

Bay de Noc
Community
College



Years Ended
June 30, 2014
and 2013

Financial
Statements
and
Supplementary
Information

BAY DE NOC COMMUNITY COLLEGE

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**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of *Bay de Noc Community College's* (the "College") financial statements provide an overview of the College's financial activities for the years ended June 30, 2014, June 30, 2013 and June 30, 2012. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the accuracy and completeness of this information rests with the College's management.

Using this Report

The College's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and the State of Michigan's *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*.

This annual financial report includes management's discussion and analysis, the report of the independent auditors, the basic financial statements, and notes to financial statements. Following the basic financial statements and footnotes are three supplementary schedules, the combining statement of net position, the combining statement of revenues, expenses, transfers and changes in net position, and the West Campus statements of revenues, expenses, and changes in net position. Although the GASB does not require this information be present for a fair and complete presentation, the statements do provide additional information regarding the various funds and activities of the College that are not disclosed in the basic financial statements.

Component Unit

The Financial Reporting Entity: Omnibus, GASB Statement No. 61, requires that separate legal entities associated with a primary government that meet certain criteria be included with the financial statements of the primary reporting unit. In compliance with this statement, the *Bay de Noc Community College Foundation* ("the Foundation") is reported as a component unit of the College and its financial activity is discretely reported herein.

Financial Highlights

For the year ended June 30, 2014, the College recorded total operating revenues of \$7.5 million and total operating expenses of \$22.4 million. The difference produced an operating loss of \$14.9 million. Net nonoperating and other revenues of \$16.0 million offset this loss and resulted in an overall increase in net position of \$1.1 million.

With the \$1.1 million of surplus generated in fiscal year 2014, the College's net position surpassed \$25 million with a fiscal year-end balance of \$25.35 million. The College experienced growth in student revenue as a result of moderate growth in tuition rates and a carefully redesigned student fee program. Strong and prudent fiscal expense management produced an actual decline in total operating expenses of \$247,000 or 1.1%.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statements of Net Position

The statements of net position include all assets and liabilities of the College and are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when services are provided and expenses and liabilities are recognized when obligations are incurred regardless of when cash is exchanged. The statements of net position present the financial position of the College at June 30, 2014, 2013 and 2012.

Net position as of June 30 (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 6,608	\$ 5,927	\$ 5,424
Noncurrent assets	26,579	27,479	28,069
Total assets	<u>33,187</u>	<u>33,406</u>	<u>33,493</u>
Current liabilities	2,389	3,383	3,152
Noncurrent liabilities	5,449	5,781	7,114
Total liabilities	<u>7,838</u>	<u>9,164</u>	<u>10,266</u>
Net investment in capital assets	21,329	21,094	20,492
Unrestricted	4,020	3,148	2,735
Total net position	<u>\$ 25,349</u>	<u>\$ 24,242</u>	<u>\$ 23,227</u>

Changes from 2013 to 2014:

Current assets consist of cash and cash equivalents, receivables, and prepaid expenses. Current assets totaled \$6.6 million at June 30, 2014 as compared to \$5.9 million at June 30, 2013. Significant changes include the following:

- Cash and cash equivalents increased by \$722,000, which is primarily due to increases in state appropriations and property taxes.
- State appropriations receivable increased by \$145,000, which is primarily attributable to an additional receivable from the State for the construction of the College's new nursing facility.
- Other receivables dropped by \$173,000. The June 30, 2013 balance was unusually high as \$151,000 of delinquent taxes for 2013 were not received until fiscal year 2014, while delinquent taxes for 2014 were received in 2014.

Noncurrent assets consist of capital assets. Noncurrent assets totaled \$26.6 million at June 30, 2014 and \$27.5 million at June 30, 2013. Capital asset additions for fiscal year 2014 were \$1.1 million compared to \$1.4 million in fiscal year 2013. With some large investments in capital expected in the next two years this trend should change with positive growth in net capital assets.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities consist of accounts payable, accrued expenses, unearned revenue, and current portion of long-term debt obligations due within the next fiscal year. Current liabilities were \$2.4 million at June 30, 2014 compared to \$3.4 million at June 30, 2013. The substantial decrease in current liabilities can be directly attributed to the \$835,000 decrease in the current portion of the long-term debt. This decrease resulted from the maturity and fully paying off the general obligation building and site bonds of 2001 and the general obligation refunding bonds of 2007 during fiscal 2014.

Noncurrent liabilities consist of long-term debt, for which the principal is due in more than one year and accrued employee retirement benefits. Long-term debt decreased by \$300,000 due to regular payments. Retirement benefits decreased by \$32,000 due to retirement and payout to a couple of employees.

Net position increased by \$1,107,070.

Changes from 2012 to 2013:

Current assets consist of cash and cash equivalents, receivables, and prepaid expenses. Current assets totaled \$5.9 million at June 30, 2013 as compared to \$5.4 million at June 30, 2012. Significant changes include the following:

- Cash and cash equivalents increased by \$218,000 due to increases in state appropriations, gift revenue, and other revenue with a reduction in operating expenses.
- State appropriations receivable increased by \$137,000 due to a 2.4% increase in state appropriations from 2012 to 2013.
- Other receivables increased by \$151,000 as delinquent taxes for 2013 were not received until fiscal year 2014, while delinquent property taxes for 2012 were received in 2012.
- Prepaid expenses increased by \$169,000 due to management's accrual of prepaid software licensure fees in fiscal year 2013. These fees were expensed in 2012.
- Student receivables decreased \$120,000 due to an increase in the allowance for bad debt and a 3% decrease in spring enrollment.

Noncurrent assets consist of capital assets. Noncurrent assets totaled \$27.5 million at June 30, 2013 and \$28.1 million at June 30, 2012. Capital asset additions for fiscal year 2013 were \$1.4 million compared to \$1.0 million in fiscal year 2012. Investment in capital primarily included building and equipment for the Escanaba and Bay West nursing simulation labs, information technology equipment, and pavement, sidewalks and other infrastructure improvements.

Current liabilities consist of accounts payable, accrued expenses, unearned revenue, and current portion of long-term debt obligations due within the next fiscal year. Current liabilities were \$3.4 million at June 30, 2013 compared to \$3.1 million at June 30, 2012. Most of this increase was in accrued salaries and wages offset by a decrease in the energy loan due to the State.

Noncurrent liabilities consist of long-term debt, for which the principal is due in more than one year and deferred retirement benefits. Long-term debt decreased by \$1.1 million due to regular payments. Retirement benefits decreased by \$194,000 due to changes in assumptions used to calculate the liability.

Net position increased by \$1,015,278.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present the revenues earned and expenses incurred during the year. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of the asset over the expected life. A summarized comparison of the College's revenues, expenses and changes in net position for the years ended June 30 is as follows:

Statements of revenues, expenses and changes in net position (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total operating revenues	\$ 7,503	\$ 7,371	\$ 8,025
Total operating expenses	<u>22,410</u>	<u>22,657</u>	<u>24,501</u>
Operating loss	(14,907)	(15,286)	(16,476)
Net nonoperating revenues	15,777	16,301	16,010
Other revenues	<u>237</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	1,107	1,015	(466)
Net position - beginning of year	<u>24,242</u>	<u>23,227</u>	<u>23,693</u>
Net position - end of year	<u>\$25,349</u>	<u>\$24,242</u>	<u>\$23,227</u>

Operating revenues included the following for the years ended June 30:

Operating revenues (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net tuition and fees	\$6,127	\$5,943	\$6,222
Grants	947	904	1,287
Auxiliary services	247	253	267
Other operating revenues	<u>182</u>	<u>271</u>	<u>249</u>
Total operating revenues	<u>\$7,503</u>	<u>\$7,371</u>	<u>\$8,025</u>

Operating revenues increased from 2013 to 2014 as a result of the following factors:

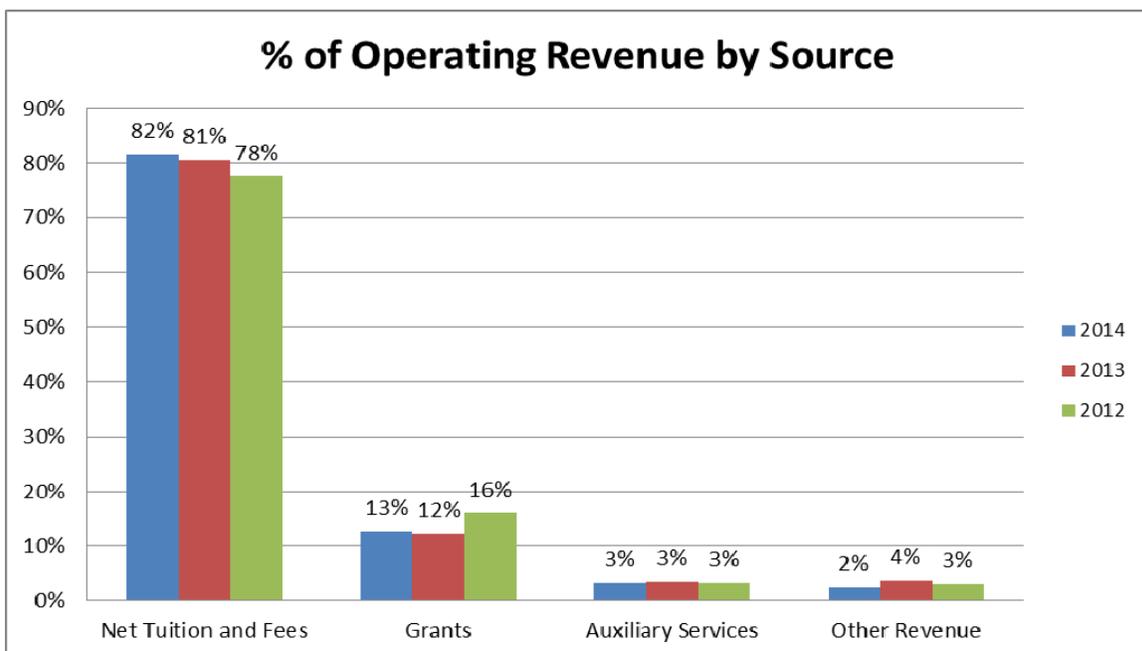
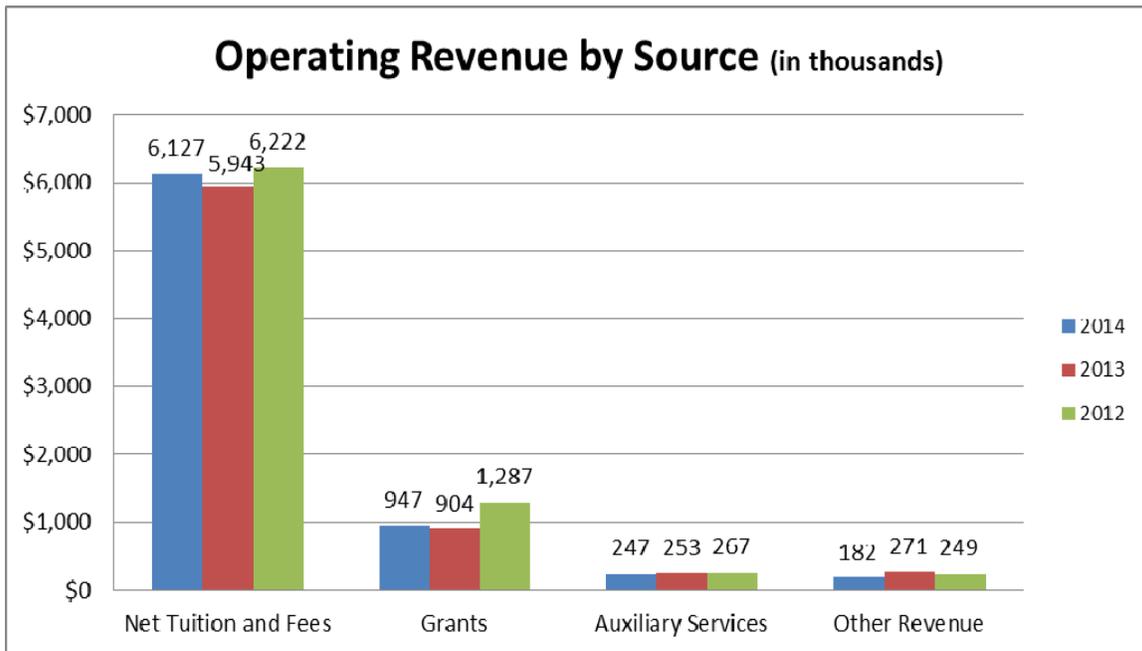
- Despite a decline in enrollment for 2014, net tuition and fee revenue increased by \$184,000 due to a moderate increase in tuition rates and a well-designed realignment of the student fee charges.
- Total grant funding increased slightly from 2013 but remained well below 2012 funding levels due primarily to the Title III winding down and ending.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating revenues decreased from 2012 to 2013 as a result of the following factors:

- Net tuition and fee revenue from both credit and noncredit courses decreased by \$279,000 due to a 9% decrease in enrollment.
- Total grant funding decreased by \$383,000 due to the reduction of grant funding in future years for multi-year grants. Federal grants consist primarily of awards in the form of Title III, TRIO, and Perkins. The Perkins Curriculum Development grant in the amount of \$218,000 was completed in 2012.



BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenues are all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, property taxes, Pell grants, gifts, and interest income.

Nonoperating revenues included the following for the years ended June 30:

Nonoperating revenues (expenses) (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
State appropriations	\$5,570	\$5,329	\$5,040
Property tax levy	3,896	3,773	3,661
Property taxes from Dickinson County	959	934	915
Pell grants	5,056	5,465	6,222
Support from component unit	414	930	102
Private gifts, grants and contracts	131	162	394
Interest income	8	9	10
(Loss) gain on disposal of capital assets	(2)	1	6
Interest on capital asset-related debt	(256)	(302)	(340)
Net nonoperating revenues	<u>\$15,777</u>	<u>\$16,301</u>	<u>\$16,010</u>

Changes in nonoperating revenues from 2013 to 2014 were a result of the following factors:

- State appropriations continue to increase with a 2014 increase of \$241,000.
- Property tax revenue for 2014 increased by 3.1% or \$148,000. The increase can be attributed to increases in the taxable value of Delta County property values which increased approximately 4%.
- Pell grant revenue for 2014 decreased by \$409,000 or 7.5% as enrollment declines led to decreases in contact hours.
- In 2013 the College received a \$650,000 gift for the Bay West and Escanaba nursing simulation projects, which is reflected in support from component unit. The component unit support for scholarships and other projects has experienced strong growth increasing from \$280,000 in 2013 (excludes the \$650,000 gift) to \$414,000 in 2014. This growth can be attributed directly to strong positive performance of the Foundation's endowed and beneficiary trust invested assets.
- Interest on capital asset-related debt was down \$46,000 or 15% in 2014 from 2013, a result of the paying off of the general obligation building and site bonds of 2001 and the general obligation refunding bonds of 2007.

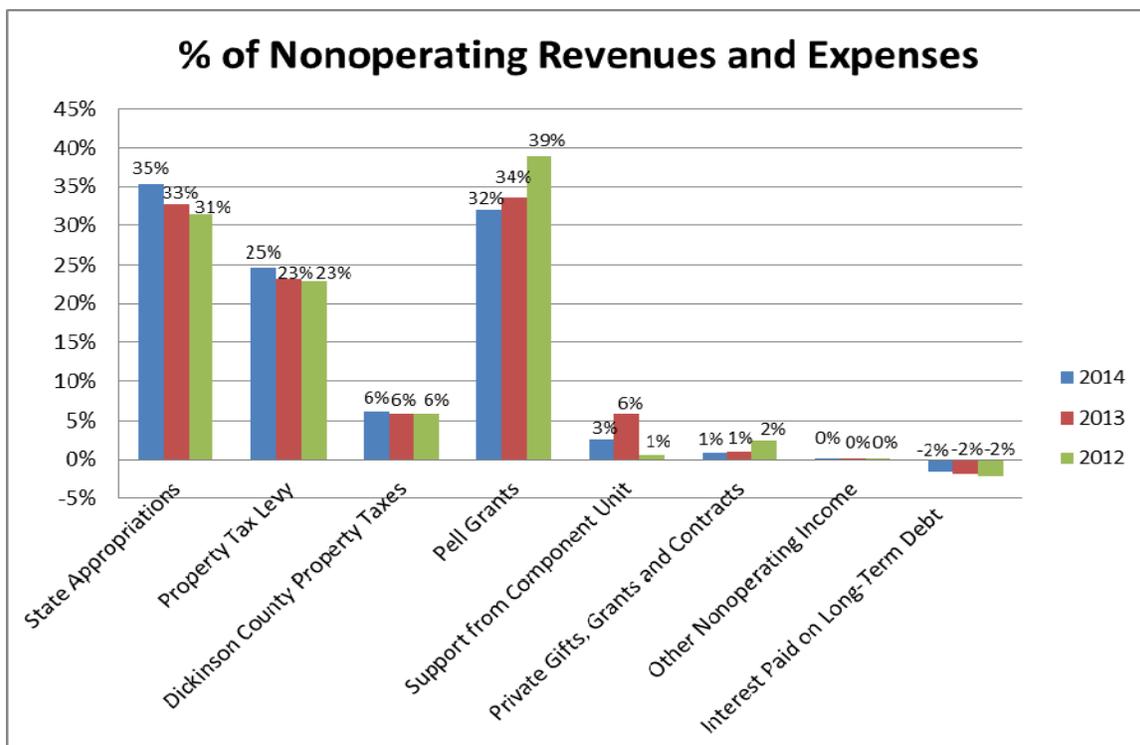
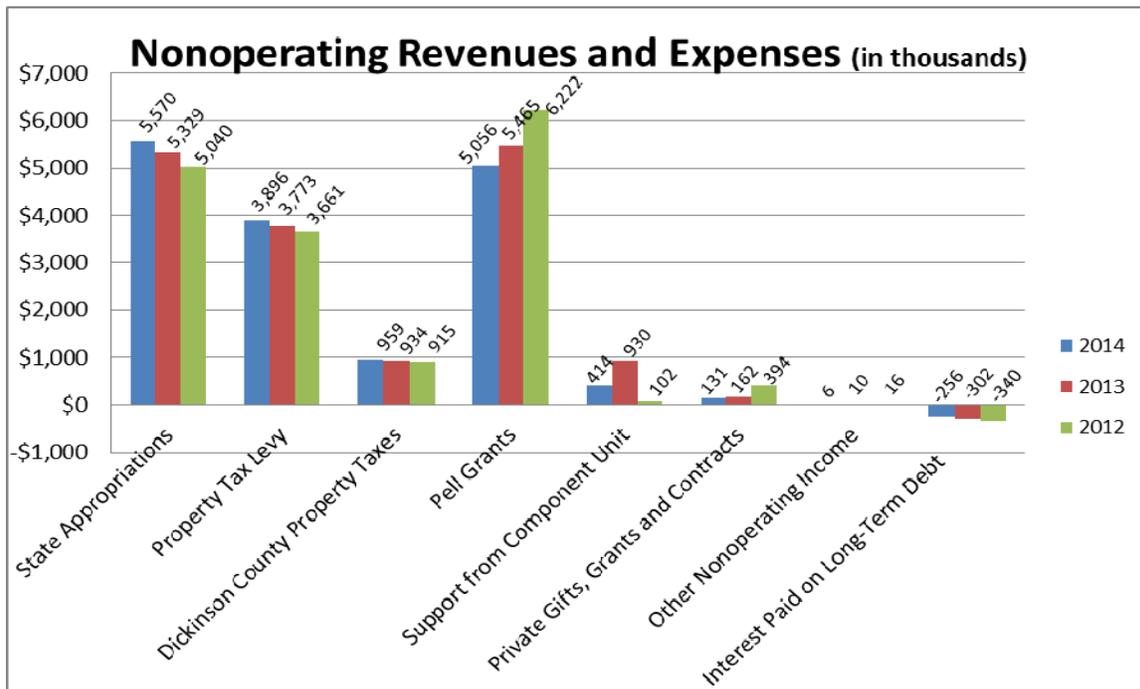
Changes in nonoperating revenues from 2012 to 2013 were a result of the following factors:

- State appropriations increased by \$289,000 due to a 2.4% increase in state appropriations and additional state payments of approximately \$114,000, which was restricted towards the MPSERS liability payments.
- Property tax revenue increased \$132,000 due to a 3.9% increase in taxable value of property.
- Pell grant revenue decreased by \$757,000 due to a 9% decrease in contact hours from 2012 and fewer students receiving Pell in 2013.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Support from the component unit increased by \$829,000. A \$650,000 gift was given to the College for the Bay West and Escanaba nursing simulation project, along with an additional \$180,000 of contribution revenue for scholarships and other projects that were previously only recorded on the Foundation financial statements.



BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries and benefits, utilities, supplies, services and depreciation and are categorized by functional area.

Operating expenses	2014	2013	2012
Instruction	\$ 8,700	\$ 8,679	\$ 9,636
Public service	227	184	311
Instructional support	1,361	1,435	1,158
Student services	3,892	4,151	4,430
Institutional administration	4,340	4,474	5,106
Operations and maint. of plant	1,881	1,737	1,880
Depreciation	2,009	1,997	1,980
Total operating expenses	\$22,410	\$22,657	\$24,501

Changes in operating expenses from 2013 to 2014 were a result of the following factors:

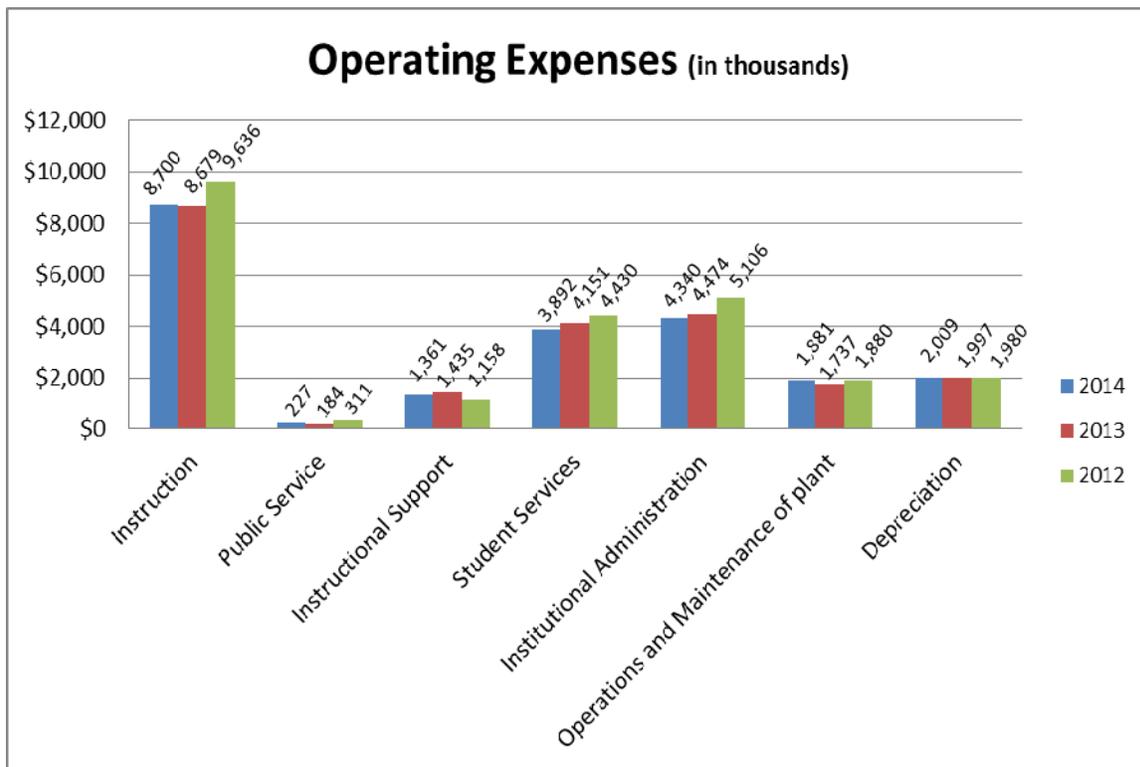
- Student services decreased \$259,000 or 6% in 2014 due to continued decline in enrollment, which led to a reduction in financial aid provided to students.
- Operations and maintenance of plant increased \$144,000 or 8.3% in 2014 in spite of strong continued energy efficiencies gains and favorable natural gas prices. The increase can be directly attributable to the harsh winter conditions experienced in 2014.
- Institutional administration expenses decreased by \$134,000, which is primarily due to a reduction in advertising expenses, less purchases of non-capitalizable equipment, and the loss of some administrative personnel.

Changes in operating expenses from 2012 to 2013 were a result of the following factors:

- Operating expenses decreased 7.53% from \$24.5 million to \$22.7 million. Most of this decrease was due to decreases in expenses funded by grants, adjunct wages, and payroll/retirement compensation liabilities.
- Instruction decreased by 10% to \$8.7 million. This decrease was due to reduced grant expenses based on the reduced grant funding and decreased adjunct faculty wages due to decreased enrollment.
- Instructional support increased by 23.9% to \$1.4 million. This increase is due to a medical leave and partial-year employment in the Dean's positions in 2012.
- Institutional administration decreased by 12.3% to \$4.5 million. This decrease was due to timing of payroll and changes in the assumptions used for retirement compensation accruals.
- Operations and maintenance of plant decreased by 7.7% to \$1.7 million. This decrease was primarily due to a savings in electricity expenses.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS



Statements of Cash Flows

The statements of cash flows provide another way to assess the financial health of the College. The primary purpose of these statements is to provide relevant information about the cash receipts and cash payments of an institution during a year. The statements of cash flows also help users assess:

- Ability to generate future net cash flows
- Ability to meet its obligations as they come due
- Needs for external financing

Statements of cash flows (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net cash used in operating activities	\$(12,804)	\$(13,171)	\$(14,149)
Net cash provided by non-capital financing activities	15,980	16,282	16,276
Net cash used in capital and related financing activities	(2,462)	(2,902)	(2,418)
Net cash provided by investing activities	8	9	10
Increase (decrease) in cash and cash equivalents	722	218	(281)
Cash and cash equivalents, beginning of year	3,644	3,426	3,707
Cash and cash equivalents, end of year	<u>\$ 4,366</u>	<u>\$ 3,644</u>	<u>\$ 3,426</u>

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Major sources of funds from operations came from student tuition and fees, and grants and contracts. These sources were offset by expenditures for operations such as payments to employees and suppliers. In fiscal year 2014, in spite of cash flow from tuition and fees being down \$153,000, the College expended less cash to support operating activities.

Net cash provided by non-capital financing activities decreased by \$301,000 from 2013. In 2013, net cash from non-capital financing activities included the \$650,000 gift from the Foundation, which was partially offset by a \$423,000 increase in state appropriations in 2014.

Net cash used in capital and related financing activities decreased by \$440,000 primarily due to less purchases of capital assets, which were \$296,000 greater in 2013 due to the construction of the Bay West and Escanaba nursing simulation labs. Additionally, the College reduced its principal and interest paid on long-term debt by \$97,000 as a result of paying off the 2001 and 2007 bonds during fiscal year 2014.

Capital Assets and Debt

As of June 30, 2014 the College had \$26.6 million in capital assets, net of accumulated depreciation. Nursing lab fixtures and equipment became operational in 2014 and were transferred from construction in progress to furniture, fixtures and equipment. Additionally in 2014, CAD equipment that was nearly fully depreciated was written off and two vehicles were replaced with a new van.

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 1,321,225	\$ -	\$ -	\$ -	\$ 1,321,225
Construction in progress	614,587	8,570	-	(614,587)	8,570
Subtotal, nondepreciable capital assets	1,935,812	8,570	-	(614,587)	1,329,795
Capital assets being depreciated:					
Land improvements	1,291,842	127,503	-	-	1,419,345
Infrastructure	184,858	51,839	-	-	236,697
Building and building improvements	38,926,060	137,786	-	-	39,063,846
Furniture, fixtures and equipment	17,037,923	761,729	193,891	614,587	18,220,348
Library materials	779,613	-	-	-	779,613
Vehicles	300,663	23,315	37,651	-	286,327
Subtotal, depreciable capital assets	58,520,959	1,102,172	231,542	614,587	60,006,176
Total capital assets	60,456,771	1,110,742	231,542	-	61,335,971
Less accumulated depreciation:					
Land improvements	908,488	98,963	-	-	1,007,451
Infrastructure	102,363	16,317	-	-	118,680
Building and building improvements	15,667,824	1,016,773	-	-	16,684,597
Furniture, fixtures and equipment	15,332,931	835,470	190,283	-	15,978,118
Library materials	742,040	13,545	-	-	755,585
Vehicles	224,239	27,715	39,035	-	212,919
Total accumulated depreciation	32,977,885	2,008,783	229,318	-	34,757,350
Net depreciable capital assets	25,543,074	(906,611)	2,224	614,587	25,248,826
Capital assets, net	\$ 27,478,886	\$ (898,041)	\$ 2,224	\$ -	\$ 26,578,621

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of June 30, 2013 the College had \$27.5 million in capital assets, net of accumulated depreciation. The College purchased \$1.4 million in additional assets and disposed of capital assets totaling \$33,125 in fiscal year 2013. Details of these assets are shown below.

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,321,225	\$ -	\$ -	\$ 1,321,225
Construction in progress	7,770	606,817	-	614,587
Subtotal, nondepreciable capital assets	1,328,995	606,817	-	1,935,812
Capital assets being depreciated:				
Land improvements	1,291,842	-	-	1,291,842
Infrastructure	99,225	85,633	-	184,858
Building and building improvements	38,810,639	115,421	-	38,926,060
Furniture, fixtures and equipment	16,471,918	599,130	33,125	17,037,923
Library materials	779,613	-	-	779,613
Vehicles	300,663	-	-	300,663
Subtotal, depreciable capital assets	57,753,900	800,184	33,125	58,520,959
Total capital assets	59,082,895	1,407,001	33,125	60,456,771
Less accumulated depreciation:				
Land improvements	821,826	86,662	-	908,488
Infrastructure	90,243	12,120	-	102,363
Building and building improvements	14,635,887	1,031,937	-	15,667,824
Furniture, fixtures and equipment	14,544,371	821,685	33,125	15,332,931
Library materials	725,691	16,349	-	742,040
Vehicles	196,331	27,908	-	224,239
Total accumulated depreciation	31,014,349	1,996,661	33,125	32,977,885
Net depreciable capital assets	26,739,551	(1,196,477)	-	25,543,074
Capital assets, net	\$ 28,068,546	\$ (589,660)	\$ -	\$ 27,478,886

Detailed information about the College's long-term debt is presented in the notes to the financial statements.

Economic Factors that will Affect the Future

The State of Michigan's economy has continued to improve and steps taken by the state government are helping to stabilize finances. This has led to some improvement in state appropriations which is critical as with the improved economy community colleges such as Bay de Noc will experience declining enrollment. Property tax collections improve as property tax valuations increase but this is being offset by legislation that provides relief from property taxes to small businesses as well as improvements in veterans' benefits. These actions are commendable for small business owners and veterans but community colleges struggle to replace the lost revenue.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

All members of the Bay de Noc College community are committed to finding ways to meet the needs of our students, providing stable employment while ensuring the College remains financially strong. In the near term the College has managed to remain strong by offsetting declining enrollment by reducing adjunct faculty expenses through fewer class offerings and reducing other expenses where possible. As the College moves forward, consideration will need to be given to making more difficult expense reduction decisions if revenue sources remain flat or decline.

Approximately 75.7 percent of College employees participate in the Michigan Public School Employees' Retirement System (MPSERS) with employer contributions mandated by the State. Contribution rates have risen significantly in recent years to fund retiree healthcare benefits and the unfunded pension liability. There are various MPSERS plans, but contributions for the plan with the majority of the College's employees has been set at 25.8 percent for fiscal year 2015.

GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions"* is effective for the College's fiscal year 2015 and establishes 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 will report a liability for its "proportionate share" of the "net pension liability" of the entire system. The College received a letter dated February 28, 2014 from the State of Michigan communicating the College's proportionate share of the estimated net pension liability of \$16,544,000 based on fiscal year 2012 plan data. We understand that this is a high-level estimation provided by the Office of Retirement Services. Further updates are expected as MPSERS continues their actuarial calculations with more recent plan data. Additionally, we expect these amounts to change annually based on actuarial calculations and updating of related assumptions.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

November 6, 2014

To the Board of Trustees
Bay de Noc Community College
Escanaba, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of **Bay de Noc Community College** (the "College") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Bay de Noc Community College Foundation (the "Foundation"), the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. 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 opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of **Bay de Noc Community College** as of June 30, 2014 and 2013, and the respective results of their operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our 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 6, 2014 on our consideration of **Bay de Noc Community College's** internal control over financial reporting and on 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 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 **Bay de Noc Community College's** internal control over financial reporting and compliance.

Rehman Loham LLC

FINANCIAL STATEMENTS

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF NET POSITION

	June 30	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 4,365,627	\$ 3,643,876
Student receivables, net	119,503	102,232
State appropriations receivable	1,197,970	1,053,098
Grants receivable	265,831	232,854
Due from component unit	189,742	97,242
Other receivables, net	100,115	398,965
Prepaid expenses and other current assets	369,452	398,926
Total current assets	6,608,240	5,927,193
Noncurrent assets		
Capital assets, net	26,578,621	27,478,886
Total assets	33,186,861	33,406,079
Liabilities		
Current liabilities		
Accounts payable	252,128	256,157
Accrued payroll and related liabilities	1,297,967	1,415,577
Unearned revenue	240,802	240,021
Interest payable	36,164	43,891
Other current liabilities	261,400	292,511
Current portion of long-term debt	300,000	1,135,000
Total current liabilities	2,388,461	3,383,157
Noncurrent liabilities		
Long-term debt, net of current portion	4,950,000	5,250,000
Accrued employee benefits payable	499,153	530,745
Total liabilities	7,837,614	9,163,902
Net position		
Net investment in capital assets	21,328,621	21,093,886
Unrestricted	4,020,626	3,148,291
Total net position	\$ 25,349,247	\$ 24,242,177

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

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2014	2013
Operating revenues		
Tuition and fees	\$ 9,335,022	\$ 9,091,547
Scholarship allowance	(3,208,064)	(3,148,740)
Net tuition and fees	6,126,958	5,942,807
Federal grants and contracts	915,144	862,637
State and local grants and contracts	31,950	41,733
Sales and service of auxiliary activities, net of scholarship allowance of \$48,393 (\$124,803 for 2013)	247,443	252,720
Other operating revenues	181,753	271,209
Total operating revenues	7,503,248	7,371,106
Operating expenses		
Instruction	8,700,477	8,679,130
Public service	226,676	184,022
Instructional support	1,360,599	1,435,560
Student services	3,891,990	4,150,535
Institutional administration	4,340,376	4,474,100
Operations and maintenance of plant	1,881,505	1,736,955
Depreciation	2,008,783	1,996,661
Total operating expenses	22,410,406	22,656,963
Operating loss	(14,907,158)	(15,285,857)
Nonoperating revenues (expenses)		
State appropriations	5,569,546	5,329,461
Property tax levy	3,896,246	3,773,349
Property taxes from Dickinson County	958,974	933,992
Pell grants	5,056,719	5,464,891
Support from component unit	414,451	930,164
Private gifts, grants and contracts	130,698	162,197
Interest income	7,637	9,221
(Loss) gain on disposal of capital assets	(1,873)	600
Interest on capital asset-related debt	(255,699)	(302,740)
Net nonoperating revenues	15,776,699	16,301,135
Other revenues		
State capital appropriations	237,529	-
Increase in net position	1,107,070	1,015,278
Net position, beginning of year	24,242,177	23,226,899
Net position, end of year	\$ 25,349,247	\$ 24,242,177

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

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2014	2013
Cash flows from operating activities		
Tuition and fees	\$ 6,091,189	\$ 6,243,788
Grants and other contracts	933,396	727,819
Auxiliary enterprises and other revenue	247,443	252,720
Payments to employees	(9,064,104)	(9,620,317)
Payments to suppliers	(11,461,276)	(10,913,040)
Other operating receipts	449,492	138,275
Net cash used in operating activities	(12,803,860)	(13,170,755)
Cash flows from noncapital financing activities		
State appropriations	5,615,584	5,192,765
Local property taxes and Dickinson County contract	4,855,220	4,707,341
Pell grants	5,056,719	5,464,891
Federal direct lending receipts	5,284,448	5,623,013
Federal direct lending disbursements	(5,284,448)	(5,623,013)
Gifts and donations	452,648	1,168,646
Payments to the State	-	(252,004)
Net cash provided by noncapital financing activities	15,980,171	16,281,639
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,110,742)	(1,407,001)
Principal paid on long-term debt	(1,135,000)	(1,185,000)
Proceeds from sales of capital assets	351	600
Interest paid on capital asset-related debt	(263,426)	(310,629)
State capital appropriations	46,620	-
Net cash used in capital and related financing activities	(2,462,197)	(2,902,030)
Cash flows from investing activities		
Interest received on bank deposits	7,637	9,221
Net increase in cash and cash equivalents	721,751	218,075
Cash and cash equivalents, beginning of year	3,643,876	3,425,801
Cash and cash equivalents, end of year	\$ 4,365,627	\$ 3,643,876

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

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS (Concluded)

	Year Ended June 30	
	2014	2013
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (14,907,158)	\$ (15,285,857)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,008,783	1,996,661
Change in operating assets and liabilities which provided (used) cash:		
Student receivables	(17,271)	120,111
Grants receivable	(32,977)	(24,153)
Other receivables	298,850	(151,370)
Prepaid expenses and other current assets	29,474	(169,001)
Accounts payable	(4,029)	6,683
Accrued payroll and related liabilities	(117,610)	487,735
Unearned revenue	781	28,472
Accrued employee benefits payable	(31,592)	(198,472)
Other liabilities	(31,111)	18,436
Net cash used in operating activities	\$ (12,803,860)	\$ (13,170,755)

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

BAY DE NOC COMMUNITY COLLEGE FOUNDATION - Component Unit

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2014	2013
Assets		
Cash and cash equivalents	\$ 668,475	\$ 675,794
Accrued income receivable and other assets	23,788	25,352
Contributions receivable	145,000	-
Investments	6,586,877	5,839,703
Beneficial interest in trust assets	1,970,156	1,858,556
Total assets	<u>\$ 9,394,296</u>	<u>\$ 8,399,405</u>
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 9,500	\$ 9,500
Due to Bay de Noc Community College	189,742	97,242
Due to William Bonifas Fine Arts Center	863,660	828,527
Total liabilities	<u>1,062,902</u>	<u>935,269</u>
Net assets		
Unrestricted deficit	(229,327)	(419,003)
Temporarily restricted	1,990,546	1,758,752
Permanently restricted	6,570,175	6,124,387
Total net assets	<u>8,331,394</u>	<u>7,464,136</u>
Total liabilities and net assets	<u>\$ 9,394,296</u>	<u>\$ 8,399,405</u>

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

BAY DE NOC COMMUNITY COLLEGE FOUNDATION - Component Unit

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2014	2013
Revenue		
Contributions	\$ 476,987	\$ 581,173
Investment income	653,591	458,251
Gain on beneficial interest in trusts	200,889	-
Total revenue	<u>1,331,467</u>	<u>1,039,424</u>
Expenses		
Scholarships	296,365	218,998
Administration expenses	9,536	9,500
Campus projects	158,308	647,917
Total expenses	<u>464,209</u>	<u>876,415</u>
Increase in net assets	867,258	163,009
Net assets, beginning of year	<u>7,464,136</u>	<u>7,301,127</u>
Net assets, end of year	<u>\$ 8,331,394</u>	<u>\$ 7,464,136</u>

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

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bay de Noc Community College (the "College") is a Michigan community college located in Delta County in the Upper Peninsula of Michigan.

The accompanying financial statements as of and for the years ended June 30, 2014 and 2013 include the accounts of all funds of the College and Bay de Noc Community College Foundation ("the Foundation"). The Foundation is considered a component unit of the College in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. The College reports financial information for the Foundation using a discrete rather than blended presentation because the individual trustees of the Foundation are independently appointed by the Foundation's Board of Trustees. The Foundation is considered a component unit because the Foundation provides support entirely, or almost entirely, to the College through financial support to students.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. A copy of the Foundation's separately issued financial statements may be obtained by contacting the Foundation Office at the College.

Basis of Presentation

The College's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB, including Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and the *State of Michigan Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*. The College follows all applicable GASB pronouncements and the "business-type activities" reporting requirements of GASB Statement No. 35, which provides a comprehensive one-line look at the College's financial activities.

Significant Accounting Policies

Significant accounting policies followed by the College are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis

The financial statements of the College have been presented using the economic resources measurement focus on the 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. In accordance with GASB Statement No. 20, the College is required to follow all applicable GASB pronouncements.

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 for bad debts and the assumptions used to estimate accrued employee benefits payable.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, and all highly liquid investments with an initial maturity of three months or less.

Accounts Receivable

Accounts receivable resulting from Federal and State grants, State appropriations, and student tuition consist of revenues earned, but not received as of year-end. A bad debt allowance is established based on a specific assessment of all invoices that remain unpaid following normal student payment periods. In addition, a general valuation allowance is established for student accounts receivable and other receivables based on historical loss experience and knowledge of specifically uncollectible items. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the bad debt allowance based on its assessment. Balances that are still outstanding after management has used reasonable collection efforts are written off. The bad debt allowance for student receivables was approximately \$85,000 and \$128,000 at June 30, 2014 and 2013, respectively. The bad debt allowance for other receivables was approximately \$421,000 and \$350,000 at June 30, 2014 and 2013, respectively.

Capital Assets

Capital assets are recorded at cost and include expenditures for new facilities and equipment and for significant improvements to existing facilities. Depreciation is computed using the straight-line method over the useful life of the asset. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives are capitalized while expenditures for routine repairs and maintenance are expensed as incurred. Management reviews capital assets annually for impairment. The following estimated useful lives are used to compute depreciation:

Buildings/building improvements	30-40 years
Library materials	10 years
Land improvements and infrastructure	15 years
Furniture, fixtures and equipment	5-10 years
Vehicles	5-7 years

Unearned Revenue

Revenue received prior to year-end, which is related to the next fiscal period, is recorded as unearned revenue. Unearned revenue relates primarily to summer-term tuition received prior to June 30 and grant and award monies received in excess of costs incurred as of year-end for College programs financed by government agencies and other organizations.

Revenue Recognition

The College generally follows the revenue recognition methods set forth in the *Manual For Uniform Financial Reporting—Michigan Public Community Colleges, 2001*. In general, revenues are recognized when earned and expenditures are recognized when the service is provided. Property taxes are recorded as revenue in the year taxes are levied. Under this method, revenue for fiscal year 2014 includes property taxes that were levied on July 1, 2013 and December 1, 2013, which are generally collected before March 1, 2014. Uncollected real property taxes of the College are turned over to Delta County for subsequent collection. State appropriations are recorded as revenue in the period for which they are appropriated. Changes to State appropriations are recorded in the College's fiscal year in which the changes are approved by the State legislature.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Operating revenues of the College consist of tuition and fees, grants and contracts, auxiliary enterprise revenues, and other revenues related to services provided for students. Tuition and fees and auxiliary enterprise revenues are reported net of scholarship allowances. Transactions related to capital financing activities, noncapital financing activities, investing activities, and State appropriations are components of nonoperating income. When both general purpose and restricted revenues are available for use, it is the College's policy to use restricted resources first. Gifts are recorded at estimated fair value when received.

The College does not recognize as revenue sources held for others, such as Federal Direct Loans, where the College serves only as a conduit.

Operating Expenses

The College reports operating expenses by function on the face of the statements of revenues, expenses and changes in net position. The following table shows operating expenses by natural class for the years ended June 30:

	2014	2013
Salaries and wages	\$ 9,709,367	\$ 9,780,950
Benefits	4,567,131	4,558,164
Capital under \$5,000	174,220	161,285
Pell and other scholarships	2,311,325	2,694,723
Professional services	914,547	921,853
Rent, utilities, and insurance	942,931	902,499
Supplies and materials	601,763	576,742
Travel and professional development	998,032	877,542
Bad debt expense	182,307	186,544
Depreciation	<u>2,008,783</u>	<u>1,996,661</u>
Total operating expenses	<u>\$ 22,410,406</u>	<u>\$ 22,656,963</u>

Net Position

Elements of net position are classified according to the external grantor restrictions or availability of assets for satisfaction of College obligations.

Internal Services Activities

Both revenue and expenses related to internal service activities have been eliminated.

Reclassification

Certain amounts as reported in the 2013 financial statements have been reclassified to conform with the 2014 presentation.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS

College 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.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the deposits may not be returned. The College does not have a policy for custodial credit risk. However, management believes that cash balances are maintained at high quality financial institutions.

At June 30, 2014 and 2013, the carrying amount of cash deposits at banks for the College totaled \$4,365,627 and \$3,643,876, respectively, while the bank balances totaled \$4,507,595 and \$4,075,423, respectively. Of the bank balances, \$500,000 was insured at both June 30, 2014 and 2013, and the remaining \$4,007,595 and \$3,575,423, respectively, was uninsured and uncollateralized.

3. CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 1,321,225	\$ -	\$ -	\$ -	\$ 1,321,225
Construction in progress	614,587	8,570	-	(614,587)	8,570
Subtotal, nondepreciable capital assets	1,935,812	8,570	-	(614,587)	1,329,795
Capital assets being depreciated:					
Land improvements	1,291,842	127,503	-	-	1,419,345
Infrastructure	184,858	51,839	-	-	236,697
Building and building improvements	38,926,060	137,786	-	-	39,063,846
Furniture, fixtures and equipment	17,037,923	761,729	193,891	614,587	18,220,348
Library materials	779,613	-	-	-	779,613
Vehicles	300,663	23,315	37,651	-	286,327
Subtotal, depreciable capital assets	58,520,959	1,102,172	231,542	614,587	60,006,176
Total capital assets	60,456,771	1,110,742	231,542	-	61,335,971
Less accumulated depreciation:					
Land improvements	908,488	98,963	-	-	1,007,451
Infrastructure	102,363	16,317	-	-	118,680
Building and building improvements	15,667,824	1,016,773	-	-	16,684,597
Furniture, fixtures and equipment	15,332,931	835,470	190,283	-	15,978,118
Library materials	742,040	13,545	-	-	755,585
Vehicles	224,239	27,715	39,035	-	212,919
Total accumulated depreciation	32,977,885	2,008,783	229,318	-	34,757,350
Net depreciable capital assets	25,543,074	(906,611)	2,224	614,587	25,248,826
Capital assets, net	\$ 27,478,886	\$ (898,041)	\$ 2,224	\$ -	\$ 26,578,621

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The following presents the changes in the various capital assets categories for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,321,225	\$ -	\$ -	\$ 1,321,225
Construction in progress	<u>7,770</u>	<u>606,817</u>	<u>-</u>	<u>614,587</u>
Subtotal, nondepreciable capital assets	<u>1,328,995</u>	<u>606,817</u>	<u>-</u>	<u>1,935,812</u>
Capital assets being depreciated:				
Land improvements	1,291,842	-	-	1,291,842
Infrastructure	99,225	85,633	-	184,858
Building and building improvements	38,810,639	115,421	-	38,926,060
Furniture, fixtures and equipment	16,471,918	599,130	33,125	17,037,923
Library materials	779,613	-	-	779,613
Vehicles	<u>300,663</u>	<u>-</u>	<u>-</u>	<u>300,663</u>
Subtotal, depreciable capital assets	<u>57,753,900</u>	<u>800,184</u>	<u>33,125</u>	<u>58,520,959</u>
Total capital assets	<u>59,082,895</u>	<u>1,407,001</u>	<u>33,125</u>	<u>60,456,771</u>
Less accumulated depreciation:				
Land improvements	821,826	86,662	-	908,488
Infrastructure	90,243	12,120	-	102,363
Building and building improvements	14,635,887	1,031,937	-	15,667,824
Furniture, fixtures and equipment	14,544,371	821,685	33,125	15,332,931
Library materials	725,691	16,349	-	742,040
Vehicles	<u>196,331</u>	<u>27,908</u>	<u>-</u>	<u>224,239</u>
Total accumulated depreciation	<u>31,014,349</u>	<u>1,996,661</u>	<u>33,125</u>	<u>32,977,885</u>
Net depreciable capital assets	<u>26,739,551</u>	<u>(1,196,477)</u>	<u>-</u>	<u>25,543,074</u>
Capital assets, net	<u>\$ 28,068,546</u>	<u>\$ (589,660)</u>	<u>\$ -</u>	<u>\$ 27,478,886</u>

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2014 are as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Bonds payable					
General obligation building and site bonds of 2001	\$ 175,000	\$ -	\$ (175,000)	\$ -	\$ -
General obligation facilities bonds of 2006	5,535,000	-	(285,000)	5,250,000	300,000
General obligation refunding bonds of 2007	<u>675,000</u>	<u>-</u>	<u>(675,000)</u>	<u>-</u>	<u>-</u>
Total bonds payable	6,385,000	-	(1,135,000)	5,250,000	300,000
Other long-term obligations					
Accrued employee benefits payable	<u>530,745</u>	<u>108</u>	<u>(31,700)</u>	<u>499,153</u>	<u>-</u>
Total long-term obligations	<u>\$ 6,915,745</u>	<u>\$ 108</u>	<u>\$ (1,166,700)</u>	<u>\$ 5,749,153</u>	<u>\$ 300,000</u>

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Changes in long-term liabilities for the year ended June 30, 2013 are as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Bonds payable					
General obligation building and site bonds of 2001	\$ 350,000	\$ -	\$ (175,000)	\$ 175,000	\$ 175,000
General obligation refunding bonds of 2003–Series II	300,000	-	(300,000)	-	-
General obligation facilities bonds of 2006	5,810,000	-	(275,000)	5,535,000	285,000
General obligation refunding bonds of 2007	<u>1,110,000</u>	<u>-</u>	<u>(435,000)</u>	<u>675,000</u>	<u>675,000</u>
Total bonds payable	7,570,000	-	(1,185,000)	6,385,000	1,135,000
Other long-term obligations					
Accrued employee benefits payable	<u>729,217</u>	<u>20,223</u>	<u>(218,695)</u>	<u>530,745</u>	<u>-</u>
Total long-term obligations	<u>\$ 8,299,217</u>	<u>\$ 20,223</u>	<u>\$ (1,403,695)</u>	<u>\$ 6,915,745</u>	<u>\$ 1,135,000</u>

The proceeds of the 2001 Building and Site Bonds were used for construction and rehabilitation costs of the College's Health and Applied Technology Center. The bonds carried an average interest rate of approximately 4.5% and were paid off during fiscal year 2014.

The proceeds of the 2006 Facilities Bonds were used for construction costs related to the erecting, furnishing, and equipping of the College's West Campus. The bonds carry an average interest rate of approximately 4.0% and mature in 2027.

The proceeds of the 2007 Building and Site Refunding Bonds were used for costs related to the remodeling, refurbishing, and re-equipping the Student Center Building and to refund \$1,250,000 of the 1997 Building and Site Bonds and \$440,000 of the 1999 Facility and Site Bonds. No amounts remain in escrow. The bonds carried an interest rate of 4.0% and were paid off during fiscal year 2014.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Future debt service requirements on bonds payable for years ending after June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 300,000	\$ 216,984	\$ 516,984
2016	315,000	204,984	519,984
2017	330,000	192,384	522,384
2018	345,000	179,184	524,184
2019	365,000	165,384	530,384
2020-2024	2,100,000	590,958	2,690,958
2025-2027	<u>1,495,000</u>	<u>129,818</u>	<u>1,624,818</u>
	<u>\$ 5,250,000</u>	<u>\$ 1,679,696</u>	<u>\$ 6,929,696</u>

5. LOCAL PROPERTY TAX LEVY

The College's annual property tax on real and personal property is levied by the tax collecting governmental units on July 1 and December 1 and is based on taxable valuation as of the preceding December 31. Taxable valuation is established by the tax collecting governmental unit and is subject to possible equalization by the State.

Delta County ("the County") maintains a delinquent tax revolving fund through which the College receives 100% of all delinquent real property taxes turned over to the County by the tax collecting governmental units.

The College's annual tax levy is allocated between the various funds in accordance with the Board of Trustees' annual tax allocation plan.

6. RETIREMENT BENEFITS AND DEFERRED COMPENSATION

Defined Benefit Plan

The College contributes to the Michigan Public School Employees Retirement System (MPSERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. *Member Investment Plan ("MIP")* members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000.

Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. *Basic 4%* and *MIP 7%* members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the years ended June 30, 2014 and 2013 as a percentage of payroll ranged from 24.79 to 26.63 percent and from 20.96 to 25.36 percent, respectively. In addition, the College is invoiced monthly an amount that approximates 4.56 percent of covered payroll for "MPERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services.

The contribution requirements of plan members and the College are established by Michigan State statute and may be amended only by action of the State Legislature. The College's contributions to MPERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$1,371,135, \$1,350,445, and \$1,316,762, respectively, equal to the required contributions for each year.

GASB 68 "Accounting and Financial Reporting for Pensions" is effective for the College's fiscal year 2015 and establishes new requirements for colleges to report a "net pension liability" for the unfunded portion of its pension plan. Since the College participates in the MPERS plan, it will report a liability for its "proportionate share" of the "net pension liability" of the entire system. The College received a letter dated February 28, 2014 from the State of Michigan communicating the College's proportionate share of the estimated net pension liability of \$16,544,000 based on fiscal year 2012 plan data. We understand that this is a high-level estimation provided by the Office of Retirement Services. Further updates are expected as MPERS continues their actuarial calculations with more recent plan data. Additionally, we expect these amounts to change annually based on actuarial calculations and updating of related assumptions.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

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 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent 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.

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 are pending a Supreme Court resolution.

The College's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

Defined Contribution Plan

Effective July 1, 1988, the College adopted a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt-status employees can elect to participate in the Bay de Noc Community College Optional Retirement Plan (the "Optional Plan"), a defined contribution plan administered by the College. New employees can elect to participate in either the Optional Plan or MPSERS. Employees electing the Optional Plan who are members of MPSERS retain a limited membership in MPSERS. As of June 30, 2014 and 2013, the Optional Plan had 42 and 37 participants, respectively.

The College is required to contribute 12 to 25.36 percent of participating employees' salaries to the Optional Plan. Plan contributions are placed in a segregated employee account that the employee may allocate to the various funding vehicles permitted by the Plan. All contributions are fully vested when made. Total contributions for the years ended June 30, 2014, 2013 and 2012 were \$492,407, \$506,157, and \$460,123, respectively.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The plan provides for various benefit payment options. The amount of benefits paid is predicated on the balance in the employees' segregated account when benefit payments begin. The Board of Trustees reserves the right to amend or terminate the plan at any time subject to certain provisions.

Longevity Benefit Payments

Full-time Faculty

In lieu of an early retirement program or payment for unused sick time, a faculty member who has not less than ten years of full-time services as a full-time faculty member of the College, who was hired before August 17, 2013, and is otherwise qualified to retire under MPSERS or the equivalent using the MPSERS formula if in the Optional Plan, qualifies for a retirement incentive payment upon termination of their employment with the College. This payment is equal to 25% of their last year's base salary. The faculty are not eligible for this if they are discharged "for cause," they are not teaching full-time when they terminate employment with the College, or if they have failed to give the prescribed notice for termination.

Administrative Staff

The College recognizes administrator loyalty to the College by providing a financial benefit upon the qualifying administrator's retirement. The administrator must have been hired before July 1, 2013 and must be employed by the College for a minimum of ten consecutive years and retire in accordance with the MPSERS guidelines. The employee will receive a percentage of their annual salary based on their number of full-time employment years and previous full fiscal year salary as listed below:

- 25 or more years of service - financial benefit is 25% of annual salary
- 20 to 24 years of service - financial benefit is 23 % of annual salary
- 15 to 19 years of service - financial benefit is 21 % of annual salary
- 10 to 14 years of service - financial benefit is 19% of annual salary

The College records a liability for these benefits over the period earned by the employees based on the likelihood that a benefit will be paid out upon retirement or termination from the College. The College has elected to calculate the liability using the alternative measurement method permitted by governmental accounting standards for employers in plans with fewer than one hundred total plan members. The total liability for these benefits was approximately \$492,000 and \$523,000 at June 30, 2014 and 2013, respectively. The College recognized an expense associated with early retirement incentives of approximately \$51,000 and \$21,000 during the years ended June 30, 2014 and 2013, respectively.

7. COMPENSATED ABSENCES

The College records amounts payable for compensated absences as a liability when benefits become vested and subject to payment upon employee termination. The following summarizes specific policies with regard to compensated absences.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Vacation

In general, employees may accumulate no more than 240 hours of vacation. Upon termination, employees are entitled to payment, at their current rate, of 100% of their accumulated vacation days up to the maximum of 240 hours. The College records this liability at 100% of the accumulated benefits since the accumulation is based upon past employee service and is fully vested. The total liability recorded for accrued vacation time is approximately \$252,000 and \$256,000 at June 30, 2014 and 2013, respectively.

Sick Leave

In general, employees may accumulate unused sick leave (no limitation for faculty and up to 130 days for administrative and support staff), however, sick leave is payable only when sick leave is actually used. Upon termination, accumulated sick leave is not vested, and accordingly, no liability is recorded for the accumulated sick leave.

8. VOLUNTARY TERMINATION BENEFITS

Voluntary termination benefits are those provided to employees as a) an inducement to hasten the termination of services or b) as a result of a voluntary early termination plan. The College's obligation to provide benefits for voluntary terminations generally arises as a result of a bilateral agreement in which the College agrees to provide benefits, such as early-retirement incentive benefits, in exchange for which the employee agrees to leave service earlier than he or she otherwise would. Voluntary termination agreements are used primarily by full-time administrative, professional/technical and faculty staff.

Voluntary termination benefits include benefits such as enhanced early retirement options. Other termination benefits may include:

1. Early retirement incentives, such as cash payments or contribution to retirement to MPERS or TIAA-CREF, or the College's 403(b) plan (see Note 6)
2. Health care coverage when none would otherwise be provided (COBRA)
3. Payments due to early release from employment contracts

A terminated employee can continue to access health benefits. If the COBRA payment is provided by the College, then the College would have a termination liability. When a terminated employee pays 100% of the premium, the College would not have a termination liability.

9. CONTINGENCIES

The College has received significant financial assistance from the State and Federal agencies in the form of grants and awards. The use of these funds generally requires compliance with grantor terms and conditions and is subject to audit by the grantor agency. Disallowed expenditures resulting from grantor audits could become a liability of the College, however, management believes that any future disallowances would not have a material effect on the College's financial statements.

BAY DE NOC COMMUNITY COLLEGE

■ NOTES TO FINANCIAL STATEMENTS

■ 10. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The College's principle resource used to manage and minimize potential losses is through the purchase of commercial insurance policies, including participation in the Michigan Community College Risk Management Authority (MCCRMA), a risk management fund that includes other community colleges in the State of Michigan. Coverage includes a deductible up to a specific amount, retention that is paid from member funds on deposits, stop loss fund that is funded with MCCRMA accumulated earnings, and reinsurance for claims balances in excess of deductible, retention, and stop loss. The member annual aggregate for retentions/deductibles is a combined annual aggregate of \$45,000. The stop loss funds cover all claims from annual aggregate to the point of reinsurance. For the last three years, settled claims have not exceeded insurance coverage, nor has there been any reduction in insurance coverage.

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SUPPLEMENTARY INFORMATION

BAY DE NOC COMMUNITY COLLEGE

COMBINING STATEMENT OF NET POSITION JUNE 30, 2014

(with comparative totals for 2013)

	General Fund	Auxiliary Fund	Plant Fund	Agency Fund	Restricted Fund	Combined Total June 30, 2014	Combined Total June 30, 2013
Assets							
Current assets							
Cash and cash equivalents	\$ 1,782,868	\$ -	\$ -	\$ -	\$ 2,582,759	\$ 4,365,627	\$ 3,643,876
Student receivables, net	119,503	-	-	-	-	119,503	102,232
State appropriations receivable	1,197,970	-	-	-	-	1,197,970	1,053,098
Grants receivable	-	-	-	-	265,831	265,831	232,854
Due from component unit	6,841,451	539,823	(4,546,875)	125,273	(2,769,930)	189,742	97,242
Other receivables, net	100,115	-	-	-	-	100,115	398,965
Prepaid expenses and other current assets	369,452	-	-	-	-	369,452	398,926
Total current assets	10,411,359	539,823	(4,546,875)	125,273	78,660	6,608,240	5,927,193
Noncurrent assets							
Capital assets, net	-	-	26,578,621	-	-	26,578,621	27,478,886
Total assets	10,411,359	539,823	22,031,746	125,273	78,660	33,186,861	33,406,079
Liabilities							
Current liabilities							
Accounts payable	246,128	-	-	-	6,000	252,128	256,157
Accrued payroll and related liabilities	1,297,967	-	-	-	-	1,297,967	1,415,577
Unearned revenue	168,142	-	-	-	72,660	240,802	240,021
Interest payable	-	-	36,164	-	-	36,164	43,891
Other current liabilities	129,977	6,150	-	125,273	-	261,400	292,511
Current portion of long-term debt	-	-	300,000	-	-	300,000	1,135,000
Total current liabilities	1,842,214	6,150	336,164	125,273	78,660	2,388,461	3,383,157
Noncurrent liabilities							
Long-term debt, net of current portion	-	-	4,950,000	-	-	4,950,000	5,250,000
Accrued employee benefits payable	499,153	-	-	-	-	499,153	530,745
Total liabilities	2,341,367	6,150	5,286,164	125,273	78,660	7,837,614	9,163,902
Net position							
Net investment in capital assets	-	-	21,328,621	-	-	21,328,621	21,093,886
Unrestricted (deficit)	8,069,992	533,673	(4,583,039)	-	-	4,020,626	3,148,291
Total net position	\$ 8,069,992	\$ 533,673	\$ 16,745,582	\$ -	\$ -	\$ 25,349,247	\$ 24,242,177

BAY DE NOC COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2014 (with comparative totals for 2013)

	General Fund	Auxiliary Fund	Plant Fund	Restricted Fund	Subtotal	Eliminations	Combined Total June 30, 2014	Combined Total June 30, 2013
Operating revenues								
Tuition and fees, net	\$ 9,335,022	\$ -	\$ -	\$ -	\$ 9,335,022	\$ (3,208,064)	\$ 6,126,958	\$ 5,942,807
Federal grants and contracts	-	-	-	915,144	915,144	-	915,144	862,637
State and local grants and contracts	-	-	-	31,950	31,950	-	31,950	41,733
Sales and service of auxiliary activities	106,148	189,688	-	-	295,836	(48,393)	247,443	252,720
Other operating revenues	181,753	-	-	-	181,753	-	181,753	271,209
Total operating revenues	9,622,923	189,688	-	947,094	10,759,705	(3,256,457)	7,503,248	7,371,106
Operating expenses								
Instruction	7,846,344	-	750	853,383	8,700,477	-	8,700,477	8,679,130
Public service	226,676	-	-	-	226,676	-	226,676	184,022
Instructional support	1,360,599	-	-	-	1,360,599	-	1,360,599	1,435,560
Student services	1,761,999	-	-	5,386,448	7,148,447	(3,256,457)	3,891,990	4,150,535
Institutional administration	4,340,376	-	-	-	4,340,376	-	4,340,376	4,474,100
Operations and maintenance of plant	1,809,188	72,317	-	-	1,881,505	-	1,881,505	1,736,955
Depreciation	-	-	2,008,783	-	2,008,783	-	2,008,783	1,996,661
Total operating expenses	17,345,182	72,317	2,009,533	6,239,831	25,666,863	(3,256,457)	22,410,406	22,656,963
Operating (loss) income	(7,722,259)	117,371	(2,009,533)	(5,292,737)	(14,907,158)	-	(14,907,158)	(15,285,857)
Nonoperating revenues (expenses)								
State appropriations	5,569,546	-	-	-	5,569,546	-	5,569,546	5,329,461
Property tax levy	2,718,279	-	1,177,967	-	3,896,246	-	3,896,246	3,773,349
Property taxes from Dickinson County	958,974	-	-	-	958,974	-	958,974	933,992
Pell grants	-	-	-	5,056,719	5,056,719	-	5,056,719	5,464,891
Support from component unit	350,380	-	64,071	-	414,451	-	414,451	930,164
Private gifts, grants and contracts	1,200	-	-	129,498	130,698	-	130,698	162,197
Interest income	7,637	-	-	-	7,637	-	7,637	9,221
(Loss) gain on disposal of capital assets	-	-	(1,873)	-	(1,873)	-	(1,873)	600
Interest on capital asset-related debt	(80)	-	(255,619)	-	(255,699)	-	(255,699)	(302,740)
Net nonoperating revenues	9,605,936	-	984,546	5,186,217	15,776,699	-	15,776,699	16,301,135
Other revenues								
State capital appropriations	-	-	237,529	-	237,529	-	237,529	-
Increase (decrease) in net position before transfer	1,883,677	117,371	(787,458)	(106,520)	1,107,070	-	1,107,070	1,015,278
Transfers (out) in	(106,520)	-	-	106,520	-	-	-	-
Increase (decrease) in net position	1,777,157	117,371	(787,458)	-	1,107,070	-	1,107,070	1,015,278
Net position, beginning of year	6,292,835	416,302	17,533,040	-	24,242,177	-	24,242,177	23,226,899
Net position, end of year	\$ 8,069,992	\$ 533,673	\$ 16,745,582	\$ -	\$ 25,349,247	\$ -	\$ 25,349,247	\$ 24,242,177

BAY DE NOC COMMUNITY COLLEGE

WEST CAMPUS—SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2014	2013
Tuition and fees	\$ 2,555,100	\$ 2,412,054
Scholarship allowance	(8,640)	(11,858)
Net tuition and fees	2,546,460	2,400,196
Sales and services of auxiliary activities	3,409	2,743
Other operating revenue	30	36
Total operating revenues	2,549,899	2,402,975
Salary and wages	1,290,629	1,475,570
Benefits	534,116	579,296
Advertising and professional services	79,602	86,495
Supplies and materials	76,801	78,317
Rent, utilities, and insurance	175,717	181,000
Travel, professional development, and other operating expenses	35,967	34,925
Capital under \$5,000 & grant capital	14,565	28,958
General administration (5% of total expenses)	139,557	152,348
Depreciation	444,180	431,787
Total operating expenses	2,791,134	3,048,696
Operating loss	(241,235)	(645,721)
Nonoperating revenues (expenses)		
Property taxes from Dickinson County	958,974	933,992
Interest on capital asset-related debt	(226,484)	(237,550)
Net nonoperating revenues	732,490	696,442
Increase in net position	\$ 491,255	\$ 50,721