

North Central
Michigan
College



Years Ended
June 30, 2016
and 2015

Financial
Statements
and
Supplementary
Information

NORTH CENTRAL MICHIGAN COLLEGE

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NORTH CENTRAL MICHIGAN COLLEGE

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MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The North Central Michigan College (the "College") financial report consists of three basic financial statements: the Statement of Net Position which presents the assets, deferred outflows, liabilities, deferred inflows and net position of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Position, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

In compliance with GASB Statement No. 61, "The Financial Reporting Entity: Omnibus," the North Central Michigan College Foundation (the "Foundation") is reported as a component unit of the College. Separately issued financial statements for the Foundation are also available by contacting the Foundation office.

The following discussion and analysis provides an overview of the financial position and activities of North Central Michigan College for the year ended June 30, 2016. Management has prepared this discussion along with the financial statements and related note disclosures and the required supplemental pension schedules. Following the basic financial statements, notes, and the required supplemental pension schedules, are two supplementary information statements: the Combining Statement of Net Position and the Combining Statement of Revenues, Expenses, Transfers and Changes in Net Position. Though GASB does not require this supplementary 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 is not detailed in the basic statements.

Financial Highlights

The College's financial position remained strong at June 30, 2016, with assets of \$51.2 million and liabilities of \$18.7 million. Of the liabilities, \$1.7 million are due within one year and \$17 million are due beyond one year. Of the amount due beyond one year, \$12.5 million relates to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires the College to record its share of the unfunded Michigan Public School Employees' Retirement System ("MPERS") obligation/liability for employees. As required by GASB, this pronouncement was implemented for the first time during the year ended June 30, 2015. Net position, which represents the residual interest in the College's assets and deferred outflows after liabilities and deferred inflows are deducted, increased \$0.7 million.

The College continues to face challenges posed by the uncertainty of state appropriations, decreasing student enrollments, and rising health care costs. These financial statements reflect College-wide departmental savings in an effort to balance the budget with the anticipation of further budget reductions.

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

These two statements will help the reader answer the question, "Is North Central Michigan College as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as North Central Michigan College's operating results.

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

These two statements report the College's net position and net position changes. One can think of net position - the difference between assets, deferred outflows/inflows of resources, and liabilities - as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether the College's financial health is improving or deteriorating. Many other non-financial factors, such as the trend in student applications, student retention, condition of the buildings, and strength of the faculty also need to be considered to assess the overall health of the College.

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

Net Position

Total net position at June 30, 2016 and 2015 was \$33.6 million and \$32.9 million, respectively. Following is a comparison of the major components of the net position of the College and operating results for years ended June 30, 2016 and 2015:

Net Position as of June 30 (in millions)

	2016	2015	Increase (Decrease)	Percent Change
Current assets	\$ 6.2	\$ 5.8	\$ 0.4	
Noncurrent assets:				
Capital assets, net of depreciation	26.1	26.7	(0.6)	
Other	18.9	18.3	0.6	
Total Assets	51.2	50.8	0.4	0.8%
Deferred outflows of resources	1.5	1.3	0.2	
Current liabilities	1.7	1.7	-	
Noncurrent liabilities	17.0	16.3	0.7	
Total Liabilities	18.7	18.0	0.7	3.8%
Deferred inflows of resources	0.4	1.2	(0.8)	
Net position:				
Net investment in capital assets	26.0	26.0	-	
Restricted-Nonexpendable	4.1	4.1	-	
Restricted-Expendable	2.8	2.6	0.2	
Unrestricted	0.7	0.2	0.5	
Total net position	\$ 33.6	\$ 32.9	\$ 0.7	2.1%

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results for the Year Ended June 30 (in millions)

	2016	2015	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees, net	\$ 4.2	\$ 4.0	\$ 0.2	
Federal grants and contracts	0.2	0.4	(0.2)	
State and local grants & contracts	0.1	0.1	-	
Nongovernmental grants	0.5	0.4	0.1	
Auxiliary activities	1.7	1.7	-	
Other	0.7	0.6	0.1	
Total Operating Revenues	7.4	7.2	0.2	2.8%
Total Operating Expenses	19.9	20.8	(0.9)	(4.5%)
Operating Loss	(12.5)	(13.6)	1.1	8.8%
Nonoperating Revenues (Expenses)				
State appropriations	3.4	3.5	(0.1)	
Property tax levy	6.4	6.2	0.2	
Pell grants	3.0	3.4	(0.4)	
Investment Income	0.1	0.1	-	
Interest on capital related debt	(0.2)	(0.2)	-	
Donations & special events	0.2	0.4	(0.2)	
Net Nonoperating Revenues	12.9	13.4	(0.5)	(3.9%)
Other Revenues				
Additions to permanent endowments	0.3	0.3	-	
Change in net position	0.7	0.1	0.6	
Net Position-Beginning of Year	32.9	43.7		
Implementation of GASB 68	-	(10.9)		
Net Position-End of Year	\$ 33.6	\$ 32.9		

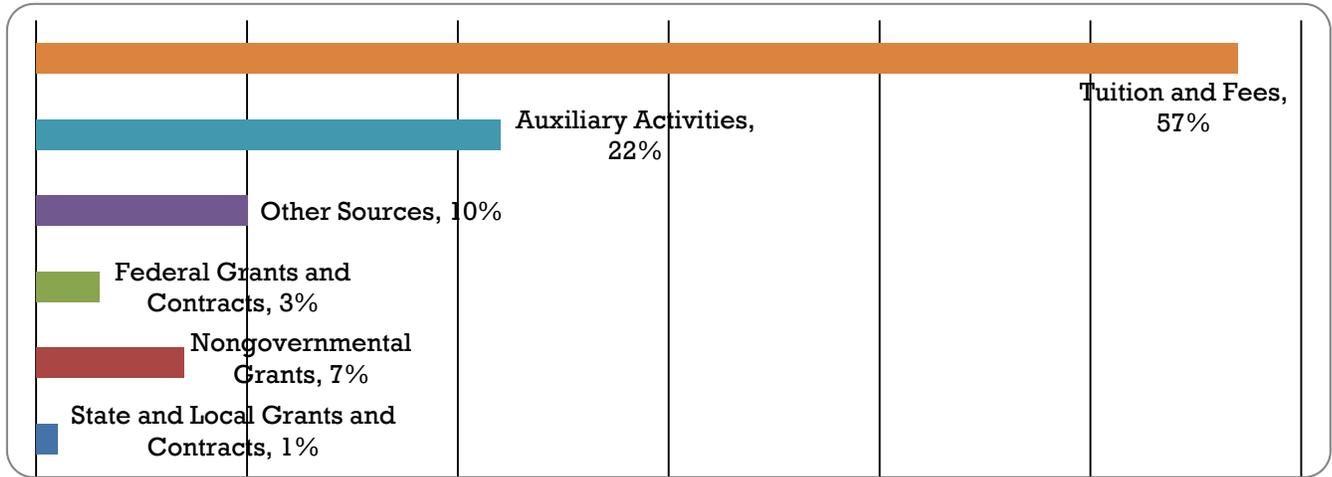
Operating Revenues

Operating revenues include charges for all exchange transactions such as tuition and fees, the sale of books and supplies, rental revenue of the residence halls and revenue from the cafeteria & conference center. In addition, certain federal, state, and private grants are considered operating revenues, if they are not for capital purposes, and are considered a contract for services.

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a graphic illustration of operating revenues by source for June 30, 2016:



Operating revenue changes were the result of the following factors:

- Tuition and fees totaled \$4,189,643, a \$146,542 increase in revenues from last year primarily due to an increase in tuition rates, which helped offset enrollment declines.
- Other sources includes \$300,787 received per an agreement with a local manufacturing company for the costs of a mobile digital fabrication lab. The lab was purchased by the College during the fiscal year ended June 30, 2014.

The College receives substantial nonoperating support from state appropriations, property tax revenue and Pell grants. These nonoperating revenue sources mitigate the normal operating losses as tuition and fees alone are not adequate to cover operating expenses. Nonoperating revenues and expenses are an integral component in determining the increase or decrease in net position.

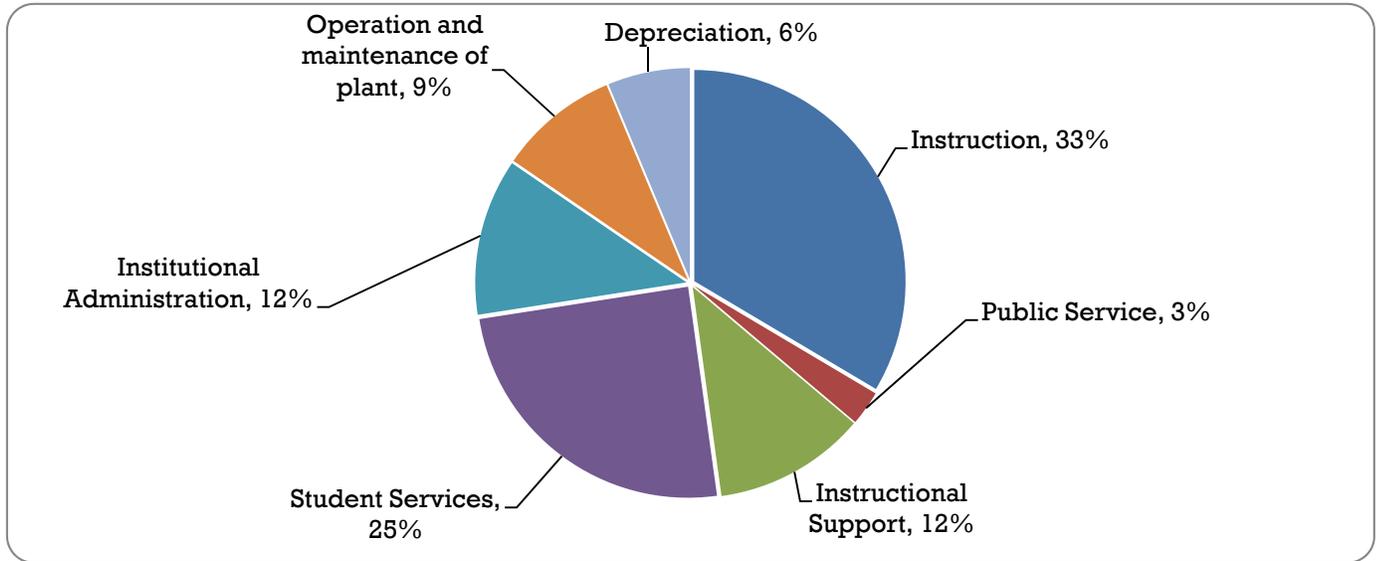
Operating Expenses

Operating expenses are all the costs necessary to provide services and conduct the programs of the College.

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2016:



Operating expenses decreased by 4.5% from last year. Operating expense changes were the result of the following factors:

- Salaries and fringes decreased by approximately \$400,000 this fiscal year primarily because of several employee retirements that occurred during the fiscal year ended June 30, 2015. Salaries and fringes totaled approximately \$11.2 million this fiscal year, representing 56.4% of total operating expenses.
- Pell grants awarded decreased by approximately \$475,000 compared to the prior year primarily due to declines in enrollment.
- With a milder winter in 2016 being a primary factor, power and heat expenses decreased by approximately \$90,000 compared to the prior year.

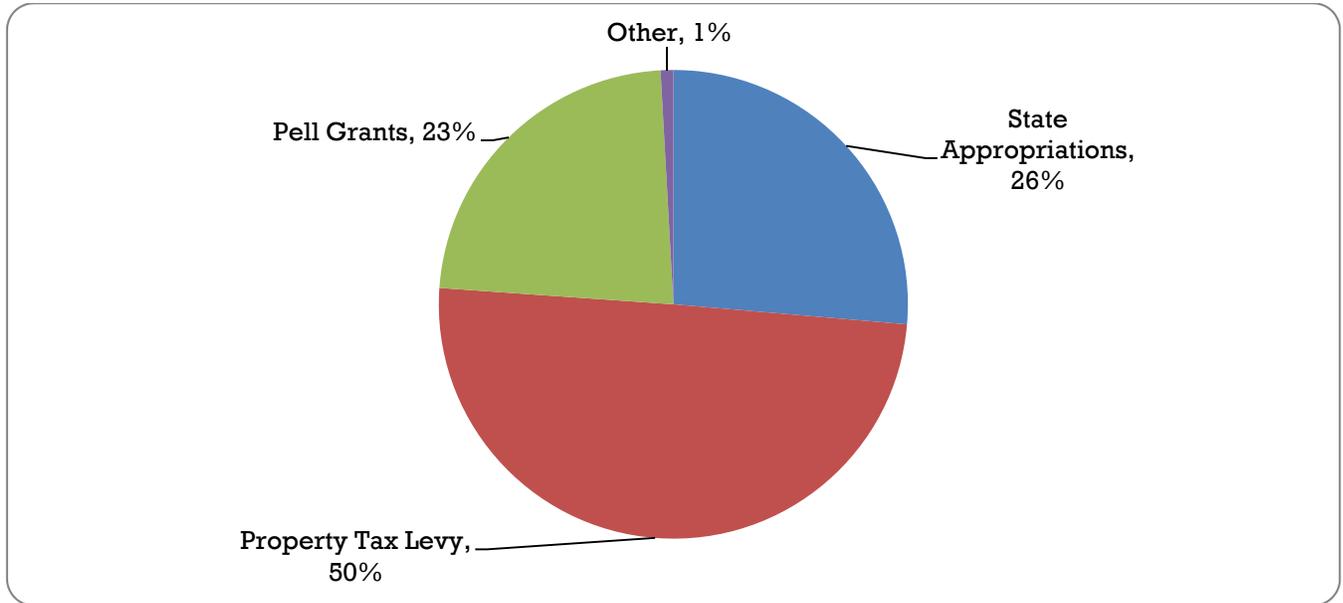
Net Nonoperating Revenues

Net nonoperating revenues represent all revenue sources that are primarily non-exchange in nature less interest on capital asset-related debt. They consist primarily of state appropriations, property tax revenue, Pell grants and investment income (including realized and unrealized gains and losses).

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a graphic illustration of net nonoperating revenues by source for June 30, 2016:



Net nonoperating revenue changes were the result of the following factors:

- State appropriations decreased by \$177,188 as compared to the prior year. This is because State appropriations includes an amount for Michigan Public School Employees' Retirement System (MPERS) unfunded actuarial accrued liability (UAAL) rate stabilization payments, which are used to offset MPERS retirement expenses. For GASB Statement No. 68 purposes, the State in the current year indicated a portion of these UAAL payments should be recorded in the Pension Fund as an offset to State appropriations revenue. This amount was \$360,521.
- Property tax levy revenues increased by \$140,185, or 2.2% as compared to the prior year. This increase represents an encouraging trend of climbing real property values in Emmet County.
- Pell grants decreased by \$474,152 due mainly to declines in enrollment from last year.

Other Revenues

Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the College. Other revenues of \$240,493 resulted from additions to permanent endowments for the promotion of the College's educational and cultural activities. This amount is from the Foundation's receipt of these types of contributions from donors and investment earnings thereon in the current year.

Statement of Cash Flows

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also may help users assess:

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

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash Flows for the Year Ended June 30 (in millions)

	2016	2015	Increase (Decrease)
Cash Provided by (used for):			
Operating activities	\$ (10.1)	\$ (12.6)	\$ 2.5
Noncapital financing activities	12.0	13.0	(1.0)
Capital and related financing activities	(0.6)	(0.6)	-
Investing activities	0.3	(1.6)	1.9
Net Increase (Decrease) in Cash	1.6	(1.8)	3.4
Cash-Beginning of Year	10.9	12.7	(1.8)
Cash-End of Year	\$ 12.5	\$ 10.9	\$ 1.6

Net cash used for operating activities totaled \$10.1 million for the fiscal year ending June 30, 2016. This was financed by \$12.0 million of net cash flows from non-capital financing activities such as property taxes and state appropriations. Net cash used by capital and related financing activities totaled \$0.6 million. This includes \$0.5 million of capital asset purchases, and \$0.8 million of debt principal and interest payments net of \$0.7 million in capital property tax revenue. Net cash provided by investing activities totaled \$0.3 million. This includes interest received of \$0.2 million, the sale and maturities of investments totaling \$1.6 million, and the purchase of investments of \$1.5 million. The net result of all cash flows produced an increase in the College's cash of \$1.6 million from last year.

Capital Assets

At June 30, 2016, the College had approximately \$26.1 million invested in capital assets, net of accumulated depreciation of \$18.5 million. Depreciation charges totaled approximately \$1.3 million for the current fiscal year.

Capital assets consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 13,306	\$ 13,306
Construction in progress	77,831	30,013
Sculptures	<u>522,609</u>	<u>522,609</u>
Capital assets not being depreciated or amortized	613,746	565,928
Buildings and improvements	34,862,616	34,639,322
Infrastructure	2,957,105	2,957,105
Furniture, fixtures, and equipment	4,498,391	4,316,564
Library Materials	875,842	859,194
Software	<u>787,695</u>	<u>745,607</u>
Capital assets being depreciated	<u>43,981,649</u>	<u>43,517,792</u>
Total capital assets	44,595,395	44,083,720
Less accumulated depreciation	<u>18,531,511</u>	<u>17,361,690</u>
Total capital assets, net	<u>\$ 26,063,884</u>	<u>\$ 26,722,030</u>

NORTH CENTRAL MICHIGAN COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The approximate cost of major capital additions this year consist of the following:

Technology Building renovation	\$ 223,000
Website design	\$ 42,000

Construction in progress of \$77,831 consists mainly of campus master plan-related architect and engineering fees.

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

Debt

The College had \$5.1 million in bond debt outstanding at June 30, 2016. Debt principal repayments of \$625,000 were made on this debt during the year. More detailed information about the College's long-term liabilities is presented in the notes to the financial statements.

Economic Factors That Will Affect The Future

The economic position of the College is significantly impacted by the actions of the State of Michigan. Over the years, the College has had to adjust to sharply lower State funding while still maintaining a balanced budget. Currently, State of Michigan appropriations are 23% of the total general fund revenue for the College. The current 2016-2017 State Appropriations Bill, which includes a performance funding amount, increased annual funding to the College by 2%. Though the College works diligently to control expenses, the end result of flat funding from the State shifts more of the burden for supporting the College operations to the district taxpayers and students we serve.

Property tax revenue represents approximately 35% of general fund revenues and, for the third year in a row, taxable property values in Emmet County have increased (1.5% in 2016, 2.05% in 2015 and 1.22% in 2014). Local and state economies have rebounded significantly in the last few years fueling the increases in real property values.

In fiscal year 2016-2017, the College is conducting a millage election in November of 2016 to renew the authorized 1.0 mill general millage, or .9946 mills with the 2016 "Headlee" permanent reduction. The .9946 mills represents \$2,704,773 annually in property tax revenues to the College. Fiscal year 2016 is also the last year for the .3 mill Special Operating Levy or .2669 mills with the 2016 "Headlee" permanent reduction. The .2669 mill levy will generate \$725,823 in revenue and will be used to pay off the 1999 series bond portion of the refinanced general operating debt. The final payment will be made in May of 2017.

At the April 26, 2016 meeting, the Board of Trustees approved an increase of 5% in the tuition rates beginning with the summer semester of 2016 to offset a forecasted decline in enrollment. While the Board of Trustees has the ability to increase tuition rates to help offset rising costs, the Board of Trustees is ever mindful of the impact that tuition increases have on our students and strives to keep the increases at manageable levels.

At the October 2014 Board of Trustees meeting, the Board approved a new master plan for the College. The College's Architect spent several months working with College representatives and community stakeholders to produce a plan that is in line with the College's vision, mission, philosophy and core values. The result is a collection of ideas and initiatives that will provide a blueprint for long-term College planning, both physical and academic, in a flexible, coordinated manner. The proposed plan identifies 12 priorities for the College that will be pursued in the next five years. The College is currently in the construction planning phase on three of the top priority projects identified in the 2014 master plan.

NORTH CENTRAL MICHIGAN COLLEGE

■ MANAGEMENT'S DISCUSSION AND ANALYSIS

Michigan Public Act 152 of 2011 imposes a cap on the annual per-employee health benefit costs paid by governmental agencies in Michigan and limits the College's incremental exposure to the rate of medical inflation. The full financial impact of the Affordable Care Act has not yet been realized. The numerous reporting requirements and new taxes will continue to impact both the College and its employees individually. The College utilizes an internal Health Care Committee to help sort through the requirements and to determine the health insurance options for the College.

The Governmental Accounting Standards Board issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which requires the College to record its share of the unfunded MPSERS obligation/liability for employees. This was implemented for the first time during the year ended June 30, 2015 and resulted in a net pension liability of \$11,006,813. The pension liability for the year ended June 30, 2016 increased to \$12,487,412. The provisions of GASB 68 are expected to cause a similar multi-million dollar liability on the College's statement of net position in the future.

The Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which requires governments that provide postemployment benefits other than pensions (OPEB) to recognize their share of the net OPEB liability related to participation in the MPSERS plan. The College expects this statement to have a significant impact on the financial statements and note disclosures during the year of implementation and is currently evaluating its impact. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2018.

Contacting the College's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office, North Central Michigan College, 1515 Howard Street, Petoskey, Michigan 49770.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

October 24, 2016

Board of Trustees
North Central Michigan College
Petoskey, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of **North Central Michigan College** (the "College") as of and for the year ended June 30, 2016, 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

We conducted our audit 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the North Central Michigan College Foundation blended 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 North Central Michigan College Foundation, is based solely on the report of the other auditors.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of **North Central Michigan College** as of June 30, 2016, and the results of operations and cash flows, for the year 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 8, the College implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* in the prior year. Accordingly, beginning net position of business-type activities as of July 1, 2014 was restated. The predecessor auditor opinion dated October 16, 2015 was 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's 2016 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 2016 financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the 2016 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Predecessor Auditor

The financial statements of **North Central Michigan College** as of June 30, 2015 were audited by other auditors whose report dated October 16, 2015, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated October 24, 2016 on our consideration of **North Central Michigan 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 **North Central Michigan College's** internal control over financial reporting and compliance.

Rehmann Johnson LLC

FINANCIAL STATEMENTS

NORTH CENTRAL MICHIGAN COLLEGE

STATEMENTS OF NET POSITION

	June 30	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 5,043,795	\$ 3,981,920
Receivables, net	271,449	697,942
Federal and state grants receivable, net	802,811	772,458
Scholarships receivable - Foundation	-	192,115
Pledges receivable	-	700
Inventories	7,933	79,658
Prepaid expenses and other current assets	128,704	34,566
Total current assets	6,254,692	5,759,359
Noncurrent assets		
Restricted cash	7,488,410	6,974,055
Investments	11,405,723	11,318,693
Capital assets not being depreciated	613,746	565,928
Capital assets being depreciated, net	25,450,138	26,156,102
Total noncurrent assets	44,958,017	45,014,778
Total assets	51,212,709	50,774,137
Deferred outflows of resources		
Deferred pension amounts	1,526,938	1,273,789
Liabilities		
Current liabilities		
Accounts payable	240,413	355,676
Accrued payroll and related liabilities	472,308	335,142
Unearned revenue	253,266	291,060
Due to depositors	47,398	30,057
Interest payable	34,259	37,383
Current portion of long-term obligations	660,000	635,000
Total current liabilities	1,707,644	1,684,318
Noncurrent liabilities		
Net pension liability	12,487,412	11,006,813
Long-term obligations, net of current portion	4,579,469	5,244,879
Total noncurrent liabilities	17,066,881	16,251,692
Total liabilities	18,774,525	17,936,010
Deferred inflows of resources		
Deferred pension amounts	403,989	1,219,329
Net position		
Net investment in capital assets	25,989,928	26,091,044
Restricted for:		
Nonexpendable endowments	4,138,274	4,076,610
Expendable scholarships and grants	658,782	737,462
Expendable construction and debt service	2,125,007	1,817,480
Unrestricted	649,142	169,991
Total net position	\$ 33,561,133	\$ 32,892,587

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

NORTH CENTRAL MICHIGAN COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2016	2015
Operating revenues		
Tuition and fees	\$ 7,217,037	\$ 7,086,296
Scholarship allowance	(3,027,394)	(3,043,195)
Net tuition and fees	4,189,643	4,043,101
Federal grants and contracts	234,976	355,872
State and local grants and contracts	70,586	86,753
Nongovernmental grants	514,096	364,456
Auxiliary activities, net of scholarship allowance of \$66,369 (\$67,685 for 2015)	1,648,769	1,681,245
Other operating revenues	779,953	638,993
Total operating revenues	7,438,023	7,170,420
Operating expenses		
Instruction	6,670,275	7,218,417
Public service	525,687	442,759
Instructional support	2,315,333	2,165,154
Student services	4,918,167	5,543,468
Institutional administration	2,387,713	2,283,979
Operation and maintenance of plant	1,825,615	1,868,989
Depreciation	1,250,562	1,291,384
Total operating expenses	19,893,352	20,814,150
Operating loss	(12,455,329)	(13,643,730)
Nonoperating revenues (expenses)		
State appropriations	3,396,288	3,573,476
Property tax levy	6,409,760	6,269,575
Pell grants	2,964,287	3,438,439
Investment income, net	159,824	148,812
Net realized and unrealized loss on investments	(91,542)	(90,710)
Net gain (loss) on disposal of capital assets	3,662	(17,163)
Interest on capital asset-related debt	(221,175)	(239,550)
Donations	221,232	311,437
Special events	41,046	47,623
Net nonoperating revenues	12,883,382	13,441,939
Other revenues		
Contributions to permanent endowments	240,493	326,545
Increase in net position	668,546	124,754
Net position, beginning of year	32,892,587	43,672,271
Implementation of GASB 68 (Note 1)	-	(10,904,438)
Adjusted net position, beginning of year	32,892,587	32,767,833
Net position, end of year	\$ 33,561,133	\$ 32,892,587

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

NORTH CENTRAL MICHIGAN COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
Cash flows from operating activities		
Tuition and fees	\$ 4,447,178	\$ 3,671,299
Grants and other contracts	969,687	867,638
Auxiliary enterprise receipts	1,715,138	1,619,973
Payments to employees	(6,762,465)	(7,735,854)
Payments to suppliers	(11,467,439)	(11,641,580)
Other	972,068	606,612
Net cash used in operating activities	(10,125,833)	(12,611,912)
Cash flows from noncapital financing activities		
State appropriations	3,362,962	3,573,476
Local property taxes	5,688,234	5,562,093
Pell grants	2,964,287	3,438,439
Federal direct lending receipts	1,710,153	1,950,046
Federal direct lending disbursements	(1,710,153)	(1,950,046)
(Reductions) additions to permanent endowments	(213,040)	82,291
Donations and special events	264,428	391,169
Net cash provided by noncapital financing activities	12,066,871	13,047,468
Cash flows from capital and related financing activities		
Purchase of capital assets	(477,227)	(438,610)
Principal paid on long-term debt	(625,000)	(610,000)
Capital property taxes	721,526	707,482
Proceeds from sales of capital assets	8,127	-
Interest paid on capital asset-related debt	(228,188)	(242,600)
Net cash used in capital and related financing activities	(600,762)	(583,728)
Cash flows provided by investing activities		
Proceeds from sales and maturities of investments	1,632,585	2,602,834
Interest on investments	159,824	148,812
Purchase of investments	(1,556,455)	(4,332,839)
Net cash provided by (used in) investing activities	235,954	(1,581,193)
Net increase (decrease) in cash and cash equivalents	1,576,230	(1,729,365)
Cash and cash equivalents, beginning of year	10,955,975	12,685,340
Cash and cash equivalents, end of year	\$ 12,532,205	\$ 10,955,975
Reconciliation to Statements of Net Position		
Cash and cash equivalents	\$ 5,043,795	\$ 3,981,920
Restricted cash	7,488,410	6,974,055
Cash and cash equivalents, end of year	\$ 12,532,205	\$ 10,955,975

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Significant Noncash Transactions

In fiscal 2016, the College received donated instructional equipment from Little Traverse Bay Bands of Odawa Indians valued at \$109,654 and an ambulance from Allied EMS Systems, Inc. valued at \$10,000.

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

NORTH CENTRAL MICHIGAN COLLEGE

STATEMENTS OF CASH FLOWS (CONCLUDED)

	Year Ended June 30	
	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (12,455,329)	\$ (13,643,730)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,250,562	1,291,384
Provision for uncollectible accounts	65,505	116,430
Change in operating assets and liabilities which provided (used) cash:		
Receivables	425,044	(457,392)
Federal and state grants receivable	2,973	70,246
Scholarships receivable - Foundation	192,115	(32,381)
Inventories	71,725	17,457
Prepaid expenses and other current assets	(94,138)	(4,609)
Accounts payable	(115,263)	12,324
Accrued payroll and related liabilities	137,166	(34,480)
Unearned revenue	(35,644)	14,629
Due to depositors	17,341	(9,705)
Change in net pension liability and deferred amounts	412,110	47,915
Net cash used in operating activities	\$ (10,125,833)	\$ (12,611,912)

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

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

North Central Michigan College (the "College") is a community college offering courses at its Petoskey, Michigan campus and other locations in northwest lower Michigan. The College is governed by a seven member Board of Trustees elected at large by Emmet County voters.

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has determined that North Central Michigan College Foundation (the "Foundation") meets the criteria of a component unit.

The Foundation is a legally separate, tax-exempt not-for-profit organization that was formed for the purpose of receiving funds for the sole benefit of the College. The Foundation is blended into the College's financial statements because the Foundation provides services exclusively to and for the benefit of the College, and the College's Board of Trustees controls membership of the Foundation's Board. Separately issued financial statements for the Foundation are available by contacting the Foundation at 1515 Howard Street Petoskey, Michigan 49770.

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

	2016	2015
Condensed statements of net position		
Total assets	\$ 7,148,655	\$ 7,285,765
Total liabilities	<u>-</u>	<u>-</u>
Total net position	<u>\$ 7,148,655</u>	<u>\$ 7,285,765</u>
	2016	2015
Condensed statements of revenues, expenses and changes in net position		
Operating expenses		
Institutional administration	\$ 496,930	\$ 438,639
Nonoperating revenues		
Donations	310,767	434,080
Special events	41,046	47,623
Contributions to permanent endowments	240,493	326,545
Investment income	79,701	67,455
Net realized and unrealized loss on investments	(113,358)	(68,281)
Distributions to College	<u>(198,829)</u>	<u>(192,115)</u>
(Decrease) increase in net position	(137,110)	176,668
Net position - beginning of year	<u>7,285,765</u>	<u>7,109,097</u>
Net position - end of year	<u>\$ 7,148,655</u>	<u>\$ 7,285,765</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

	2016	2015
Condensed statements of cash flow		
Net cash (used in) provided by		
Operating activities	\$ (296,306)	\$ 225,347
Noncapital financing activities	20,000	-
Investing activities	(27,053)	(1,419,179)
Beginning cash and cash equivalents	<u>418,842</u>	<u>1,612,674</u>
Ending cash and cash equivalents	<u>\$ 115,483</u>	<u>\$ 418,842</u>

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 and Foundation 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.

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.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, cash on hand, money market accounts, and all highly liquid investments with an initial maturity of three months or less.

Restricted Cash

Restricted cash for capital improvements consists of unspent capital property taxes, as well as internally designated cash for capital master plan projects.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Receivables

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

Investments

The College and Foundation carry their investments at fair value, which is determined generally by using quoted market prices. Realized and unrealized gains and losses are reflected in the statements of revenues, expenses and changes in net position.

Fair Value Measurements

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

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

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

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

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

For a further discussion of fair value measurement, refer to Note 3 to the financial statements.

Gifts and Pledges

Contributions, including unconditional promises to give, are recorded when received. Non-cash gifts are recorded at estimated fair value when received. Unconditional pledges due within one year are recorded at amount pledged and unconditional pledges due after one year are recorded at their net present value when it is determined that the collection of the gift is probable. There were no capital campaign pledges receivable at June 30, 2016. Capital campaign pledges receivable at June 30, 2015 were all current and were collected in full during fiscal 2016.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consists of food service supplies.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Capital Assets and Depreciation

Capital assets are recorded at cost or, if acquired by gift, at the fair value as of the date of acquisition. Depreciation and amortization is provided for capital assets on a straight-line basis over the estimated useful life of the assets. The College's capitalization policy is to capitalize individual amounts of \$5,000 or more. The following estimated useful lives are used to compute depreciation:

Buildings/building improvements	40 years
Library materials	10 years
Land improvements and infrastructure	15-20 years
Furniture, fixtures and equipment	3-20 years
Software	10 years

Accrued Compensated Absences

Accrued compensated absences represents the accumulated liability to be paid under the College's current sick and personal day policy. Under the College's policy, employees earn sick and personal time based on years of service with the College. Accrued compensated absences are included in the long-term obligations amount on the statement of net position.

Unearned Revenue

Revenue received prior to year-end, which is related to the next fiscal period, is recorded as unearned revenue. Grants received prior to qualifying expenditures are also included in unearned revenue.

Revenue Recognition

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

Operating revenues of the College consist of tuition and fees, certain grants and contracts, and sales and services of educational activities. Transactions related to capital and financing activities, noncapital financing activities, investing activities, state appropriations, property taxes, and Federal Pell grants are components of nonoperating and other revenues. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Operating Expenses

Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating.

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 8.

NORTH CENTRAL MICHIGAN 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 8.

Pension

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.

Unemployment Insurance

The College reimburses the State of Michigan Unemployment Agency (the "Agency") for the actual amount of unemployment benefits disbursed by the Agency on behalf of the College. Billings received for amounts paid by the Agency through June 30 are accrued.

Internal Services Activities

In the process of aggregating data for the Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position, some amounts reported as internal activity and balances have been eliminated on the Statements of Revenues, Expenses and Changes in Net Position.

Income Taxes

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

The Foundation has evaluated its income tax position for the years 2012 through 2016, the years which remain subject to examination by major tax jurisdictions as of June 30, 2016. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in these financial statements. The Foundation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2016 or 2015, and it is not aware of any claims for such amounts by federal or state income tax authorities.

Reclassification

Certain amounts in the prior year financial information have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncement

As of July 1, 2014, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires that the College recognize a net pension liability on the statement of net position, equal to the College's proportionate share of the net pension liability of the Michigan Public School Employees Retirement System (MPERS), as defined and calculated in accordance with the new standard. More detailed information can be found in Note 8. As a result of this change, the College recognized a net pension liability of \$11,704,507 and deferred outflows of resources of \$800,069, which resulted in a decrease in net position of \$10,904,438 as of July 1, 2014.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of net position presented herein, through October 24, 2016, the date these financial statements were available to be issued. No significant such events or transactions were identified by the Foundation.

2. PROPERTY TAXES

Property tax revenue is recognized in the year in which taxes are received. The College has determined that there would not be a significant difference if recognized in the year for which taxes have been levied.

During the years ended June 30, 2016 and 2015, 2.1091 mills of tax per \$1,000 of taxable property value in the College's taxing district were levied for general operating purposes on all property. Total operating property tax revenue was \$5,688,234 and \$5,562,093 for the years ended June 30, 2016 and 2015, respectively.

During 2016 and 2015, .2679 mills of tax per \$1,000 of taxable property value in the College's taxing district were levied for debt retirement purposes. Total property tax revenue was \$721,526 and \$707,482 for the years ended June 30, 2016 and 2015, respectively, for retirement of debt related to the 2010 bond issue.

3. CASH, INVESTMENTS AND FAIR VALUE MEASUREMENTS

Bank 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.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

The investment policy of the North Central Michigan College Foundation established by the Foundation's Board of Directors authorizes investments in a diversified portfolio of equities, fixed income securities and short-term fixed income instruments (i.e. securities with maturities under three years). The overall investment objective is to maximize growth while generating sufficient income and maintaining adequate cash reserves to meet stated distribution requirements as established from time to time by the Foundation Board. Mutually agreed upon allocation parameters among these types of investments are established at least annually with the Foundation's investment advisor. Short sales; put and call option strategies; margin purchases; commodities (futures); securities of the Investment Manager's corporation or parent corporation; direct investments in tangible assets such as real estate, oil and gas, precious metals, in excess of 5 percent of the total portfolio; and derivatives as a yield enhancement not as a hedge are prohibited unless specific written permission is received from the Foundation Board.

Interest Rate Risk

As of June 30, 2016, the College and Foundation had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-3 Years	More Than 3 Years
U.S. Agencies	\$ 2,636,548	\$ 908,578	\$ 1,525,238	\$ 202,732
U.S. Treasuries	1,739,953	-	710,335	1,029,618
Mutual bond funds	2,351,114	-	572,923	1,778,191
Corporate bonds	<u>323,801</u>	<u>25,210</u>	<u>245,761</u>	<u>52,830</u>
Total investments in debt securities	7,051,416	<u>\$ 933,788</u>	<u>\$ 3,054,257</u>	<u>\$ 3,063,371</u>
Non-debt related investments	<u>4,354,307</u>			
Total investments	<u>\$ 11,405,723</u>			

As of June 30, 2015, the College and Foundation had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-3 Years	More Than 3 Years
U.S. Agencies	\$ 2,748,815	\$ 410,122	\$ 1,837,358	\$ 501,335
U.S. Treasuries	1,509,023	100,070	600,773	808,180
Mutual bond funds	2,347,508	-	637,428	1,710,080
Corporate bonds	<u>329,142</u>	<u>25,952</u>	<u>188,831</u>	<u>114,359</u>
Total investments in debt securities	6,934,488	<u>\$ 536,144</u>	<u>\$ 3,264,390</u>	<u>\$ 3,133,954</u>
Non-debt related investments	<u>4,384,205</u>			
Total investments	<u>\$ 11,318,693</u>			

The College does not have specific investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Foundation investment policy states that the average weighted value of the portfolio should not exceed ten years.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2016 and 2015, the average weighted value of the portfolio in fixed income securities does not exceed ten years. The Foundation invests in mutual equity funds with a long-term objective to preserve principal and provide appreciation. Therefore, the interest rate risk is not considered in its decisions.

The maturities of certain mutual bond funds are based on the average weighted maturity method. Certain other mutual bond funds have no weighted average maturity statistics because they are heavily invested in preferred stocks. These mutual bond funds are therefore classified as having a maturity of more than three years.

Credit Risk

The College and Foundation are exposed to credit risk for investments in certain debt securities and mutual bond funds. Credit quality ratings are established by nationally recognized statistical rating organizations (NRSROs). Where more than one rating exists, and those ratings are conflicting, the rating with the greatest degree of risk is disclosed. Average credit quality ratings, as available, were obtained for mutual bond funds.

As of June 30, 2016, the credit quality ratings for these types of investments and credit risk exposure as a percent of these types of investments are as follows:

	Credit Quality Rating	Percent
U.S. agencies	Aaa	49
Mutual bond funds	Not Rated	45
Corporate bonds	A	4
Corporate bonds	AA	2

As of June 30, 2015, the credit quality ratings for these types of investments and credit risk exposure as a percent of these types of investments are as follows:

	Credit Quality Rating	Percent
U.S. agencies	Aaa	49
U.S. agencies	AA	2
Mutual bond funds	Not Rated	44
Corporate bonds	A	4
Corporate bonds	AA	1

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's and Foundation's deposits may not be returned to them. The College and Foundation do not have a deposit policy for custodial credit risk. At June 30, 2016, the bank balance was \$12,579,053 of which \$11,875,992 was uninsured and uncollateralized. At June 30, 2015, the bank balance was \$10,787,443 of which \$9,966,790 was uninsured and uncollateralized.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk of Investments

Custodial credit risk for an investment is the risk that the College or Foundation will not be able to recover the value of their investments that are in the possession of an outside party, should a failure of the other party occur. State law does not require, nor do the College and Foundation investment policies address custodial credit risk. However, all of the investments are in the name of the College or Foundation, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased.

Concentration Credit Risk

Neither the College nor Foundation places a limit on the amount that may be invested in any one issuer. Five percent or more of the College's and Foundation's investments at June 30, 2016 and 2015 were invested as follows:

	2016	2015
Freddie Mac	8%	10%
Fannie Mae	15%	15%
Northern Funds Stock Index Fund	-	11%
Northern Funds Bond Index Fund	-	5%
SPDR S&P ETF Trust	18%	7%
U.S. Treasury Notes	15%	14%
iShares U.S. Aggregate Bond ETF	6%	-

Fair Value Measurements

The following is a description of the valuation methodology used for assets recorded at fair value on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2016 or 2015.

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

Corporate bonds: Certain corporate bonds and debentures valued at the closing price reported in the active market in which the security is traded are classified as Level 1.

U.S. government obligations: Level 1 fair value measurement is based upon the closing price reported in the active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College and Foundation believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

The following tables set forth by level, with the fair value hierarchy, the College's and Foundation's investments measured at fair value on a recurring basis as of June 30:

2016	Level 1	Level 2	Level 3	Total
U.S. government obligations	\$ 4,376,501	\$ -	\$ -	\$ 4,376,501
Corporate bonds	323,801	-	-	323,801
Mutual bond funds	2,378,904	-	-	2,378,904
Mutual equity funds	<u>4,326,517</u>	<u>-</u>	<u>-</u>	<u>4,326,517</u>
Total investments at fair value	<u>\$11,405,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,405,723</u>

2015	Level 1	Level 2	Level 3	Total
U.S. government obligations	\$ 4,257,838	\$ -	\$ -	\$ 4,257,838
Corporate bonds	329,142	-	-	329,142
Mutual bond funds	2,347,508	-	-	2,347,508
Mutual equity funds	<u>4,384,205</u>	<u>-</u>	<u>-</u>	<u>4,384,205</u>
Total investments at fair value	<u>\$11,318,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,318,693</u>

4. RECEIVABLES, NET

Receivables consist of the following at June 30:

	2016	2015
Auxiliary activities	\$ 81,508	\$ 235,544
Corporate and Community Education	2,482	213,119
Students	262,849	333,198
Other	<u>9,919</u>	<u>10,103</u>
Total	356,758	791,964
Less: Allowance for doubtful accounts	<u>85,309</u>	<u>94,022</u>
Receivables, net	<u>\$ 271,449</u>	<u>\$ 697,942</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

The following presents the changes in the various capital assets categories for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 13,306	\$ -	\$ -	\$ -	\$ 13,306
Construction in progress	30,013	77,831	-	(30,013)	77,831
Sculptures	<u>522,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>522,609</u>
Subtotal nondepreciable assets	<u>565,928</u>	<u>77,831</u>	<u>-</u>	<u>(30,013)</u>	<u>613,746</u>
Capital assets being depreciated:					
Building and improvements	34,639,322	202,473	(6,047)	26,868	34,862,616
Infrastructure	2,957,105	-	-	-	2,957,105
Furniture, fixtures and equipment	4,316,564	260,986	(79,159)	-	4,498,391
Library materials	859,194	16,648	-	-	875,842
Software	<u>745,607</u>	<u>38,943</u>	<u>-</u>	<u>3,145</u>	<u>787,695</u>
Subtotal depreciable assets	<u>43,517,792</u>	<u>519,050</u>	<u>(85,206)</u>	<u>30,013</u>	<u>43,981,649</u>
Total depreciable and nondepreciable assets	<u>44,083,720</u>	<u>596,881</u>	<u>(85,206)</u>	<u>-</u>	<u>44,595,395</u>
Less accumulated depreciation:					
Building and improvements	11,729,537	815,624	-	-	12,545,161
Infrastructure	2,151,995	115,274	-	-	2,267,269
Furniture, fixtures and equipment	2,548,009	228,140	(68,821)	-	2,707,328
Library materials	476,177	74,804	-	-	550,981
Software	<u>455,972</u>	<u>16,720</u>	<u>(11,920)</u>	<u>-</u>	<u>460,772</u>
Total accumulated depreciation	<u>17,361,690</u>	<u>\$ 1,250,562</u>	<u>\$ (80,741)</u>	<u>\$ -</u>	<u>18,531,511</u>
Capital assets, net	<u>\$ 26,722,030</u>				<u>\$26,063,884</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

The following presents the changes in the various capital assets 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	\$ 13,306	\$ -	\$ -	\$ -	\$ 13,306
Construction in progress	21,663	63,639	-	(55,289)	30,013
Sculptures	<u>522,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>522,609</u>
Subtotal nondepreciable assets	<u>557,578</u>	<u>63,639</u>	<u>-</u>	<u>(55,289)</u>	<u>565,928</u>
Capital assets being depreciated:					
Building and improvements	34,378,526	205,507	-	55,289	34,639,322
Infrastructure	2,957,105	-	-	-	2,957,105
Furniture, fixtures and equipment	4,237,058	79,506	-	-	4,316,564
Library materials	1,430,924	82,176	(653,906)	-	859,194
Software	<u>745,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>745,607</u>
Subtotal depreciable assets	<u>43,749,220</u>	<u>367,189</u>	<u>(653,906)</u>	<u>55,289</u>	<u>43,517,792</u>
Total depreciable and nondepreciable assets	<u>44,306,798</u>	<u>430,828</u>	<u>-</u>	<u>-</u>	<u>44,083,720</u>
Less accumulated depreciation:					
Building and improvements	10,923,954	805,583	-	-	11,729,537
Infrastructure	2,036,180	115,815	-	-	2,151,995
Furniture, fixtures and equipment	2,329,480	218,529	-	-	2,548,009
Library materials	1,052,323	77,760	(653,906)	-	476,177
Software	<u>382,275</u>	<u>73,697</u>	<u>-</u>	<u>-</u>	<u>455,972</u>
Total accumulated depreciation	<u>16,724,212</u>	<u>\$ 1,291,384</u>	<u>\$ -</u>	<u>\$ -</u>	<u>17,361,690</u>
Capital assets, net	<u>\$ 27,582,586</u>				<u>\$26,722,030</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 totaled \$1,250,562 and \$1,291,384.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

During the year ended June 30, 2013 the College entered into an agreement with the State of Michigan as part of the Capital Outlay program offered by the Michigan State Building Authority (MSBA). The State appropriated approximately \$5,200,000 toward the construction of the College's Health Education and Science Center. The appropriations were funded by the issuance of bonds financed by the MSBA. The MSBA bond issue is secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement among the MSBA, the State of Michigan and the College. During the lease term, which is not to exceed 40 years, the MSBA will hold title to the building, the State of Michigan will make all lease payments to the MSBA and the College will pay all operating and maintenance costs. These lease payments are made out of the State of Michigan general operating budget. The cost and accumulated depreciation for the building is included in the College's capital assets as the College will obtain title to the building at the end of the lease. No corresponding obligations have been recorded since there are no payments due by the College under this lease agreement. At the expiration of the lease, which is when bonds are paid off, the MSBA has agreed to convey the title to the College for one dollar.

6. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Bonds payable Series 2010	\$ 5,680,000	\$ -	\$ (625,000)	\$ 5,055,000	\$ 645,000
Other long-term obligations Accrued employee benefits payable	<u>199,879</u>	<u>9,318</u>	<u>(24,728)</u>	<u>184,469</u>	<u>15,000</u>
Total long-term obligations	<u>\$ 5,879,879</u>	<u>\$ 9,318</u>	<u>\$ (649,728)</u>	<u>\$ 5,239,469</u>	<u>\$ 660,000</u>

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

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Bonds payable Series 2010	\$ 6,290,000	\$ -	\$ (610,000)	\$ 5,680,000	\$ 625,000
Other long-term obligations Accrued employee benefits payable	<u>225,068</u>	<u>10,950</u>	<u>(36,139)</u>	<u>199,879</u>	<u>10,000</u>
Total long-term obligations	<u>\$ 6,515,068</u>	<u>\$ 10,950</u>	<u>\$ (646,139)</u>	<u>\$ 5,879,879</u>	<u>\$ 635,000</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

College Building and Site and Refunding Bonds, Series 2010

The College issued \$8,530,000 in Limited Tax General Obligation Bonds with interest rates from 2.0 percent to 4.5 percent for constructing and equipping a new Health Education and Science Center and making any related site improvements, acquiring and constructing various capital improvements as identified in the College's current five year master plan and to refund \$2,510,000 of outstanding 1999 Series bonds with interest rates from 4.3 percent to 4.375 percent. The College has pledged the limited tax full faith and credit of the College for the payment of the principal of and interest on the Bonds. The College has further pledged to levy sufficient ad valorem taxes within its authorized millage annually, as a first budget obligation, for payment of the principal of and interest on the Bonds provided, however, that such levy is subject to constitutional and statutory tax rate limitations. Payments on the bonds are currently being funded by a facilities and energy fee charged to students. The bonds mature at varying amounts through 2030; with bonds maturing on or after May 1, 2021, callable at par.

Future debt service requirements on bonds payable for years ending after June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 645,000	\$ 205,550	\$ 850,550
2018	260,000	183,781	443,781
2019	275,000	174,681	449,681
2020	285,000	164,369	449,369
2021	295,000	152,969	447,969
2022-2026	1,670,000	576,344	2,246,344
2027-2030	<u>1,625,000</u>	<u>186,025</u>	<u>1,811,025</u>
	<u>\$ 5,055,000</u>	<u>\$ 1,643,719</u>	<u>\$ 6,698,719</u>

Interest expense was \$221,175 and \$239,550 for the years ended June 30, 2016 and 2015, respectively.

7. NET POSITION CLASSIFICATIONS

Net Investment in Capital Assets

This represents capital assets, net of accumulated depreciation, unspent bond proceeds and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position

Nonexpendable - This represents the portion of net position whose use by the College and Foundation is subject to externally imposed constraints that require the amounts be retained in perpetuity.

Expendable - This represents the portion of net position whose use by the College and Foundation is subject to externally imposed constraints that can be fulfilled by actions of the College and Foundation pursuant to those constraints or that expire by the passage of time.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Unrestricted Net Position

This represents the portion of net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees.

The College and Foundation have designated the use of unrestricted net position as follows at June 30, 2016 and 2015:

	2016	2015
Designated for specific purpose:		
Future capital outlay and major maintenance	\$ 2,452,637	\$ 1,737,540
Auxiliary activities	9,056	10,956
Equipment purchases, sabbaticals and other programs	<u>5,098,271</u>	<u>4,886,367</u>
Total designated	\$ 7,559,964	\$ 6,634,863
Pension liability fund deficit	(11,364,463)	(10,952,353)
Undesignated, College	1,747,096	1,675,144
Undesignated, Foundation	<u>2,706,545</u>	<u>2,812,337</u>
Total unrestricted net position	<u>\$ 649,142</u>	<u>\$ 169,991</u>

8. RETIREMENT BENEFITS AND DEFERRED COMPENSATION

Defined Benefit Plan

Plan Description

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

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

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

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period.

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

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

The College's contribution to MPSERS under all pension plans for the years ended June 30, 2016 and 2015 were \$1,152,041 and \$1,513,612, respectively. The College's contributions to MPSERS for all plans, including other postemployment benefits as described on page 38, for the year ended June 30, 2014 was \$1,292,053. These amounts are equal to the College's required contributions for each year.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2016 and 2015, the College reported a liability of \$12,487,412 and \$11,006,813, respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014 and 2013, respectively. The College's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the College's proportion was 0.05113%, which was an increase of 0.00116% from its proportion measured as of September 30, 2014 of 0.04997%.

For the year ended June 30, 2016, the College recognized pension expense of \$1,112,640. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 41,362	\$ (41,362)
Changes in assumptions	307,467	-	307,467
Net difference between projected and actual earnings on pension plan investments	63,738	-	63,738
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>215,169</u>	<u>2,106</u>	<u>213,063</u>
	586,374	43,468	542,906
College contributions subsequent to the measurement date	940,564	-	940,564
Pension portion of Sec 147c state aid award subsequent to the measurement date	<u>-</u>	<u>360,521</u>	<u>(360,521)</u>
Total	<u>\$ 1,526,938</u>	<u>\$ 403,989</u>	<u>\$ 1,122,949</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

The \$940,564 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The \$360,521 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Sec 147c of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriations revenue for the year ending June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 92,227
2018	92,227
2019	75,655
2020	<u>282,797</u>
Total	<u>\$ 542,906</u>

For the year ended June 30, 2015, the College's proportionate share of pension expense was \$890,928. 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	\$ 406,128	\$ -	\$ 406,128
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>1,219,329</u>	<u>(1,219,329)</u>
	406,128	1,219,329	(813,201)
College contributions subsequent to the measurement date	<u>867,661</u>	<u>-</u>	<u>867,661</u>
Total	<u>\$ 1,273,789</u>	<u>\$ 1,219,329</u>	<u>\$ 54,460</u>

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 and 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5% for 2014 (7% for 2013)
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015 and 2014, is based on the results of an actuarial valuation date of September 30, 2014 and 2013, respectively, and rolled forward using generally accepted actuarial procedures, including the experience study for the 2014 valuation.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 and 2014, are summarized in the following tables:

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

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

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Discount Rate

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

Sensitivity of College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
College's proportionate share of the net pension liability (2016)	\$ 16,099,475	\$ 12,487,412	\$ 9,442,295
College's proportionate share of net pension liability (2015)	\$ 14,511,525	\$ 11,006,813	\$ 8,054,042

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS 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, 2016, the College reported a payable of \$65,550 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016. The College did not have any payable amounts to the Plan at June 30, 2015.

NORTH CENTRAL MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded 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 2.71% to 6.83% and 2.20% to 9.11% of covered payroll for fiscal 2016 and 2015, respectively. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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 U.S. Supreme Court resolution.

The College's contributions to MPSERS for other postemployment benefits amounted to \$402,594 and \$549,463 for the years ended June 30, 2016 and 2015, respectively.

Defined Contribution Plan

Effective January 1, 2000, existing professional MPSERS members and new professional employees of the College may elect to participate in an Optional Retirement Program (ORP) in lieu of participating in the MPSERS plan. The ORP is a defined contribution plan affiliated with the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). As of June 30, 2016 and 2015, the plan had 39 and 29 participants, respectively. Under ORP, the College contributes 11.0 percent and the participant contributes 4.0 percent of the participant's compensation. Participants are immediately 100 percent vested in all ORP contributions. Total contributions by the College were \$320,101 and \$287,656 for the years ended June 30, 2016 and 2015, respectively. Total contributions by employees were \$116,402 and \$104,603 for the years ended June 30, 2016 and 2015, respectively.

9. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), and medical benefits provided to employees. The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk pool for claims relating to auto, property, and liability. The College is insured for workers' compensation benefits through School Employers Trust and School Employers Group (SET SEG). Settled claims of both MCCRMA and SET SEG have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NORTH CENTRAL MICHIGAN COLLEGE

■ NOTES TO FINANCIAL STATEMENTS

The MCCRMA risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to MCCRMA, which MCCRMA uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

The College also purchases commercial insurance for other risks of loss, including employee health and accident insurance.

■ 10. COMMITMENTS AND CONTINGENCIES

In May 2016, the Board of Trustees approved the following contracts which were signed prior to June 30, 2016:

- \$120,000 for installation of an access control system. Approximately \$105,500 was paid subsequent to year end through the date of the auditors' report.
- \$246,800 for the purchase and installation of a new campus-wide Emergency Notification System. Total contract paid in full in July 2016.
- \$191,000 for construction management services for the campus master plan. No payments made as of the date of the auditors' report.

The College receives significant financial assistance from 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, if any, would not have a material effect on the College's financial statements.



REQUIRED SUPPLEMENTARY INFORMATION
MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

NORTH CENTRAL MICHIGAN COLLEGE

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan

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

	2016	2015
College's proportionate share of the net pension liability	\$ 12,487,412	\$ 11,006,813
College's proportion of the net pension liability	0.05113%	0.04997%
College's covered-employee payroll	\$ 4,720,050	\$ 4,317,801
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.56%	254.92%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	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.

NORTH CENTRAL MICHIGAN COLLEGE

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of College Contributions

	2016	2015
Contractually required contribution	\$ 1,152,041	\$ 956,347
Contributions in relation to the contractually required contribution	<u>(1,152,041)</u>	<u>(956,347)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 4,054,090	\$ 4,840,737
Contributions as a percentage of covered employee payroll	28.42%	19.76%

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

NORTH CENTRAL MICHIGAN COLLEGE

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016 (Unaudited)
 (with comparative totals for 2015)

	General Fund	Pension Fund	Designated Fund	Auxiliary Activities Fund	Restricted Fund	Plant Fund	Agency Fund	College Total June 30, 2016	Foundation	Combined Total June 30, 2016	Combined Total June 30, 2015
Assets											
Current assets											
Cash and cash equivalents	\$ 3,181,680	\$ -	\$ 41,110	\$ 32,914	\$ -	\$ 1,627,822	\$ 44,786	\$ 4,928,312	\$ 115,483	\$ 5,043,795	\$ 3,981,920
Receivables, net	185,991	-	-	81,508	-	-	-	267,499	3,950	271,449	697,942
Federal and state grants receivable, net	680,714	-	-	-	122,097	-	-	802,811	-	802,811	772,458
Scholarships receivable - Foundation	-	-	-	-	-	-	-	-	-	-	192,115
Pledges receivable	-	-	-	-	-	-	-	-	-	-	700
Inventories	-	-	-	7,933	-	-	-	7,933	-	7,933	79,658
Prepaid expenses and other current assets	122,854	-	-	-	5,850	-	-	128,704	-	128,704	34,566
Due from (to) other funds	(1,568,942)	-	865,129	(73,383)	(7,033)	781,617	2,612	-	-	-	-
Total current assets	2,602,297	-	906,239	48,972	120,914	2,409,439	47,398	6,135,259	119,433	6,254,692	5,759,359
Noncurrent assets											
Restricted cash	-	-	-	-	304,902	7,183,508	-	7,488,410	-	7,488,410	6,974,055
Investments	-	-	4,376,501	-	-	-	-	4,376,501	7,029,222	11,405,723	11,318,693
Capital assets not being depreciated	-	-	-	-	-	613,746	-	613,746	-	613,746	565,928
Capital assets being depreciated, net	-	-	-	-	-	25,450,138	-	25,450,138	-	25,450,138	26,156,102
Total noncurrent assets	-	-	4,376,501	-	304,902	33,247,392	-	37,928,795	7,029,222	44,958,017	45,014,778
Total assets	2,602,297	-	5,282,740	48,972	425,816	35,656,831	47,398	44,064,054	7,148,655	51,212,709	50,774,137
Deferred outflows of resources											
Deferred pension amounts	-	1,526,938	-	-	-	-	-	1,526,938	-	1,526,938	1,273,789
Liabilities											
Current liabilities											
Accounts payable	184,184	-	-	4,496	51,733	-	-	240,413	-	240,413	355,676
Accrued payroll and other compensation	466,590	-	-	3,815	1,903	-	-	472,308	-	472,308	335,142
Unearned revenue	204,427	-	-	31,605	17,234	-	-	253,266	-	253,266	291,060
Due to depositors	-	-	-	-	-	-	47,398	47,398	-	47,398	30,057
Interest payable	-	-	-	-	-	34,259	-	34,259	-	34,259	37,383
Current portion of long-term obligations	-	-	15,000	-	-	645,000	-	660,000	-	660,000	635,000
Total current liabilities	855,201	-	15,000	39,916	70,870	679,259	47,398	1,707,644	-	1,707,644	1,684,318
Noncurrent liabilities											
Net pension liability	-	12,487,412	-	-	-	-	-	12,487,412	-	12,487,412	11,006,813
Long-term obligations, net of current portion	-	-	169,469	-	-	4,410,000	-	4,579,469	-	4,579,469	5,244,879
Total noncurrent liabilities	-	12,487,412	169,469	-	-	4,410,000	-	17,066,881	-	17,066,881	16,251,692
Total liabilities	855,201	12,487,412	184,469	39,916	70,870	5,089,259	47,398	18,774,525	-	18,774,525	17,936,010
Deferred inflows of resources											
Deferred pension amounts	-	403,989	-	-	-	-	-	403,989	-	403,989	1,219,329
Net position (deficit)											
Net investment in capital assets	-	-	-	-	-	25,989,928	-	25,989,928	-	25,989,928	26,091,044
Restricted for:											
Nonexpendable endowments	-	-	-	-	-	-	-	-	4,138,274	4,138,274	4,076,610
Expendable scholarships and grants	-	-	-	-	354,946	-	-	354,946	303,836	658,782	737,462
Expendable construction and debt service	-	-	-	-	-	2,125,007	-	2,125,007	-	2,125,007	1,817,480
Unrestricted (deficit)	1,747,096	(11,364,463)	5,098,271	9,056	-	2,452,637	-	(2,057,403)	2,706,545	649,142	169,991
Total net position (deficit)	\$ 1,747,096	\$ (11,364,463)	\$ 5,098,271	\$ 9,056	\$ 354,946	\$ 30,567,572	\$ -	\$ 26,412,478	\$ 7,148,655	\$ 33,561,133	\$ 32,892,587

NORTH CENTRAL MICHIGAN COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2016 (Unaudited)
 (with comparative totals for 2015)

	General Fund	Pension Fund	Designated Fund	Auxiliary Activities Fund	Restricted Fund	Plant Fund	College Total June 30, 2016	Foundation	Eliminations	Combined Total June 30, 2016	Combined Total June 30, 2015
Operating revenues											
Tuition and fees, net of scholarship allowance of \$3,027,394	\$ 6,647,754	\$ -	\$ 569,283	\$ -	\$ -	\$ -	\$ 7,217,037	\$ -	\$ (3,027,394)	\$ 4,189,643	\$ 4,043,101
Federal grants and contracts	-	-	-	-	234,976	-	234,976	-	-	234,976	355,872
State and local grants and contracts	-	-	-	-	70,586	-	70,586	-	-	70,586	86,753
Nongovernmental grants	-	-	-	-	629,066	-	629,066	-	(114,970)	514,096	364,456
Auxiliary activities	-	-	-	1,715,138	-	-	1,715,138	-	(66,369)	1,648,769	1,681,245
Other sources	130,364	-	395,059	-	129,798	155,566	810,787	-	(30,834)	779,953	638,993
Total operating revenues	6,778,118	-	964,342	1,715,138	1,064,426	155,566	10,677,590	-	(3,239,567)	7,438,023	7,170,420
Operating expenses											
Instruction	6,546,942	25,904	53,527	-	67,161	-	6,693,534	-	(23,259)	6,670,275	7,218,417
Public service	180,091	789	6,279	275,539	62,989	-	525,687	-	-	525,687	442,759
Instructional support	1,741,285	7,274	190,486	-	385,456	-	2,324,501	-	(9,168)	2,315,333	2,165,154
Student services	2,540,947	6,763	223,108	1,511,499	3,674,739	-	7,957,056	-	(3,038,889)	4,918,167	5,543,468
Institutional administration	1,939,736	6,732	182,561	-	21,140	-	2,150,169	496,930	(259,386)	2,387,713	2,283,979
Operations and maintenance of plant	1,641,121	4,127	49,362	-	654	130,351	1,825,615	-	-	1,825,615	1,868,989
Depreciation	-	-	-	-	-	1,250,562	1,250,562	-	-	1,250,562	1,291,384
Total operating expenses	14,590,122	51,589	705,323	1,787,038	4,212,139	1,380,913	22,727,124	496,930	(3,330,702)	19,893,352	20,814,150
Operating (loss) income	(7,812,004)	(51,589)	259,019	(71,900)	(3,147,713)	(1,225,347)	(12,049,534)	(496,930)	91,135	(12,455,329)	(13,643,730)
Nonoperating revenues (expenses)											
State appropriations	3,756,809	(360,521)	-	-	-	-	3,396,288	-	-	3,396,288	3,573,476
Property tax levy	5,688,234	-	-	-	-	721,526	6,409,760	-	-	6,409,760	6,269,575
Pell grants	-	-	-	-	2,964,287	-	2,964,287	-	-	2,964,287	3,438,439
Investment income, net	486	-	59,382	-	-	20,255	80,123	79,701	-	159,824	148,812
Net realized and unrealized (loss) gain on investments	-	-	21,816	-	-	-	21,816	(113,358)	-	(91,542)	(90,710)
Net gain (loss) on disposal of capital assets	-	-	-	-	-	3,662	3,662	-	-	3,662	(17,163)
Interest on capital asset-related debt	-	-	-	-	-	(221,175)	(221,175)	-	-	(221,175)	(239,550)
Donations	-	-	1,600	-	-	-	1,600	310,767	(91,135)	221,232	311,437
Special events	-	-	-	-	-	-	-	41,046	-	41,046	47,623
Net nonoperating revenues (expenses)	9,445,529	(360,521)	82,798	-	2,964,287	524,268	12,656,361	318,156	(91,135)	12,883,382	13,441,939
Other revenues											
Contributions to permanent endowments	-	-	-	-	-	-	-	240,493	-	240,493	326,545
Increase (decrease) in net position before transfers	1,633,525	(412,110)	341,817	(71,900)	(183,426)	(701,079)	606,827	61,719	-	668,546	124,754
Transfers in (out)	(1,561,573)	-	(129,913)	70,000	197,728	1,622,587	198,829	(198,829)	-	-	-
Increase (decrease) in net position	71,952	(412,110)	211,904	(1,900)	14,302	921,508	805,656	(137,110)	-	668,546	124,754
Net position, beginning of year	1,675,144	(10,952,353)	4,886,367	10,956	340,644	29,646,064	25,606,822	7,285,765	-	32,892,587	43,672,271
Implementation of GASB 68	-	-	-	-	-	-	-	-	-	-	(10,904,438)
Adjusted net position (deficit), beginning of year	1,675,144	(10,952,353)	4,886,367	10,956	340,644	29,646,064	25,606,822	7,285,765	-	32,892,587	32,767,833
Net position (deficit), end of year	\$ 1,747,096	\$ (11,364,463)	\$ 5,098,271	\$ 9,056	\$ 354,946	\$ 30,567,572	\$ 26,412,478	\$ 7,148,655	\$ -	\$ 33,561,133	\$ 32,892,587