Hierarchy**

The Foundation groups its investments at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

**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. The Foundation holds no securities classified as Level 2.

**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 estimates of assumptions that market participants would use in pricing the asset. The Foundation holds no securities classified as Level 3.

The following is a description of the valuation methodology used for assets recorded at fair value. There have been no changes in the methodologies used at June 30, 2016 or 2015.

***Cash:*** Cash represents amounts on deposit at a financial institution. The carrying amount approximates fair value and is classified as Level 1.

***Exchange traded funds and mutual funds:*** Shares held in exchange traded funds and mutual funds are valued at quoted market prices that represent the net asset value (“NAV”) of shares held by the Foundation at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities then divided by the number of shares outstanding.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30:

2016	Level 1	Level 2	Level 3	Total
Cash	\$ 233,108	\$ -	\$ -	\$ 233,108
Mutual funds				
Large growth	1,446,803	-	-	1,446,803
Large value	769,379	-	-	769,379
Corporate bond	304,562	-	-	304,562
Mid-cap growth	454,087	-	-	454,087
Exchange traded funds				
Multi-strategy allocation	518,406	-	-	518,406
Fixed income	1,588,209	-	-	1,588,209
International equity	2,184,084	-	-	2,184,084
Equity index	5,414,990	-	-	5,414,990
Global real estate	<u>432,392</u>	<u>-</u>	<u>-</u>	<u>432,392</u>
<b>Total investments at fair value</b>	<b><u>\$ 13,346,020</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 13,346,020</u></b>
2015	Level 1	Level 2	Level 3	Total
Cash	\$ 211,875	\$ -	\$ -	\$ 211,875
Mutual funds				
Large growth	1,349,057	-	-	1,349,057
Large value	593,667	-	-	593,667
Corporate bond	452,090	-	-	452,090
Mid-cap growth	575,292	-	-	575,292
Exchange traded funds				
Multi-strategy allocation	543,562	-	-	543,562
Fixed income	1,628,763	-	-	1,628,763
International equity	2,443,815	-	-	2,443,815
Equity index	5,550,014	-	-	5,550,014
Global real estate	<u>420,307</u>	<u>-</u>	<u>-</u>	<u>420,307</u>
<b>Total investments at fair value</b>	<b><u>\$ 13,768,442</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 13,768,442</u></b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Nondepreciable capital assets				
Land	\$ 808,786	\$ -	\$ -	\$ 808,786
Depreciable capital assets				
Land improvements	1,317,590	-	-	1,317,590
Buildings and improvements	32,005,573	-	-	32,005,573
Infrastructure	1,478,125	-	-	1,478,125
Furniture, fixtures and equipment	2,738,000	1,451,644	112,896	4,076,748
Library materials	427,874	6,818	-	434,692
<b>Subtotal depreciable capital assets</b>	<b>37,967,162</b>	<b>1,458,462</b>	<b>112,896</b>	<b>39,312,728</b>
<b>Total capital assets</b>	<b>38,775,948</b>	<b>1,458,462</b>	<b>112,896</b>	<b>40,121,514</b>
Less accumulated depreciation				
Land improvements	530,041	103,064	-	633,105
Buildings and improvements	18,408,663	697,186	-	19,105,849
Infrastructure	1,012,288	51,188	-	1,063,476
Furniture, fixtures and equipment	1,874,236	274,902	112,896	2,036,242
Library materials	390,927	13,275	-	404,202
<b>Total accumulated depreciation</b>	<b>22,216,155</b>	<b>\$ 1,139,615</b>	<b>\$ 112,896</b>	<b>23,242,874</b>
<b>Total depreciated capital assets, net</b>	<b>15,751,007</b>			<b>16,069,854</b>
<b>Total capital assets, net</b>	<b>\$ 16,559,793</b>			<b>\$ 16,878,640</b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions and Transfers	Deletions and Transfers	Balance June 30, 2015
Nondepreciable capital assets				
Land	\$ 808,786	\$ -	\$ -	\$ 808,786
Depreciable capital assets				
Land improvements	1,317,590	-	-	1,317,590
Buildings and improvements	31,958,432	47,141	-	32,005,573
Infrastructure	1,478,125	-	-	1,478,125
Furniture, fixtures and equipment	2,577,787	160,213	-	2,738,000
Library materials	422,136	5,738	-	427,874
<b>Subtotal depreciable capital assets</b>	<b>37,754,070</b>	<b>213,092</b>	<b>-</b>	<b>37,967,162</b>
<b>Total capital assets</b>	<b>38,562,856</b>	<b>213,092</b>	<b>-</b>	<b>38,775,948</b>
Less accumulated depreciation				
Land improvements	424,991	105,050	-	530,041
Buildings and improvements	17,700,866	707,797	-	18,408,663
Infrastructure	961,101	51,187	-	1,012,288
Furniture, fixtures and equipment	1,649,046	225,190	-	1,874,236
Library materials	374,644	16,283	-	390,927
<b>Total accumulated depreciation</b>	<b>21,110,648</b>	<b>\$ 1,105,507</b>	<b>\$ -</b>	<b>22,216,155</b>
<b>Total depreciated capital assets, net</b>	<b>16,643,422</b>			<b>15,751,007</b>
<b>Total capital assets, net</b>	<b>\$ 17,452,208</b>			<b>\$ 16,559,793</b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 6. DEBT

Debt activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Bonds payable	\$ 3,600,000	\$ -	\$ 200,000	\$ 3,400,000	\$ 200,000
Note payable	875,180	-	132,910	742,270	115,179
<b>Total</b>	<b>\$ 4,475,180</b>	<b>\$ -</b>	<b>\$ 332,910</b>	<b>\$ 4,142,270</b>	<b>\$ 315,179</b>

Debt activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Bonds payable	\$ 3,775,000	\$ -	\$ 175,000	\$ 3,600,000	\$ 200,000
Note payable	994,852	-	119,672	875,180	122,563
<b>Total</b>	<b>\$ 4,769,852</b>	<b>\$ -</b>	<b>\$ 294,672</b>	<b>\$ 4,475,180</b>	<b>\$ 322,563</b>

The unsecured note payable requires payments of \$11,845 per month through February 2022 at a rate of 2.39%.

The 2007 general obligation limited tax obligations, which are to be repaid from the General Fund of the College, require principal payments ranging from \$125,000 to \$175,000 and are due annually through 2027. Interest is payable semiannually in April and October at rates which vary from 3.650% to 4.05%. The outstanding balance on these obligations was \$1,750,000 and \$1,875,000 as of June 30, 2016 and 2015, respectively.

The 2012 general obligation limited tax obligations, which are to be repaid from the General Fund of the College, require principal payments ranging from \$75,000 to \$150,000 and are due annually through 2031. Interest is payable semiannually in April and October at rates which vary from 2.00% to 3.125%. The outstanding balance on these obligations was \$1,650,000 and \$1,725,000 as of June 30, 2016 and 2015, respectively.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Scheduled annual principal and interest requirements on debt for each of the next five years and thereafter are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 315,179	\$ 132,993	\$ 448,172
2018	328,558	125,312	453,870
2019	356,665	115,529	472,194
2020	384,846	104,623	489,469
2021	388,104	92,741	480,845
2022-2026	1,543,918	285,455	1,829,373
2027-2031	<u>825,000</u>	<u>61,917</u>	<u>886,917</u>
<b>Totals</b>	<b><u>\$ 4,142,270</u></b>	<b><u>\$ 918,570</u></b>	<b><u>\$ 5,060,840</u></b>

### 7. UNRESTRICTED NET DEFICIT

The College has designated the use of a portion of unrestricted net deficit as follows at June 30:

	2016	2015
Board designated endowment funds	\$ 4,846,431	\$ 4,435,235
Pension liability fund deficit	(15,570,837)	(14,915,331)
Undesignated	<u>2,560,584</u>	<u>2,364,120</u>
<b>Total unrestricted net deficit</b>	<b><u>\$ (8,163,822)</u></b>	<b><u>\$ (8,115,976)</u></b>

### 8. RETIREMENT PLANS

#### Defined Benefit Plan

*Plan Description.* The College contributes to the Michigan Public School Employees Retirement System (“MPERS,” “System”), a cost-sharing multi-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, recodified and is 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 is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the ORS Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System’s financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

*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 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 account 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.

*Contributions and Funded Status.* 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, 2015 valuation will be amortized over a 21-year period.

Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization rates, ranged from 14.56 % to 23.07% of covered payroll for the College's fiscal 2016. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College's fiscal 2016.

Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization rates, ranged from 15.44% to 23.07% of covered payroll for the College's fiscal 2015. Plan member contributions range from 0.0% to 7.0% of covered payroll for the College's fiscal 2015.

The College's contribution to MPSERS under all pension plans for the years ended June 30, 2016 and 2015, were \$1,576,914 and \$1,828,741, respectively. The College's contributions to MPSERS for all plans, including other postemployment benefits as described on page 34, for the year ended June 30, 2014 was \$1,430,789. These amounts are equal to the College's required contributions for each year.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2016 and 2015, the College reported a liability of \$16,617,926 and \$15,213,706, respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014 and 2013, 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 employers during the measurement period. At September 30, 2015, the College's proportion was 0.06804% compared to 0.06907% at September 30, 2014, a decrease of 0.00103%.

For the year ended June 30, 2016, the College recognized its proportional share of the Plan's pension expense of \$1,361,879. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 55,043	\$ (55,043)
Changes in assumptions	409,169	-	409,169
Net difference between projected and actual earnings on pension plan investments	84,821	-	84,821
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>33,456</u>	<u>192,090</u>	<u>(158,634)</u>
	527,446	247,133	280,313
Pension portion of Sec 147c state appropriations award subsequent to the measurement date	-	486,270	(486,270)
College contributions subsequent to the measurement date	<u>1,253,046</u>	<u>-</u>	<u>1,253,046</u>
<b>Total</b>	<b><u>\$ 1,780,492</u></b>	<b><u>\$ 733,403</u></b>	<b><u>\$ 1,047,089</u></b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

The \$1,253,046 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The \$486,270 reported as deferred inflows of resources resulting from the pension portion of state appropriations payments received pursuant to Sec 147c of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriation revenue for the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2017	\$ 3,940
2018	3,941
2019	(18,245)
2020	<u>290,677</u>
<b>Total</b>	<b><u>\$ 280,313</u></b>

For the year ended June 30, 2015, the College's proportionate share of pension expense was \$1,516,461. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2015	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 561,331	\$ -	\$ 561,331
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>1,681,818</u>	<u>(1,681,818)</u>
	561,331	1,681,818	(1,120,487)
College contributions subsequent to the measurement date	<u>1,418,862</u>	<u>-</u>	<u>1,418,862</u>
<b>Total</b>	<b><u>\$ 1,980,193</u></b>	<b><u>\$ 1,681,818</u></b>	<b><u>\$ 298,375</u></b>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

*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 liability in the September 30, 2014 and 2013 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%
Projected salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5% for 2014 (7% for 2013)
Cost of living adjustments	3.0% annual, non-compounded for MIP members

The mortality table used in these valuations were the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. 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.

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, 2015 and 2014, is based on the results of an actuarial valuation date of September 30, 2014 and 2013, respectively, and rolled forward using generally accepted actuarial procedures, including the experience study for the 2014 valuation.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

*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, 2015 and 2014, are summarized in the following tables:

<u>2015</u>			
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00 %	5.90 %	1.64 %
Alternative investment pools	18.00	9.20	1.66
International equity	16.00	7.20	1.15
Fixed income pools	10.50	0.90	0.09
Real estate and infrastructure pools	10.00	4.30	0.43
Absolute return pools	15.50	6.00	0.93
Short-term investment pools	<u>2.00</u>	0.00	<u>0.00</u>
	<u>100.00 %</u>		5.90 %
Inflation			<u>2.10</u>
<b>Investment rate of return</b>			<u><b>8.00 %</b></u>
<u>2014</u>			
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00 %	4.80 %	1.34 %
Alternative investment pools	18.00	8.50	1.53
International equity	16.00	6.10	0.98
Fixed income pools	10.50	1.50	0.16
Real estate and infrastructure pools	10.00	5.30	0.53
Absolute return pools	15.50	6.30	0.98
Short-term investment pools	<u>2.00</u>	-0.20	<u>-0.02</u>
	<u>100.00 %</u>		5.50 %
Inflation			<u>2.50</u>
<b>Investment rate of return</b>			<u><b>8.00 %</b></u>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

*Discount Rate.* A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the College as of June 30, 2016 and 2015, calculated using the discount rate of 8.0%, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
College's proportionate share of net pension liability (2016)	\$ 21,424,767	\$ 16,617,926	\$ 12,565,563
College's proportionate share of net pension liability (2015)	\$ 20,057,168	\$ 15,213,706	\$ 11,131,930

*Pension Plan Fiduciary Net Position.* Detailed information about the pension 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](http://www.michigan.gov/orsschools).

*Payable to the Pension Plan.* At June 30, 2016, the College reported a payable of \$88,414 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016. The College reported a payable of \$326 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

### **Other Postemployment Benefits**

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a pre-funded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.71% to 6.83% and 2.2% to 2.71% of covered payroll for fiscal 2016 and 2015, respectively. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Michigan Supreme Court. If sustained upon appeal, such amounts will be refunded by MPSERS to each College, including interest, and will then be refunded to individual employees.

The College's contributions to MPSERS for other postemployment benefits amounted to \$561,244 and \$264,458 for the years ended June 30, 2016 and 2015, respectively.

### Defined Contribution Plan

Effective January 1, 1998, existing professional MPSERS members and new professional employees of the College may elect to participate in the Montcalm Community College Optional Retirement Program (ORP) in lieu of participating in the MPSERS plan. The ORP was established by the College's Board of Trustees, is administered by TIAA-CREF, and is a defined contribution plan qualified under Section 414(d) of the Internal Revenue Code. Effective September 2012, the College Board of Trustees approved the removal of this plan to new participants. Under the ORP, the College contributed 12% and the participant contributed 4% of the participant's compensation. At June 30, 2016 and 2015, the College had eight participants. Total covered payroll and College contributions were approximately \$776,000 and \$93,000, respectively, for 2016 and \$739,000 and \$89,000, respectively, for 2015.

### Compensated Absences

The College pays eligible employees for their unused accumulated vacation upon termination of employment with the College. Employees earn vacation benefits based on time of service with the College. The obligation is included in the accompanying statement of net position as current liabilities of \$195,857 and \$205,240 and long-term liabilities of \$80,805 and \$68,452 at June 30, 2016 and 2015, respectively.

## 9. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and 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 (the "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. The College participates in this risk pool. Although premiums are paid annually to the Authority, which the Authority uses to pay claims up to retention limits, the ultimate liability for those claims remains with the College.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

### 10. FOUNDATION ENDOWMENTS

The Foundation's endowment consists of four individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds, term endowments and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments are classified and reported based upon the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Foundation has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SMPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as restricted nonexpendable endowments (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. Any donor-restricted endowment fund that would not be classified as restricted nonexpendable endowments is classified as restricted expendable net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SMPMIFA. In accordance with SMPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The restricted expendable net position of the Foundation as of June 30, 2016 and 2015, are for scholarships. The restricted nonexpendable endowments of the Foundation as of June 30, 2016 and 2015, consist of permanent endowment funds.

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

Following is a summary of the Foundation's endowment and changes therein as of and for the years ended June 30:

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
<b>Endowment net position comparison by type of fund as of June 30, 2016</b>				
Donor-restricted endowment funds	\$ -	\$ 2,261,395	\$ 312,539	\$ 2,573,934
Board designated endowment funds	4,846,431	-	-	4,846,431
Term endowment funds	-	6,545,403	-	6,545,403
	<u>\$ 4,846,431</u>	<u>\$ 8,806,798</u>	<u>\$ 312,539</u>	<u>\$ 13,965,768</u>
<b>Changes in endowment net position for the year ended June 30, 2016</b>				
Investment return				
Investment income	\$ 194,583	\$ 250,637	\$ -	\$ 445,220
Realized and unrealized losses	(114,300)	(216,341)	-	(330,641)
Net investment return	80,283	34,296	-	114,579
Contributions and other revenue	1,020,260	1,500	3,000	1,024,760
Expenses and expenditures	(689,347)	(264,909)	-	(954,256)
Change in net position	411,196	(229,113)	3,000	185,083
Endowment net position - Beginning of year	4,435,235	9,035,911	309,539	13,780,685
End of year	<u>\$ 4,846,431</u>	<u>\$ 8,806,798</u>	<u>\$ 312,539</u>	<u>\$ 13,965,768</u>

# MONTCALM COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
<b>Endowment net position comparison by type of fund as of June 30, 2015</b>				
Donor-restricted endowment funds	\$ -	\$ 2,261,395	\$ 309,539	\$ 2,570,934
Board designated endowment funds	4,435,235	-	-	4,435,235
Term endowment funds	-	6,774,516	-	6,774,516
	<u>\$ 4,435,235</u>	<u>\$ 9,035,911</u>	<u>\$ 309,539</u>	<u>\$ 13,780,685</u>
<b>Changes in endowment net position for the year ended June 30, 2015</b>				
Investment return				
Investment income	\$ 103,410	\$ 132,524	\$ -	\$ 235,934
Realized and unrealized gains	37,959	86,803	-	124,762
Net investment return	141,369	219,327	-	360,696
Contributions and other revenue	123,844	2,932,890	100	3,056,834
Expenses and expenditures	(206,958)	(222,185)	-	(429,143)
Change in net position	58,255	2,930,032	100	2,988,387
Endowment net position - Beginning of year	4,376,980	6,105,879	309,439	10,792,298
End of year	<u>\$ 4,435,235</u>	<u>\$ 9,035,911</u>	<u>\$ 309,539</u>	<u>\$ 13,780,685</u>

### Return Objectives and Risk Parameters

The Foundation has adopted investment policies for assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity as well as board-designated funds. Under this policy the assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming an average level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 5.0% over the consumer price index. Actual returns in any given year may vary from this range.

# MONTCALM COMMUNITY COLLEGE

## ■ NOTES TO FINANCIAL STATEMENTS

### Strategies Employed for Achieving Objectives

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

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

The Foundation has an annual spending policy of 5.0% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 2.5% to 3.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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**REQUIRED SUPPLEMENTARY INFORMATION  
MPSERS COST-SHARING MULTIPLE EMPLOYER PLAN**

# MONTCALM COMMUNITY COLLEGE

## ■ SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Year Ended June 30	
	2016	2015
College's proportion of the net pension liability	.06804%	.06907%
College's proportionate share of the net pension liability	\$ 16,617,926	\$ 14,974,153
College's covered-employee payroll	\$ 8,424,717	\$ 8,263,776
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	197.25%	181.20%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%

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

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# MONTCALM COMMUNITY COLLEGE

## SCHEDULE OF COLLEGE CONTRIBUTIONS

	Year Ended June 30	
	2016	2015
Contractually required contribution	\$ 1,576,914	\$ 1,828,741
Contributions in relation to the contractually required contribution	<u>(1,576,914)</u>	<u>(1,828,741)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 8,947,602	\$ 9,070,943
Contributions as a percentage of covered employee payroll	17.62%	20.16%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## **SUPPLEMENTARY INFORMATION**

# MONTCALM COMMUNITY COLLEGE

## COMBINING STATEMENT OF NET POSITION JUNE 30, 2016 (UNAUDITED)

ASSETS	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Pension Fund	Foundation
<b>Current assets</b>								
Cash and cash equivalents	\$ 3,145,116	\$ 1,516,872	\$ 8,051	\$ 18,952	\$ 1,053,483	\$ 171,418	\$ -	\$ 376,340
Short-term investments	1,450	-	-	1,450	-	-	-	-
Accounts receivable less allowance of (\$771,885)	333,958	332,045	13	1,900	-	-	-	-
Property taxes receivable	202,439	202,439	-	-	-	-	-	-
State appropriation receivable	723,781	723,781	-	-	-	-	-	-
Federal and state grants receivable	328,213	-	-	328,213	-	-	-	-
Pledges receivable	69,150	-	-	15,000	-	-	-	54,150
Prepaid items and other assets	83,852	83,852	-	-	-	-	-	-
Due (to) from other funds	-	(22,806)	(7,153)	(288,303)	(300)	99,802	-	218,760
<b>Total current assets</b>	<b>4,887,959</b>	<b>2,836,183</b>	<b>911</b>	<b>77,212</b>	<b>1,053,183</b>	<b>271,220</b>	<b>-</b>	<b>649,250</b>
Investments	13,346,020	-	-	-	-	-	-	13,346,020
<b>Capital assets</b>								
Land and improvements	2,126,376	-	-	-	2,126,376	-	-	-
Accumulated depreciation	(633,105)	-	-	-	(633,105)	-	-	-
Infrastructure	1,478,125	-	-	-	1,478,125	-	-	-
Accumulated depreciation	(1,063,476)	-	-	-	(1,063,476)	-	-	-
Buildings and improvements	32,005,573	-	-	-	32,005,573	-	-	-
Accumulated depreciation	(19,105,849)	-	-	-	(19,105,849)	-	-	-
Equipment, including vehicles and library books	4,511,440	-	-	-	4,511,440	-	-	-
Accumulated depreciation	(2,440,444)	-	-	-	(2,440,444)	-	-	-
<b>Total capital assets</b>	<b>16,878,640</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,878,640</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>35,112,619</b>	<b>2,836,183</b>	<b>911</b>	<b>77,212</b>	<b>17,931,823</b>	<b>271,220</b>	<b>-</b>	<b>13,995,270</b>
<b>Deferred outflows of resources</b>								
Deferred pension amounts	1,780,492	-	-	-	-	-	1,780,492	-

(Continued...)

# MONTCALM COMMUNITY COLLEGE

## COMBINING STATEMENT OF NET POSITION (CONCLUDED) JUNE 30, 2016 (UNAUDITED)

LIABILITIES AND NET POSITION	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Pension Fund	Foundation
<b>Current liabilities</b>								
Accounts payable	\$ 278,145	\$ 235,667	\$ 911	\$ -	\$ 11,847	\$ 218	\$ -	\$ 29,502
Accrued interest	29,111	-	-	-	29,111	-	-	-
Accrued payroll, vacation and other compensation	792,622	792,622	-	-	-	-	-	-
Deposits	316,307	9,236	-	-	36,069	271,002	-	-
Unearned revenue	133,425	133,425	-	-	-	-	-	-
Current portion of bonds and note payable	315,179	-	-	-	315,179	-	-	-
<b>Total current liabilities</b>	<b>1,864,789</b>	<b>1,170,950</b>	<b>911</b>	<b>-</b>	<b>392,206</b>	<b>271,220</b>	<b>-</b>	<b>29,502</b>
Bonds and note payable, net of current portion	3,827,091	-	-	-	3,827,091	-	-	-
Net pension liability	16,617,926	-	-	-	-	-	16,617,926	-
Accrued vacation, net of current portion	80,805	80,805	-	-	-	-	-	-
<b>Total liabilities</b>	<b>22,390,611</b>	<b>1,251,755</b>	<b>911</b>	<b>-</b>	<b>4,219,297</b>	<b>271,220</b>	<b>16,617,926</b>	<b>29,502</b>
<b>Deferred inflows of resources</b>								
Deferred pension amounts	733,403	-	-	-	-	-	733,403	-
<b>Net position</b>								
Net investment in capital assets	12,736,370	-	-	-	12,736,370	-	-	-
Restricted for								
Expendable scholarships and grants	8,884,010	-	-	77,212	-	-	-	8,806,798
Nonexpendable endowments	312,539	-	-	-	-	-	-	312,539
Unrestricted (deficit)	(8,163,822)	1,584,428	-	-	976,156	-	(15,570,837)	4,846,431
<b>Total net position (deficit)</b>	<b>\$ 13,769,097</b>	<b>\$ 1,584,428</b>	<b>\$ -</b>	<b>\$ 77,212</b>	<b>\$ 13,712,526</b>	<b>\$ -</b>	<b>\$ (15,570,837)</b>	<b>\$ 13,965,768</b>

# MONTCALM COMMUNITY COLLEGE

## COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2016 (UNAUDITED)

	Combined Total	Elimination	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Fund	Foundation
<b>Revenues</b>								
<b>Operating revenues</b>								
Tuition and fees (net of scholarship allowance of \$2,122,832)	\$ 2,970,709	\$ (2,122,832)	\$ 5,093,541	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	253,750	-	4,972	-	248,778	-	-	-
State grants and contracts	1,630,846	-	-	-	1,630,846	-	-	-
Auxiliary activities	130,642	-	32,915	97,727	-	-	-	-
Current funds expensed for equity and capital improvements	-	(1,458,461)	-	-	-	1,458,461	-	-
Other	175,114	-	175,114	-	-	-	-	-
<b>Total operating revenues</b>	<b>5,161,061</b>	<b>(3,581,293)</b>	<b>5,306,542</b>	<b>97,727</b>	<b>1,879,624</b>	<b>1,458,461</b>	<b>-</b>	<b>-</b>
<b>Operating expenses</b>								
Instruction	7,317,784	(1,351,476)	6,741,896	-	1,847,448	-	79,916	-
Public services	343,677	-	340,022	-	-	-	3,655	-
Instructional support	2,713,402	(24,361)	2,688,680	-	18,400	-	30,683	-
Student services	2,225,648	(2,335,952)	1,341,437	231,132	2,756,703	-	19,208	213,120
Institutional administration	2,266,177	-	2,243,652	-	-	-	22,525	-
Operation and maintenance of plant	1,464,280	(11,866)	1,462,897	-	-	-	13,249	-
Depreciation	1,139,615	-	-	-	-	1,139,615	-	-
Other expenditures	254,415	(70,758)	-	-	-	750	-	324,423
<b>Total operating expenses</b>	<b>17,724,998</b>	<b>(3,794,413)</b>	<b>14,818,584</b>	<b>231,132</b>	<b>4,622,551</b>	<b>1,140,365</b>	<b>169,236</b>	<b>537,543</b>
<b>Operating loss</b>	<b>(12,563,937)</b>	<b>213,120</b>	<b>(9,512,042)</b>	<b>(133,405)</b>	<b>(2,742,927)</b>	<b>318,096</b>	<b>(169,236)</b>	<b>(537,543)</b>

(Continued...)

# MONTCALM COMMUNITY COLLEGE

## COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION (CONCLUDED) YEAR ENDED JUNE 30, 2016 (UNAUDITED)

	Combined Total	Elimination	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Fund	Foundation
<b>Nonoperating revenues (expenses)</b>								
State appropriations	\$ 3,607,744	\$ -	\$ 4,094,014	\$ -	\$ -	\$ -	\$ (486,270)	\$ -
Federal Pell grants	2,699,020	-	-	-	2,699,020	-	-	-
Property taxes	5,904,506	-	5,904,506	-	-	-	-	-
Interest and dividend income	233,202	(213,120)	940	-	6	156	-	445,220
Net realized and unrealized loss on investments	(330,641)	-	-	-	-	-	-	(330,641)
Interest on capital asset - related debt	(142,116)	-	-	-	-	(142,116)	-	-
Gifts	29,940	-	-	-	-	-	-	29,940
<b>Net nonoperating revenues</b>	<b>12,001,655</b>	<b>(213,120)</b>	<b>9,999,460</b>	<b>-</b>	<b>2,699,026</b>	<b>(141,960)</b>	<b>(486,270)</b>	<b>144,519</b>
<b>Other revenue</b>								
Capital gifts and grants	929,583	-	-	-	-	-	-	929,583
Additions to permanent endowment	65,237	-	-	-	-	-	-	65,237
<b>Total other revenue</b>	<b>994,820</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>994,820</b>
Transfers in (out)	-	-	(1,046,679)	133,405	98,641	1,231,346	-	(416,713)
<b>Net increase (decrease) in net position</b>	<b>432,538</b>	<b>-</b>	<b>(559,261)</b>	<b>-</b>	<b>54,740</b>	<b>1,407,482</b>	<b>(655,506)</b>	<b>185,083</b>
Net position (deficit) - beginning of year	13,336,559	-	2,143,689	-	22,472	12,305,044	(14,915,331)	13,780,685
<b>Net position (deficit) - end of year</b>	<b>\$ 13,769,097</b>	<b>\$ -</b>	<b>\$ 1,584,428</b>	<b>\$ -</b>	<b>\$ 77,212</b>	<b>\$ 13,712,526</b>	<b>\$ (15,570,837)</b>	<b>\$ 13,965,768</b>