

Bay de Noc
Community
College



Years Ended
June 30, 2015
and 2014

Financial
Statements
and
Supplementary
Information

BAY DE NOC COMMUNITY COLLEGE

TABLE OF CONTENTS	PAGE
Management’s Discussion and Analysis	1-13
Independent Auditors’ Report	14-15
Financial Statements for the Years Ended June 30, 2015 and 2014	
Statements of Net Position	16
Statements of Revenues, Expenses and Changes in Net Position	17
Statements of Cash Flows	18-19
Discretely Presented Component Unit—Bay de Noc Community College Foundation:	
Statements of Financial Position	20
Statements of Activities	21
Notes to Financial Statements	22-38
Required Supplementary Information for the Year Ended June 30, 2015	
MPSERS Cost-Sharing Multiple-Employer Plan:	
Schedule of the College’s Proportionate Share of the Net Pension Liability	39
Schedule of College Contributions	40
Supplementary Information for the Year Ended June 30, 2015 (Unaudited)	
Combining Statement of Net Position	41
Combining Statement of Revenues, Expenses, Transfers and Changes in Net Position	42
West Campus—Schedules of Revenues, Expenses, and Changes in Net Position	43

**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, 2015, June 30, 2014 and June 30, 2013. Management has prepared the financial statements, footnotes, and required supplementary information (RSI) 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, notes to financial statements, and RSI. Following these items 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, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This new standard requires the College to record its proportionate share of the pension liability of the Michigan Public School Employees Retirement System (MPERS), the defined benefit plan in which the majority of the employees of the College participate. This new standard has had a significant impact on the liabilities and net position of the College as discussed below. In addition, Note 6 to the financial statements includes a number of new items related to the implementation of this standard, and two new schedules are included as RSI following the footnotes.

For the year ended June 30, 2015, the College recorded total operating revenues of \$7.8 million and total operating expenses of \$23.7 million, which resulted in an operating loss of \$15.9 million. The College experienced a decline in tuition revenue as a result of decreased enrollment, however this was offset by a reduction in scholarship expenses. During the year, the College offered an early retirement incentive to employees as a measure to decrease future operating expenses. The expenses associated with this retirement incentive were recognized in 2015, but the expense savings will be realized in the years to come. Net nonoperating and other revenues of \$15.0 million offset some of this loss and resulted in an overall decrease in net position of approximately \$869,000 before the implementation of GASB 68. The effect of implementing GASB 68 resulted in a decrease in net position of approximately \$14.2 million as of July 1, 2014 with a total net position of \$10.3 million as of June 30, 2015.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statements of Net Position

The statements of net position include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, 2015, 2014 and 2013.

Three new line items appear on the Statement of Net Position for fiscal year 2015, each related to GASB 68: deferred outflows of resources; deferred inflows of resources; and net pension liability. Each of these categories represents a separate piece of the required presentation for the College's participation in the MPSERS pension plan. As of June 30, 2015, the combined impact to the College of these new captions is a decrease of \$13.9 million in unrestricted net position, resulting from a \$14.2 million adjustment to beginning net position, and a current year reduction to pension expense of approximately \$193,000. These items are discussed in greater detail in Notes 1 and 6 to the financial statements and the required supplementary information following the footnotes.

Net position as of June 30 (in thousands)

	2015	2014	2013
Current assets	\$ 10,145	\$ 6,608	\$ 5,927
Noncurrent assets	26,238	26,579	27,479
Total assets	36,383	33,187	33,406
Deferred outflows of resources	1,939	-	-
Current liabilities	3,018	2,389	3,383
Net pension liability	14,328	-	-
Other noncurrent liabilities	9,078	5,449	5,781
Total liabilities	26,424	7,838	9,164
Deferred inflows of resources	1,584	-	-
Net investment in capital assets	19,338	21,329	21,094
Unrestricted (deficit)	(9,024)	4,020	3,148
Total net position	\$ 10,314	\$ 25,349	\$ 24,242

Current assets consists of cash and cash equivalents, receivables, and prepaid expenses. Current assets totaled \$10.1 million at June 30, 2015 as compared to \$6.6 million at June 30, 2014. Significant changes from 2014 to 2015 include the following:

- Cash and cash equivalents increased by approximately \$3.5 million, which is primarily due to the College's \$3.6 million issuance of Facility Bonds in May 2015 to finance renovations to College facilities.
- Grants receivable increased by approximately \$182,000, which is primarily attributable to the College's purchases of equipment financed under the Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant.
- Other receivables increased by approximately \$179,000. The June 30, 2014 delinquent taxes for 2014 were received in 2014 while the 2015 delinquent taxes were not received until 2016.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current assets totaled \$6.6 million at June 30, 2014 as compared to \$5.9 million at June 30, 2013. Significant changes from 2013 to 2014 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 decreased 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 consists of capital assets. Capital assets totaled \$26.2 million at June 30, 2015 and \$26.6 million at June 30, 2014. The decrease of approximately \$300,000 from 2014 to 2015 is due to capital purchases of \$1.7 million offset by depreciation expense of \$2 million. With some large investments in capital expected in the upcoming years, the College expects future positive growth in net capital assets. Capital assets totaled \$26.6 million at June 30, 2014 and \$27.5 million at June 30, 2013. The decrease of approximately \$900,000 from 2014 to 2015 is due to capital purchases of \$1.1 million offset by depreciation expense of \$2 million.

Deferred outflows of resources of approximately \$1.9 million were recorded during 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.

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 \$3.0 million at June 30, 2015 compared to \$2.4 million at June 30, 2014. The increase in current liabilities can be attributed to the following:

- Accounts payable increased by approximately \$461,000 due to the amounts due for the current multi-building renovation project and the equipment purchased under the TAACCCT grant.
- Current portion of employee benefits payable increased approximately \$170,000 due to a payment for the early retirement incentive offered to College employees in 2015.
- Current portion of long-term obligations increased \$165,000 due to the College's new \$3.6 million bond issuance in May 2015 which is financing facility renovations.

Current liabilities were \$2.4 million at June 30, 2014 compared to \$3.4 million at June 30, 2013. The substantial decrease is directly attributable to the \$835,000 decrease in the current portion of long-term debt resulting 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 consists of long-term debt, for which the principal is due in more than one year, accrued employee benefits, and the net pension liability. Long-term debt increased by approximately \$3.1 million due to the \$3.6 million bond issuance to finance the multi-building renovations project offset by principal payments made on the 2006 bonds. The noncurrent portion of accrued employee benefits increased by approximately \$493,000 due to an early retirement incentive program offered to certain employees in 2015. Also, in 2015 a net pension liability of approximately \$14.3 million was recorded as of June 30, 2015 in compliance with GASB 68. Noncurrent liabilities for 2014 consisted of long-term debt and accrued employee benefits. The decrease of approximately \$300,000 from 2013 to 2014 is due to principal payments on outstanding bonds.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deferred inflows of resources of approximately \$1.6 million were recorded as a result of the difference between projected and actual earnings on pension plan investments.

Net position decreased from 2014 to 2015 by approximately \$15.0 million, of which approximately \$14.2 million is related to the implementation of GASB 68 combined with an approximately \$869,000 loss in 2015. Net position increased from 2013 to 2014 by approximately \$1.1 million due to income of \$1.1 million in 2014.

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>2015</u>	<u>2014</u>	<u>2013</u>
Total operating revenues	\$ 7,806	\$ 7,503	\$ 7,371
Total operating expenses	23,689	22,410	22,657
Operating loss	(15,883)	(14,907)	(15,286)
Net nonoperating revenues	15,013	15,777	16,301
Other revenues	1	237	-
(Decrease) increase in net position	(869)	1,107	1,015
Net position, beginning of year	25,349	24,242	23,227
Implementation of GASB 68	(14,166)	-	-
Adjusted net position, beginning of year	11,183	24,242	23,227
Net position, end of year	<u>\$ 10,314</u>	<u>\$ 25,349</u>	<u>\$ 24,242</u>

Operating revenues included the following for the years ended June 30 (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net tuition and fees	\$6,121	\$6,127	\$5,943
Grants	1,303	947	904
Auxiliary services	238	247	253
Other operating revenues	144	182	271
Total operating revenues	<u>\$7,806</u>	<u>\$7,503</u>	<u>\$7,371</u>

BAY DE NOC COMMUNITY COLLEGE

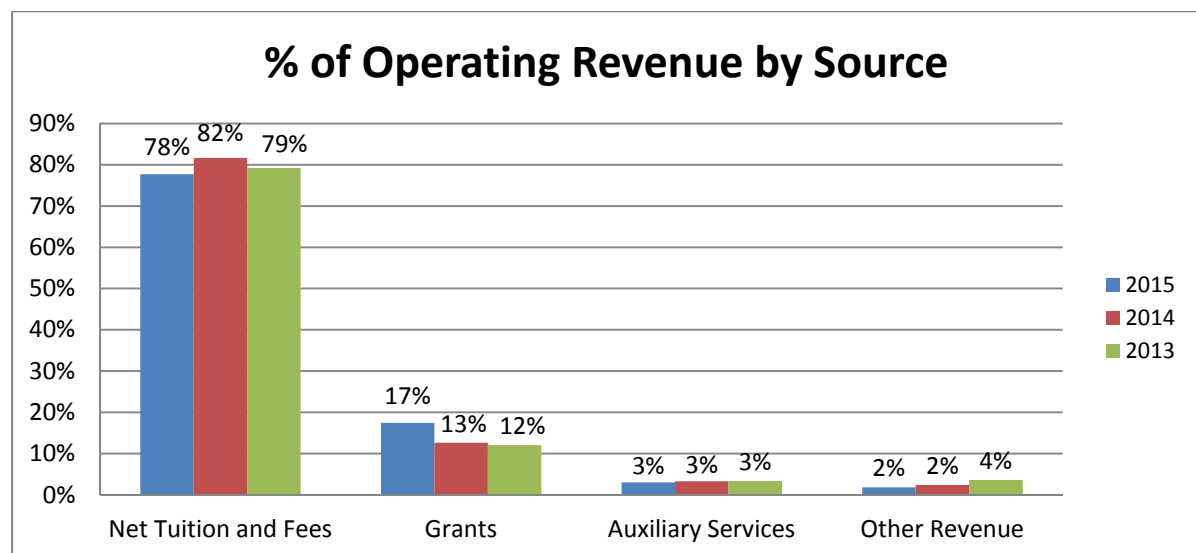
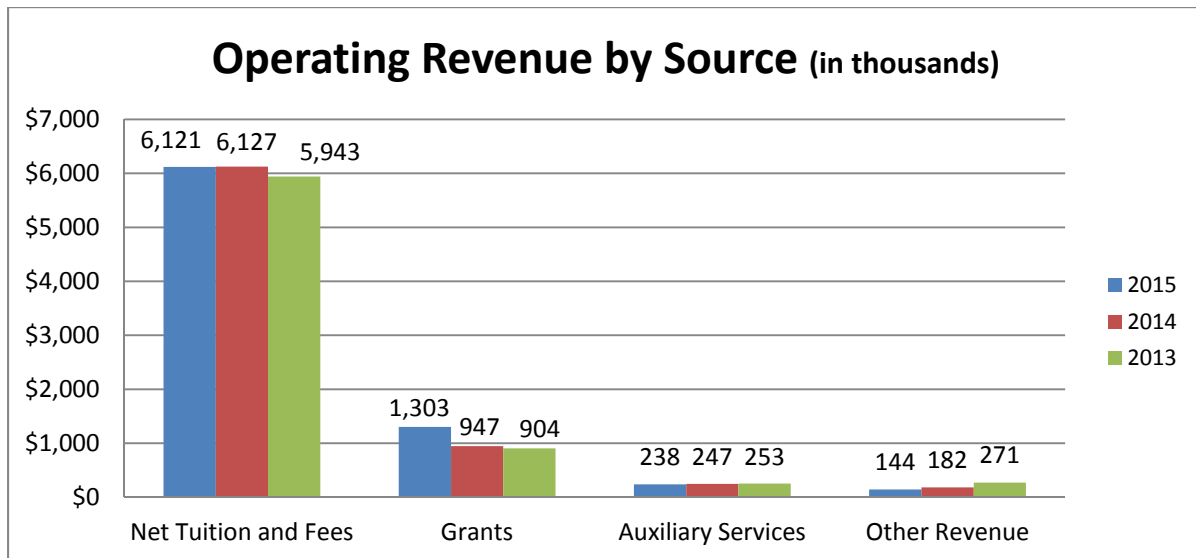
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating revenues increased from 2014 to 2015 as a result of the following factors:

- Decreases in tuition and fees of approximately \$1.2 million as a result of declining enrollment were offset directly by decreases in scholarship allowances. Net tuition and fees remained comparable to 2014 at \$6.1 million.
- Increases in federal grants and contracts of approximately \$346,000 were due to increased funding from the TAACCCT grant, which the College used primarily to purchase new equipment for the welding and mechatronics programs.

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 program winding down and ending.



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 expenses consist of interest on capital asset-related debt and any losses on disposal of capital assets.

Nonoperating revenues (expenses) for the years ended June 30 (in thousands):

	2015	2014	2013
State appropriations	\$5,915	\$5,570	\$5,329
Property tax levy	3,884	3,896	3,773
Property taxes from Dickinson County	926	959	934
Pell grants	4,071	5,056	5,465
Support from component unit	339	414	930
Private gifts, grants and contracts	102	131	162
Interest income	8	8	9
(Loss) gain on disposal of capital assets	-	(2)	1
Interest on capital asset-related debt	(232)	(256)	(302)
Net nonoperating revenues	\$15,013	\$15,777	\$16,301

Changes in nonoperating revenues from 2014 to 2015 were a result of the following factors:

- State appropriations increased by approximately \$345,000, or 6.2%, due to a \$143,000 increase in base and performance funding as well as a \$203,000 increase in MPSERS Unfunded Actuarial Accrued Liability (UAAL) Rate Stabilization funding.
- Property tax revenue decreased by approximately \$45,000. The decrease can be primarily attributed to Dickinson County charging an administrative fee in 2015, decreasing the amount they distributed to the College.
- Pell grant revenue for 2015 decreased by approximately \$985,000, or 19.5%, as enrollment declines led to decreases in contact hours and the number of students receiving Pell grants.
- Support from the Bay de Noc Community College Foundation (component unit) decreased by approximately \$75,000, or 18.1%, due to fewer projects supported by the Foundation in 2015.
- Interest on capital asset-related debt was down approximately \$24,000, or 9.3%, in 2015 from 2014, a result of the continued payment of the general obligation refunding bonds of 2007.

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

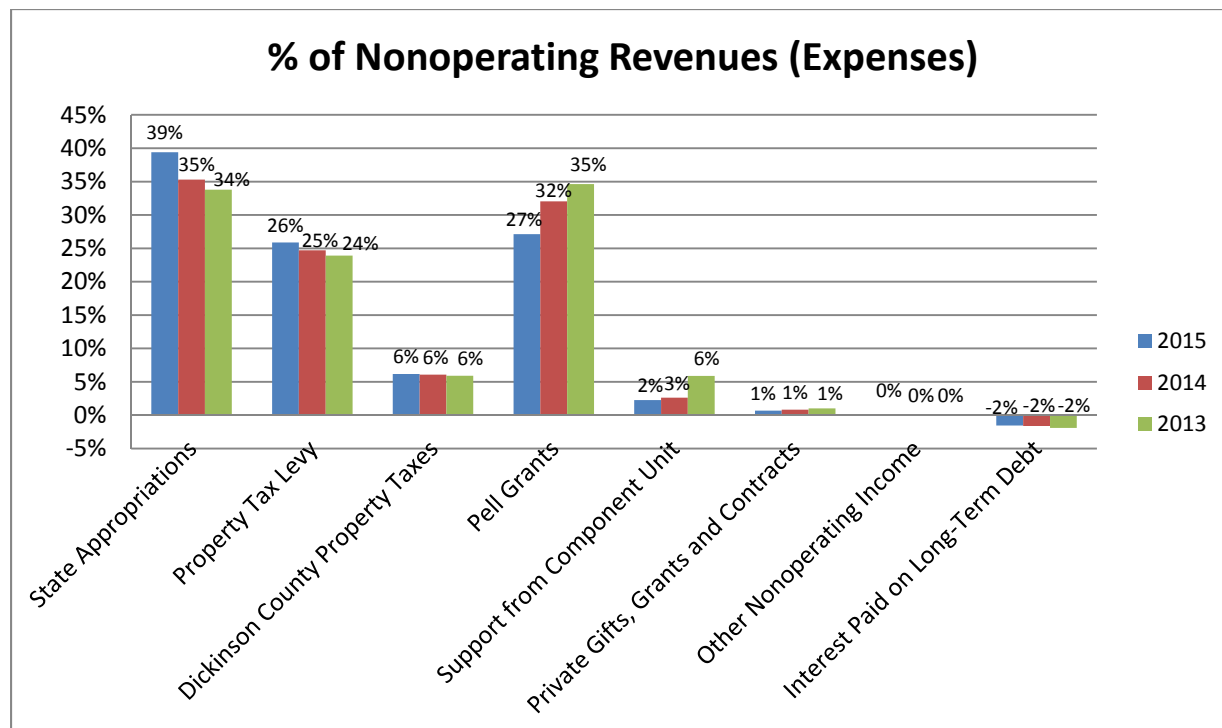
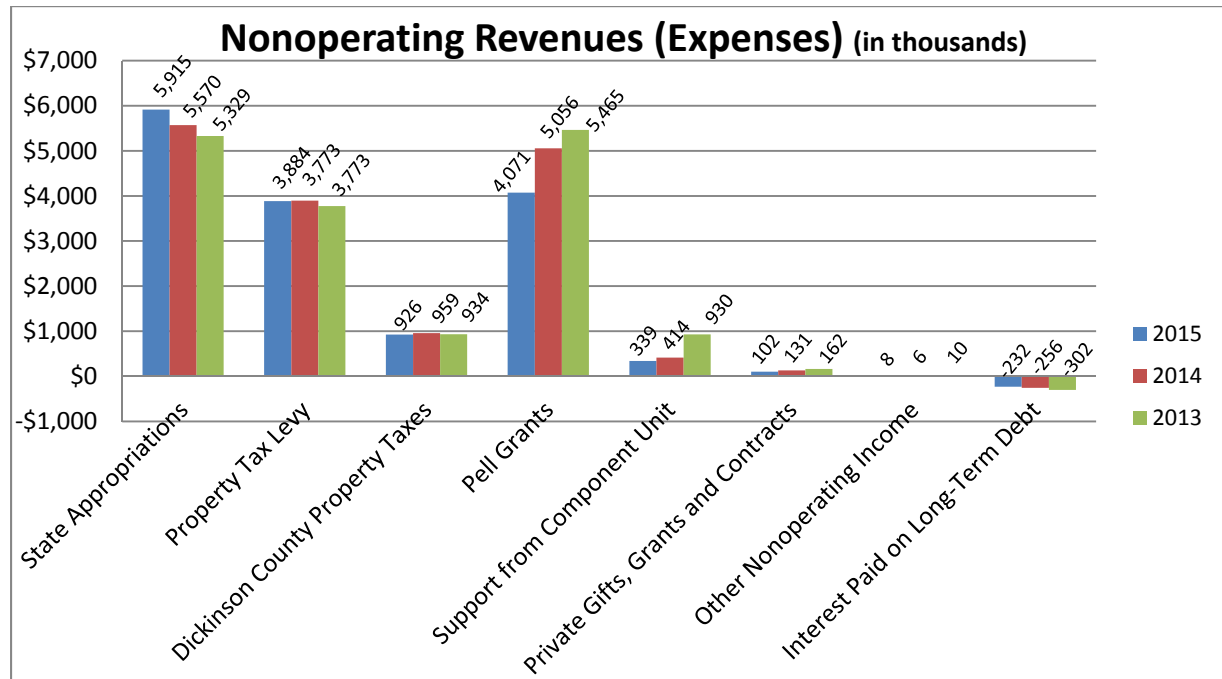
- State appropriations increased by approximately \$240,000, or 4.5%, due primarily to new MPSERS UAAL Rate Stabilization funding.
- Property tax revenue increased by 3.1% or \$148,000 due to increases in the taxable value of Delta County property values which increased approximately 4 %.
- Pell grant revenue 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

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.



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	2015	2014	2013
Instruction	\$ 9,642	\$ 8,700	\$ 8,679
Public service	277	227	184
Instructional support	1,443	1,361	1,435
Student services	4,347	3,892	4,151
Institutional administration	4,002	4,340	4,474
Operations and maint. of plant	1,949	1,881	1,737
Depreciation	2,029	2,009	1,997
Total operating expenses	\$23,689	\$22,410	\$22,657

Changes in operating expenses from 2014 to 2015 were a result of the following factors:

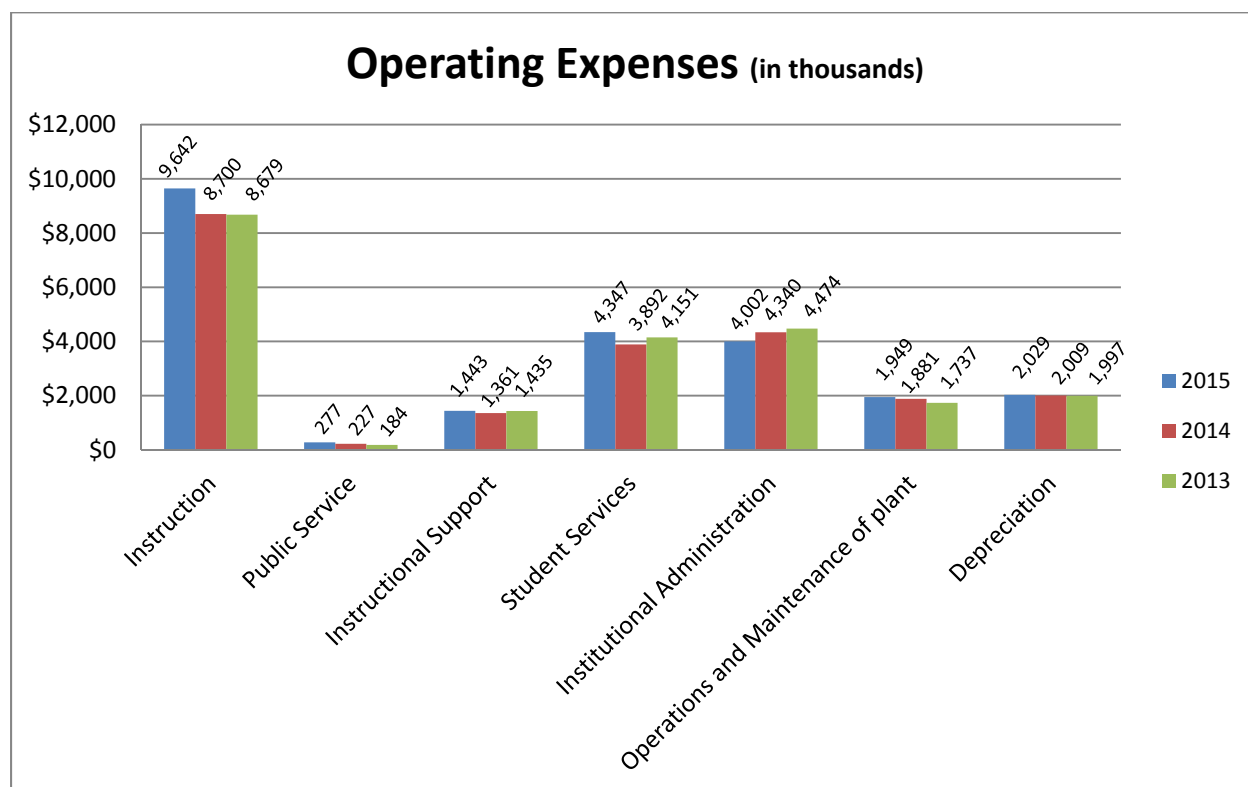
- Instruction expenses increased approximately \$941,000 or 10.8% due to the expenses incurred for offering the early retirement incentive in 2015. Also, in 2015 the College purchased instruction related equipment that were funded by federal and state grants.
- Student services expenses increased approximately \$455,000 or 11.7%, which can be attributed primarily to an increase in salaries and wages.
- Institutional administration expenses decreased by approximately \$338,000 or 7.8%, which is primarily due to a reduction in bad debt expense along with a reduction in the payment for insurance co-pays.

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.

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 the following:

- 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)

	2015	2014	2013
Net cash used in operating activities	\$ (13,452)	\$ (12,804)	\$ (13,171)
Net cash provided by non-capital financing activities	15,339	15,980	16,282
Net cash provided by (used in) capital and related financing activities	1,586	(2,462)	(2,902)
Net cash provided by investing activities	8	8	9
Increase in cash and cash equivalents	3,481	722	218
Cash and cash equivalents, beginning of year	4,366	3,644	3,426
Cash and cash equivalents, end of year	\$ 7,847	\$ 4,366	\$ 3,644

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Cash Flows from 2014 to 2015 were a result of the following factors:

The majority of the College's cash inflows from operating activities come from student tuition and fees and grants. These sources are offset by outflows for operations such as payments to employees and suppliers. In fiscal year 2015, despite the increase in grant collections and decreases to payments to employees, the College spent more funds in payments to suppliers with the purchasing of grant equipment.

Net cash provided by non-capital financing activities consists primarily of state appropriations, property taxes, Pell grants, and other gifts and donations. This decreased by approximately \$641,000 from 2014 due primarily to a \$1 million decrease in Pell grant funds resulting from decreases in enrollment, partially offset by increases in state appropriations.

Net cash provided by (used in) capital and related financing activities increased by approximately \$4 million primarily due to \$3.6 million in proceeds from the issuance of the 2015 Facility Bonds and reduction in principal payments after paying off the 2001 and 2007 bonds during fiscal year 2014.

Changes in Cash Flows from 2013 to 2014 were a result of the following factors:

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.

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of June 30, 2015, the College had \$26.2 million in capital assets, net of accumulated depreciation. In 2015 the College began work on the multi-building renovations project and the capital costs associated with the project were recorded under construction in progress. Additionally in 2015, the College purchased equipment associated with the TAACCCT grant, Community College Skilled Trades Equipment Program (CCSTEP) grant, and Perkins grants.

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 1,321,225	\$ -	\$ -	\$ -	\$ 1,321,225
Construction in progress	8,570	631,731	-	-	640,301
Subtotal, nondepreciable capital assets	1,329,795	631,731	-	-	1,961,526
Capital assets being depreciated:					
Land improvements	1,419,345	11,944	-	-	1,431,289
Infrastructure	236,697	28,483	-	-	265,180
Building and building improvements	39,063,846	176,591	-	-	39,240,437
Furniture, fixtures and equipment	18,220,348	798,941	-	-	19,019,289
Library materials	779,613	-	-	-	779,613
Vehicles	286,327	40,995	-	-	327,322
Subtotal, depreciable capital assets	60,006,176	1,056,954	-	-	61,063,130
Total capital assets	61,335,971	1,688,685	-	-	63,024,656
Less accumulated depreciation:					
Land improvements	1,007,451	93,415	-	-	1,100,866
Infrastructure	118,680	19,658	-	-	138,338
Building and building improvements	16,684,597	1,018,530	-	-	17,703,127
Furniture, fixtures and equipment	15,978,118	860,615	-	-	16,838,733
Library materials	755,585	10,249	-	-	765,834
Vehicles	212,919	26,691	-	-	239,610
Total accumulated depreciation	34,757,350	2,029,158	-	-	36,786,508
Net depreciable capital assets	25,248,826	\$ (972,204)	\$ -	\$ -	24,276,622
Capital assets, net	\$ 26,578,621				\$ 26,238,148

BAY DE NOC COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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				\$ 26,578,621

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 76.3 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 2016 with rates for future years yet unknown.

GASB 68 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 reports a liability for its "proportionate share" of the "net pension liability" of the MPSERS plan. The College recorded a net pension liability of \$14,328,240 as of June 30, 2015 for the College's proportionate share and a reduction of pension expense of \$192,550 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.

This financial report is designed to provide the public with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. Copies of this financial report, as well as other financial reports, are available on the College's website, www.baycollege.edu. If you have any questions about this report or need additional financial information, please contact the Business Office at (906) 217-4045.



INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

November 11, 2015

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, 2015 and 2014, 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, 2015 and 2014, 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.

Implementation of GASB Statement No. 68

As described in Notes 1 and 6, the College implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of business-type activities as of July 1, 2014 was restated. Application of this new standard to July 1, 2013, the earliest year presented, is not practical as complete information is not available. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension 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 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 combining 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 11, 2015 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.



FINANCIAL STATEMENTS

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF NET POSITION

	June 30	
	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 4,234,834	\$ 4,365,627
Cash—restricted for capital improvements	3,611,783	-
Student receivables, net	26,895	119,503
State appropriations receivable	1,072,240	1,197,970
Grants receivable	447,534	265,831
Due from component unit	22,548	189,742
Other receivables, net	278,627	100,115
Prepaid expenses and other current assets	450,982	369,452
Total current assets	10,145,443	6,608,240
Noncurrent assets		
Capital assets not being depreciated	1,961,526	1,329,795
Capital assets being depreciated, net	24,276,622	25,248,826
Total noncurrent assets	26,238,148	26,578,621
Total assets	36,383,591	33,186,861
Deferred outflows of resources		
Deferred pension amounts	1,938,722	-
Liabilities		
Current liabilities		
Accounts payable	713,451	252,128
Accrued payroll and related liabilities	1,300,820	1,297,967
Unearned revenue	72,007	240,802
Interest payable	51,138	36,164
Other current liabilities	246,254	261,400
Current portion of employee benefits payable	169,739	-
Current portion of long-term debt	465,000	300,000
Total current liabilities	3,018,409	2,388,461
Noncurrent liabilities		
Long-term debt, net of current portion	8,085,000	4,950,000
Accrued employee benefits payable, net of current portion	992,434	499,153
Net pension liability	14,328,240	-
Total noncurrent liabilities	23,405,674	5,449,153
Total liabilities	26,424,083	7,837,614
Deferred inflows of resources		
Deferred pension amounts	1,584,003	-
Net position		
Net investment in capital assets	19,338,405	21,328,621
Unrestricted (deficit)	(9,024,178)	4,020,626
Total net position	\$ 10,314,227	\$ 25,349,247

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	
	2015	2014
Operating revenues		
Tuition and fees	\$ 8,098,608	\$ 9,335,022
Scholarship allowance	(1,977,884)	(3,208,064)
Net tuition and fees	6,120,724	6,126,958
Federal grants and contracts	1,261,232	915,144
State and local grants and contracts	42,562	31,950
Sales and service of auxiliary activities, net of scholarship allowance of \$48,363 (\$48,393 for 2014)	237,985	247,443
Other operating revenues	143,979	181,753
Total operating revenues	7,806,482	7,503,248
Operating expenses		
Instruction	9,642,345	8,700,477
Public service	276,818	226,676
Instructional support	1,442,484	1,360,599
Student services	4,347,248	3,891,990
Institutional administration	4,002,438	4,340,376
Operations and maintenance of plant	1,948,774	1,881,505
Depreciation	2,029,158	2,008,783
Total operating expenses	23,689,265	22,410,406
Operating loss	(15,882,783)	(14,907,158)
Nonoperating revenues (expenses)		
State appropriations	5,914,679	5,569,546
Property tax levy	3,883,747	3,896,246
Property taxes from Dickinson County	925,983	958,974
Pell grants	4,071,719	5,056,719
Support from component unit	339,304	414,451
Private gifts, grants and contracts	101,772	130,698
Interest income	7,629	7,637
Loss on disposal of capital assets	-	(1,873)
Interest on capital asset-related debt	(231,958)	(255,699)
Net nonoperating revenues	15,012,875	15,776,699
Other revenues		
State capital appropriations	959	237,529
(Decrease) increase in net position	(868,949)	1,107,070
Net position, beginning of year	25,349,247	24,242,177
Implementation of GASB 68 (Notes 1 and 6)	(14,166,071)	-
Adjusted net position, beginning of year	11,183,176	24,242,177
Net position, end of year	\$ 10,314,227	\$ 25,349,247

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

BAY DE NOC COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2015	2014
Cash flows from operating activities		
Tuition and fees	\$ 6,091,458	\$ 6,091,189
Grants and other contracts	1,075,170	933,396
Auxiliary enterprises and other revenue	237,985	247,443
Payments to employees	(8,252,967)	(9,064,104)
Payments to suppliers	(12,554,025)	(11,461,276)
Other operating (disbursements) receipts	(49,679)	449,492
Net cash used in operating activities	(13,452,058)	(12,803,860)
Cash flows from noncapital financing activities		
State appropriations	5,849,499	5,615,584
Local property taxes and Dickinson County contract	4,809,730	4,855,220
Pell grants	4,071,719	5,056,719
Federal direct lending receipts	3,761,449	5,284,448
Federal direct lending disbursements	(3,761,449)	(5,284,448)
Gifts and donations	608,271	452,648
Net cash provided by noncapital financing activities	15,339,219	15,980,171
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,688,685)	(1,110,742)
Principal paid on long-term debt	(300,000)	(1,135,000)
Interest paid on capital asset-related debt	(216,984)	(263,426)
Proceeds from issuance of facility bonds	3,600,000	-
Proceeds from sales of capital assets	-	351
State capital appropriations	191,869	46,620
Net cash provided by (used in) capital and related financing activities	1,586,200	(2,462,197)
Cash flows provided by investing activities		
Interest received on bank deposits	7,629	7,637
Net increase in cash and cash equivalents	3,480,990	721,751
Cash and cash equivalents, beginning of year	4,365,627	3,643,876
Cash and cash equivalents, end of year	\$ 7,846,617	\$ 4,365,627
Reconciliation to Statements of Net Position		
Cash and cash equivalents	4,234,834	4,365,627
Cash—restricted for capital improvements	3,611,783	-
Cash and cash equivalents, end of year	\$ 7,846,617	\$ 4,365,627

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	
	2015	2014
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (15,882,783)	\$ (14,907,158)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,029,158	2,008,783
Change in operating assets and liabilities which provided (used) cash:		
Student receivables	92,608	(17,271)
Grants receivable	(181,703)	(32,977)
Other receivables	(178,512)	298,850
Prepaid expenses and other current assets	(81,530)	29,474
Accounts payable	461,323	(4,029)
Accrued payroll and related liabilities	2,853	(117,610)
Unearned revenue	(168,795)	781
Accrued employee benefits payable	663,020	(31,592)
Other liabilities	(15,147)	(31,111)
Change in net pension liability and deferred amounts	(192,550)	-
Net cash used in operating activities	\$ (13,452,058)	\$ (12,803,860)

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	
	2015	2014
Assets		
Cash and cash equivalents	\$ 558,072	\$ 668,475
Accrued income receivable and other assets	31,832	23,788
Contributions receivable	6,235	145,000
Investments	6,873,283	6,586,877
Beneficial interest in trust assets	1,938,068	1,970,156
Total assets	\$ 9,407,490	\$ 9,394,296
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 9,500	\$ 9,500
Due to Bay de Noc Community College	22,548	189,742
Due to William Bonifas Fine Arts Center	788,420	863,660
Total liabilities	820,468	1,062,902
Net assets		
Unrestricted deficit	(16,746)	(229,327)
Temporarily restricted	1,780,173	1,990,546
Permanently restricted	6,823,595	6,570,175
Total net assets	8,587,022	8,331,394
Total liabilities and net assets	\$ 9,407,490	\$ 9,394,296

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	
	2015	2014
Revenue		
Contributions	\$ 586,172	\$ 476,987
Investment income	49,280	653,591
Gain on beneficial interest in trusts	17,756	200,889
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Total revenue	653,208	1,331,467
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Expenses		
Scholarships	329,304	296,365
Administration expenses	9,520	9,536
Campus projects	58,756	158,308
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Total expenses	397,580	464,209
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Increase in net assets	255,628	867,258
Net assets, beginning of year	8,331,394	7,464,136
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Net assets, end of year	\$ 8,587,022	\$ 8,331,394
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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, 2015 and 2014 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, the assumptions used to estimate accrued employee benefits payable, and the assumptions based on historical trends and industry standards used in the actuarial valuations of the MPSERS pension plan.

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.

Cash—Restricted for Capital Improvements

Cash restricted for capital improvements consists of the unspent cash proceeds from the Facility Bonds issuance in April 2015, which are held in a deposit account and restricted for capital renovations to multiple buildings on campus.

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 \$133,000 and \$85,000 at June 30, 2015 and 2014, respectively. The bad debt allowance for other receivables was approximately \$282,000 and \$421,000 at June 30, 2015 and 2014, 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.

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) until then. The College reports deferred outflows of resources for certain pension-related amounts, such as change in expected and actual experience, changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 6.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, such as the difference between projected and actual earnings of the pension plan's investments. More detailed information can be found in Note 6.

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.

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 2015 includes property taxes that were levied on July 1, 2014 and December 1, 2014, which are generally collected before March 1, 2015. 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.

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.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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:

	2015	2014
Salaries and wages	\$ 9,908,923	\$ 9,709,367
Benefits	5,360,573	4,567,131
Capital under \$5,000	710,275	174,220
Pell and other scholarships	2,135,172	2,311,325
Professional services	997,462	914,547
Rent, utilities, and insurance	923,681	942,931
Supplies and materials	582,643	601,763
Travel and professional development	971,300	998,032
Bad debt expense	70,078	182,307
Depreciation	<u>2,029,158</u>	<u>2,008,783</u>
Total operating expenses	<u>\$ 23,689,265</u>	<u>\$ 22,410,406</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 2014 financial statements have been reclassified to conform with the 2015 presentation.

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 6. As a result of this change, the College recognized a net pension liability of \$15,242,395 and deferred outflows of resources of \$1,076,324, which resulted in a decrease in net position of \$14,166,071 as of July 1, 2014. Application of this new standard to July 1, 2013, the earliest year presented, is not practical as complete information is not available.

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, 2015 and 2014, the carrying amount of cash deposits at banks for the College totaled \$7,846,617 and \$4,365,627, respectively, while the bank balances totaled \$7,934,432 and \$4,507,595, respectively. Of the bank balances, \$500,000 was insured at both June 30, 2015 and 2014, and the remaining \$7,434,432 and \$4,007,595, 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, 2015:

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 1,321,225	\$ -	\$ -	\$ -	\$ 1,321,225
Construction in progress	8,570	631,731	-	-	640,301
Subtotal, nondepreciable capital assets	1,329,795	631,731	-	-	1,961,526
Capital assets being depreciated:					
Land improvements	1,419,345	11,944	-	-	1,431,289
Infrastructure	236,697	28,483	-	-	265,180
Building and building improvements	39,063,846	176,591	-	-	39,240,437
Furniture, fixtures and equipment	18,220,348	798,941	-	-	19,019,289
Library materials	779,613	-	-	-	779,613
Vehicles	286,327	40,995	-	-	327,322
Subtotal, depreciable capital assets	60,006,176	1,056,954	-	-	61,063,130
Total capital assets	61,335,971	1,688,685	-	-	63,024,656
Less accumulated depreciation:					
Land improvements	1,007,451	93,415	-	-	1,100,866
Infrastructure	118,680	19,658	-	-	138,338
Building and building improvements	16,684,597	1,018,530	-	-	17,703,127
Furniture, fixtures and equipment	15,978,118	860,615	-	-	16,838,733
Library materials	755,585	10,249	-	-	765,834
Vehicles	212,919	26,691	-	-	239,610
Total accumulated depreciation	34,757,350	2,029,158	-	-	36,786,508
Net depreciable capital assets	25,248,826	\$ (972,204)	\$ -	\$ -	24,276,622
Capital assets, net	\$ 26,578,621				\$ 26,238,148

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, 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	<u>614,587</u>	<u>8,570</u>	<u>-</u>	<u>(614,587)</u>	<u>8,570</u>
Subtotal, nondepreciable capital assets	<u>1,935,812</u>	<u>8,570</u>	<u>-</u>	<u>(614,587)</u>	<u>1,329,795</u>
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	<u>300,663</u>	<u>23,315</u>	<u>37,651</u>	<u>-</u>	<u>286,327</u>
Subtotal, depreciable capital assets	<u>58,520,959</u>	<u>1,102,172</u>	<u>231,542</u>	<u>614,587</u>	<u>60,006,176</u>
Total capital assets	<u>60,456,771</u>	<u>1,110,742</u>	<u>231,542</u>	<u>-</u>	<u>61,335,971</u>
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	<u>224,239</u>	<u>27,715</u>	<u>39,035</u>	<u>-</u>	<u>212,919</u>
Total accumulated depreciation	<u>32,977,885</u>	<u>2,008,783</u>	<u>229,318</u>	<u>-</u>	<u>34,757,350</u>
Net depreciable capital assets	<u>25,543,074</u>	<u>\$ (906,611)</u>	<u>\$ 2,224</u>	<u>\$ 614,587</u>	<u>25,248,826</u>
Capital assets, net	<u>\$ 27,478,886</u>				<u>\$ 26,578,621</u>

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM LIABILITIES (SUBSEQUENT EVENT)

Changes in long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Bonds payable					
General obligation facilities bonds of 2006	\$ 5,250,000	\$ -	\$ (300,000)	\$ 4,950,000	\$ 315,000
Facilities bonds of 2015	-	3,600,000	-	3,600,000	150,000
Total bonds payable	5,250,000	3,600,000	(300,000)	8,550,000	465,000
Other long-term obligations					
Accrued employee benefits payable	499,153	675,959	(12,939)	1,162,173	169,739
Total long-term obligations	\$ 5,749,153	\$ 4,275,959	\$ (312,939)	\$ 9,712,173	\$ 634,739

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	675,000	-	(675,000)	-	-
Total bonds payable	6,385,000	-	(1,135,000)	5,250,000	300,000
Other long-term obligations					
Accrued employee benefits payable	530,745	108	(31,700)	499,153	-
Total long-term obligations	\$ 6,915,745	\$ 108	\$ (1,166,700)	\$ 5,749,153	\$ 300,000

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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. On November 12, 2015, the College expects to refund these bonds through issuance of \$4,810,000 in refunding bonds at an average interest rate of 3.0%. This refunding is expected to save the College approximately \$320,000 in future interest payments.

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. The bonds carried an interest rate of 4.0% and were paid off during fiscal year 2014.

The proceeds of the 2015 Facilities Bonds are being used for costs related to a multi-building campus renovation project. The bonds carry an average interest rate of approximately 3.0% and mature in 2034.

Future debt service requirements on bonds payable for years ending after June 30, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 465,000	\$ 256,734	\$ 721,734
2017	480,000	293,634	773,634
2018	495,000	275,934	770,934
2019	520,000	257,559	777,559
2020	540,000	238,234	778,234
2021-2025	3,080,000	865,467	3,945,467
2026-2030	2,035,000	284,875	2,319,875
2031-2034	<u>935,000</u>	<u>56,925</u>	<u>991,925</u>
	<u>\$ 8,550,000</u>	<u>\$ 2,529,362</u>	<u>\$ 11,079,362</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.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

6. RETIREMENT BENEFITS AND DEFERRED COMPENSATION

Defined Benefit Plan

Plan Description. The College contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multi-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services 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 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan (MIP)* includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Benefits Provided. MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

Contributions. Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the College is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The College's contributions to MPSERS under all pension plans described above were \$1,618,883 for the year ended June 30, 2015. The College's contributions to MPSERS for all plans, including other postemployment benefits as described on page 34, for the years ended June 30, 2014 and 2013 were \$1,646,150 and \$1,350,445, respectively. These amounts are equal to the College's required contributions for each year.

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

At June 30, 2015, the College reported a liability of \$14,328,240 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the College's proportion (as calculated by MPSERS) was 0.06505%.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2015, the College recognized pension expense of \$1,160,635. 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	\$ 528,685	\$ -	\$ 528,685
Change in proportionate share	1,817		1,817
Net difference between projected and actual earnings on pension plan investments	-	1,584,003	(1,584,003)
	530,502	1,584,003	(1,053,501)
College contributions subsequent to measurement date	1,408,220	-	1,408,220
Total	\$ 1,938,722	\$ 1,584,003	\$ 354,719

The amount of deferred outflows of resources related to College contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (258,055)
2017	(258,055)
2018	(258,055)
2019	(279,336)
Total	\$ (1,053,501)

Actuarial Assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation of 3.5%
Investment rate of return	8% (7% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The mortality table used in this valuation was 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 periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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 pools	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>
Investment rate of return			<u>8.00 %</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that College contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the College, calculated using the discount rate of 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:

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
College's proportionate share of the net pension liability	\$ 18,890,665	\$ 14,328,240	\$ 10,484,507

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.

Payable to the Pension Plan. At June 30, 2015, the College reported a payable of \$139,689 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 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. Employer contributions range from 2.20% to 2.71% of covered payroll. 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.

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 are pending a Supreme Court resolution.

The College's contributions to MPSERS for other postemployment benefits amounted to \$252,697 for the year ended June 30, 2015.

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, 2015 and 2014, the Optional Plan had 53 and 42 active participants, respectively, and 113 and 111 participants with account balances, respectively.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, 2015, 2014 and 2013 were \$530,542, \$492,407, and \$506,157, respectively.

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

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, 2014, 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 employees who qualify for the longevity benefits are not required to contribute to the plan. The College funds the plan on a pay-as-you-go basis. 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, 2014 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. This plan is funded by the College on a pay-as-you-go basis. The College has elected to calculate the liability using a 5% discount rate applied to the benefit amount. The total liability for these benefits was approximately \$488,000 and \$492,000 at June 30, 2015 and 2014, respectively. The College recognized an expense associated with these longevity incentives of approximately \$0 and \$51,000 during the years ended June 30, 2015 and 2014, respectively.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

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 \$278,000 and \$252,000 at June 30, 2015 and 2014, 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 MPSERS 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.

BAY DE NOC COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Employee Severance Plan

During fiscal year 2015, the College adopted an Employee Severance Plan (“ESP”) which is administered by a third party. Eligible participants include full time faculty, administration, and support staff with ten or more years of service with Bay College (or will be eligible to retire with full or reduced benefits with MPSERS) as of June 30, 2015. Participants who are not in MPSERS, but meet the definition of full or reduced retirement under MPSERS [age 60 with 10 years of service, age 46 with 30 years of service or age 55 with 25 years of service] are eligible for the Plan.

For those who elected the ESP, the exit date was June 30, 2015; however, the College reserves the right to retain employees for up to one year or alter their exit date based on educational and operational needs of the College. The benefits under this plan are as follows:

- Faculty and administration will receive 100% of their 2014-2015 base salary, not to exceed \$50,000, plus applicable contractual retirement pay, the total of which is divided into equal monthly payments made to the participant’s Post Employment 403(b) account.
- Support staff who elect the Plan will receive 100% of their 2014-2015 base salary, not to exceed \$25,000, plus applicable contractual retirement pay, the total of which is divided into equal monthly payments made to the participant’s Post Employment 403(b) account.

Participants receive the total ESP benefit over five years, divided into sixty equal monthly payments beginning four months following the elected exit date. As of June 30, 2015, a total of 15 employees opted into the plan with various exit dates in 2015 and 2016. The College recorded expenses and liability related to the ESP of \$668,359 as of June 30, 2015, which includes the current portion of \$169,739 due within one year.

9. COMMITMENTS AND CONTINGENCIES

In May 2015, the College entered into an agreement with a third party contractor to perform a multiple-building renovation project with estimated costs of approximately \$2.8 million. The majority of these costs are expected to be incurred in fiscal year 2016. The project is being financed by proceeds from the College’s bond issuance in April 2015 (see Note 4).

The College receives 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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REQUIRED SUPPLEMENTARY INFORMATION
MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

BAY DE NOC COMMUNITY COLLEGE

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30, 2015
College's proportion of the net pension liability	0.06505%
College's proportionate share of the net pension liability	\$ 14,328,240
College's covered-employee payroll	\$ 5,545,682
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.37%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

The amounts presented for each 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.

BAY DE NOC COMMUNITY COLLEGE

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of College Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 1,618,883
Contributions in relation to the contractually required contribution	<u>(1,618,883)</u>
Contribution deficiency (excess)	<u>\$ -</u>
College's covered-employee payroll	\$ 5,575,178
Contributions as a percentage of covered employee payroll	29.04%

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

BAY DE NOC COMMUNITY COLLEGE

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015 (Unaudited)
 (with comparative totals for 2014)

	General Fund	Auxiliary Fund	Pension Liability Fund	Plant Fund	Agency Fund	Restricted Fund	Combined Total June 30, 2015	Combined Total June 30, 2014
Assets								
Current assets								
Cash and cash equivalents	\$ 2,035,597	\$ -	\$ -	\$ -	\$ -	\$ 2,199,237	\$ 4,234,834	\$ 4,365,627
Cash--restricted for capital improvements	-	-	-	3,611,783	-	-	3,611,783	-
Student receivables, net	26,895	-	-	-	-	-	26,895	119,503
State appropriations receivable	1,072,240	-	-	-	-	-	1,072,240	1,197,970
Grants receivable	-	-	-	-	-	447,534	447,534	265,831
Due from component unit	6,869,419	634,673	-	(4,975,509)	111,997	(2,618,032)	22,548	189,742
Other receivables, net	278,627	-	-	-	-	-	278,627	100,115
Prepaid expenses and other current assets	450,982	-	-	-	-	-	450,982	369,452
Total current assets	10,733,760	634,673	-	(1,363,726)	111,997	28,739	10,145,443	6,608,240
Noncurrent assets								
Capital assets not being depreciated	-	-	-	1,961,526	-	-	1,961,526	1,329,795
Capital assets being depreciated, net	-	-	-	24,276,622	-	-	24,276,622	25,248,826
Total noncurrent assets	-	-	-	26,238,148	-	-	26,238,148	26,578,621
Total assets	10,733,760	634,673	-	24,874,422	111,997	28,739	36,383,591	33,186,861
Deferred outflows of resources								
Deferred pension amounts	-	-	1,938,722	-	-	-	1,938,722	-
Liabilities								
Current liabilities								
Accounts payable	713,451	-	-	-	-	-	713,451	252,128
Accrued payroll and related liabilities	1,300,820	-	-	-	-	-	1,300,820	1,297,967
Unearned revenue	46,268	-	-	-	-	25,739	72,007	240,802
Interest payable	-	-	-	51,138	-	-	51,138	36,164
Other current liabilities	125,557	5,700	-	-	111,997	3,000	246,254	261,400
Current portion of employee benefits payable	169,739	-	-	-	-	-	169,739	-
Current portion of long-term debt	-	-	-	465,000	-	-	465,000	300,000
Total current liabilities	2,355,835	5,700	-	516,138	111,997	28,739	3,018,409	2,388,461
Noncurrent liabilities								
Long-term debt, net of current portion	-	-	-	8,085,000	-	-	8,085,000	4,950,000
Accrued employee benefits payable, net of current portion	992,434	-	-	-	-	-	992,434	499,153
Net pension liability	-	-	14,328,240	-	-	-	14,328,240	-
Total noncurrent liabilities	992,434	-	14,328,240	8,085,000	-	-	23,405,674	5,449,153
Total liabilities	3,348,269	5,700	14,328,240	8,601,138	111,997	28,739	26,424,083	7,837,614
Deferred inflows of resources								
Deferred pension amounts	-	-	1,584,003	-	-	-	1,584,003	-
Net position (deficit)								
Net investment in capital assets	-	-	-	19,338,405	-	-	19,338,405	21,328,621
Unrestricted (deficit)	7,385,491	628,973	(13,973,521)	(3,065,121)	-	-	(9,024,178)	4,020,626
Total net position (deficit)	\$ 7,385,491	\$ 628,973	\$ (13,973,521)	\$ 16,273,284	\$ -	\$ -	\$ 10,314,227	\$ 25,349,247

BAY DE NOC COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015 (Unaudited)
(with comparative totals for 2014)

	General Fund	Auxiliary Fund	Pension Liability Fund	Plant Fund	Restricted Fund	Subtotal	Eliminations	Combined Total June 30, 2015	Combined Total June 30, 2014
Operating revenues									
Tuition and fees, net	\$ 8,098,608	\$ -	\$ -	\$ -	\$ -	\$ 8,098,608	\$ (1,977,884)	\$ 6,120,724	\$ 6,126,958
Federal grants and contracts	-	-	-	-	1,261,232	1,261,232	-	1,261,232	915,144
State and local grants and contracts	-	-	-	-	42,562	42,562	-	42,562	31,950
Sales and service of auxiliary activities	96,192	190,156	-	-	-	286,348	(48,363)	237,985	247,443
Other operating revenues	142,752	-	-	1,227	-	143,979	-	143,979	181,753
Total operating revenues	8,337,552	190,156	-	1,227	1,303,794	9,832,729	(2,026,247)	7,806,482	7,503,248
Operating expenses									
Instruction	8,760,127	-	(136,169)	1,250	1,017,137	9,642,345	-	9,642,345	8,700,477
Public service	278,273	-	(1,455)	-	-	276,818	-	276,818	226,676
Instructional support	1,454,582	-	(12,098)	-	-	1,442,484	-	1,442,484	1,360,599
Student services	1,956,458	-	(10,074)	-	4,427,111	6,373,495	(2,026,247)	4,347,248	3,891,990
Institutional administration	3,981,582	-	(21,836)	42,692	-	4,002,438	-	4,002,438	4,340,376
Operations and maintenance of plant	1,865,405	94,287	(10,918)	-	-	1,948,774	-	1,948,774	1,881,505
Depreciation	-	-	-	2,029,158	-	2,029,158	-	2,029,158	2,008,783
Total operating expenses	18,296,427	94,287	(192,550)	2,073,100	5,444,248	25,715,512	(2,026,247)	23,689,265	22,410,406
Operating (loss) income	(9,958,875)	95,869	192,550	(2,071,873)	(4,140,454)	(15,882,783)	-	(15,882,783)	(14,907,158)
Nonoperating revenues (expenses)									
State appropriations	5,914,679	-	-	-	-	5,914,679	-	5,914,679	5,569,546
Property tax levy	2,709,558	-	-	1,174,189	-	3,883,747	-	3,883,747	3,896,246
Property taxes from Dickinson County	925,983	-	-	-	-	925,983	-	925,983	958,974
Pell grants	-	-	-	-	4,071,719	4,071,719	-	4,071,719	5,056,719
Support from component unit	339,304	-	-	-	-	339,304	-	339,304	414,451
Private gifts, grants and contracts	-	-	-	-	101,772	101,772	-	101,772	130,698
Interest income	7,629	-	-	-	-	7,629	-	7,629	7,637
Loss on disposal of capital assets	-	-	-	-	-	-	-	-	(1,873)
Interest on capital asset-related debt	-	-	-	(231,958)	-	(231,958)	-	(231,958)	(255,699)
Net nonoperating revenues	9,897,153	-	-	942,231	4,173,491	15,012,875	-	15,012,875	15,776,699
Other revenues									
State capital appropriations	-	-	-	959	-	959	-	959	237,529
Increase (decrease) in net position before transfers	(61,722)	95,869	192,550	(1,128,683)	33,037	(868,949)	-	(868,949)	1,107,070
Transfers in (out)	(622,779)	(569)	-	656,385	(33,037)	-	-	-	-
Increase (decrease) in net position	(684,501)	95,300	192,550	(472,298)	-	(868,949)	-	(868,949)	1,107,070
Net position, beginning of year	8,069,992	533,673	-	16,745,582	-	25,349,247	-	25,349,247	24,242,177
Implementation of GASB 68	-	-	(14,166,071)	-	-	(14,166,071)	-	(14,166,071)	-
Adjusted net position (deficit), beginning of year	8,069,992	533,673	(14,166,071)	16,745,582	-	11,183,176	-	11,183,176	24,242,177
Net position (deficit), end of year	\$ 7,385,491	\$ 628,973	\$ (13,973,521)	\$ 16,273,284	\$ -	\$ 10,314,227	\$ -	\$ 10,314,227	\$ 25,349,247

BAY DE NOC COMMUNITY COLLEGE

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

	Year Ended June 30	
	2015	2014
Operating revenues		
Tuition and fees	\$ 2,133,123	\$ 2,555,100
Scholarship allowance	(72,216)	(8,640)
Net tuition and fees	2,060,907	2,546,460
Sales and services of auxiliary activities	4,316	3,409
Other operating revenue	70	30
Total operating revenues	2,065,293	2,549,899
Operating expenses		
Salary and wages	1,014,489	1,290,629
Benefits	432,884	534,116
Advertising and professional services	94,081	79,602
Supplies and materials	104,091	76,801
Rent, utilities, and insurance	150,213	175,717
Travel, professional development, and other operating expenses	41,688	35,967
Capital under \$5,000 & grant capital	25,619	14,565
General administration (5% of total expenses)	119,042	139,557
Depreciation	398,735	444,180
Total operating expenses	2,380,842	2,791,134
Operating loss	(315,549)	(241,235)
Nonoperating revenues (expenses)		
Property taxes from Dickinson County	925,983	958,974
Interest on capital asset-related debt	(214,984)	(226,484)
Net nonoperating revenues	710,999	732,490
Increase in net position	\$ 395,450	\$ 491,255