Muskegon Community College

REPORT ON FINANCIAL STATEMENTS

June 30, 2017

Muskegon Community College

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

November 10, 2017

Board of Trustees
Muskegon Community College
Muskegon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Muskegon Community College (the College) and its discretely presented component unit as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Muskegon Community 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Muskegon Community College and its discretely presented component unit as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information on pages 4 through 14 and 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muskegon Community College's basic financial statements. The consolidating fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The consolidating fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Muskegon Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Muskegon Community College's 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 Muskegon Community College's internal control over financial reporting and compliance.

Brickley DeLong, P.C.

Muskegon, Michigan

Management's Discussion and Analysis

The discussion and analysis of Muskegon Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2017. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

The financial statements have been prepared in accordance with generally accepted accounting principles outlined in the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001* issued by the State of Michigan.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above-referred format and notes to the financial statements along with supplemental information.

The financial statements include not only Muskegon Community College itself (known as the primary government), but also a discretely presented component unit. Component units are separate legal entities for which the College has some level of accountability. The College has one component unit, the Foundation for Muskegon Community College (Foundation). The Foundation's sole purpose is to support the mission of the College through fund development. As part of this purpose, it is responsible for managing the fundraising efforts of the College. Separate financial statements are also issued for the Foundation and can be obtained from the College's Finance Department.

Financial Highlights

In the fiscal year ended June 30, 2017, the College's revenues and other support exceeded expenses by $3,809,402, creating an increase in net position.

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

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the College as a whole. These two statements report the College's net position and changes within net position. 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.

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These statements include all assets 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 and are separated into categories of operating and non-operating.

Following is a comparative analysis of the major components of the net position of the College as of June 30, 2017 and 2016:

Net Position
As of June 30

(in thousands)

	2017	2016	Change	Percent Change
Assets				
Current assets	$ 17,969	$ 15,465	$ 2,504	16.19%
Non-current assets				
Restricted assets	8,188	16,172	(7,984)	-49.37%
Capital assets, net	48,941	37,667	11,274	29.93%
Total assets	75,098	69,304	5,794	8.36%
Deferred Outflows of Resources				
Related to pensions	5,719	5,006	713	14.24%
Total assets and deferred outflows of resources	80,817	74,310	6,507	8.76%
Liabilities				
Current liabilities	7,825	5,406	2,419	44.75%
Non-current liabilities				
Bonds	26,732	27,830	(1,098)	-3.95%
Net pension liabilities	35,727	34,318	1,409	4.11%
Compensated absences	2,250	2,359	(109)	-4.62%
Total liabilities	72,534	69,913	2,621	3.75%
Deferred Inflows of Resources				
Related to pensions	998	923	75	8.13%
Total liabilities and deferred inflows of resources	73,532	70,836	2,696	3.81%
Net Position				
Net investment in capital assets	30,694	26,594	4,100	15.42%
Restricted	356	336	20	5.95%
Unrestricted	(23,765)	(23,455)	(310)	-1.32%
Total net position	$ 7,285	$ 3,475	$ 3,810	109.64%

Current assets increased by $2,504,000 primarily due to an increase in cash and investments. Cash and investments increased primarily due to $1,397,000 of Michigan Economic Development Corporation (MEDC) grant reimbursement, for funds spent in the previous fiscal year, and $1,709,000 of Economic Development Administration (EDA) grant reimbursement. The increase was partially offset by current year capital spending.

Restricted assets decreased by $7,984,000 due to the expenditure of bond proceeds, from the bonds issued by the College in 2013 and 2014, on multiple building projects – Sturrus Technology Center, Health and Wellness Center and Arts and Humanities.

Capital assets increased by $11,274,000, net of accumulated depreciation. Total additions of $13,160,707 included construction costs for the Sturrus Technology Center, and pre-construction costs for the Health and Wellness Center and the Arts and Humanities project. Some other building improvements, various equipment purchases and technology upgrades were completed according to the capital budget. These additions were offset by the current year impact of depreciation.

Current liabilities increased by $2,419,000 primarily due to a $2,204,000 increase in accounts payable. The increase is primarily related to construction costs for the projects mentioned above.

The long-term portion of the bonds decreased by $1,098,000 due to the scheduled bond debt payments for the next fiscal year.

In 2015, the College adopted a new Governmental Accounting Standards Board (GASB) Statement No. 68, which requires governments providing defined benefit pensions through a cost-sharing plan to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability increased by $1,409,000 from 2016 to 2017.

Summary Operating Results for the Year

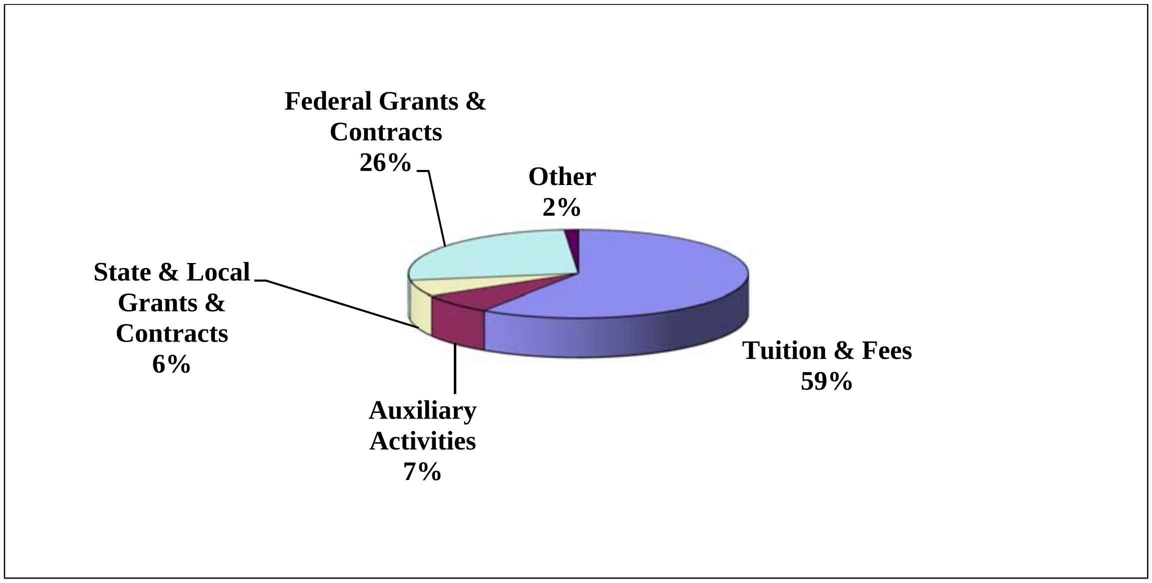
(in thousands)

	2017	2016	Change	Percent Change
Operating revenues				
Tuition and fees	$ 13,572	$ 12,579	$ 993	7.89%
Grants and contracts	7,360	7,789	(429)	-5.51%
Auxiliary services	1,640	1,267	373	29.44%
Other	304	300	4	1.33%
Total operating revenues	22,876	21,935	941	4.29%
Total operating expenses	45,047	41,690	3,357	8.05%
Operating loss	(22,171)	(19,755)	(2,416)	-12.23%
Non-operating revenues (expenses)				
State appropriations	11,132	9,702	1,430	14.74%
Property taxes	10,500	10,761	(261)	-2.43%
Gifts	670	-	670	N/A
Investment income	64	32	32	100.00%
Interest on capital asset - related debt	(787)	(1,021)	234	22.92%
Bond issuance costs	(92)	-	(92)	N/A
Gain (loss) on sale of capital asset	1	-	1	100.00%
Total non-operating revenues	21,488	19,474	2,014	10.34%
Income before other revenues	(683)	(281)	(402)	-143.06%
Other Revenues	4,493	4,647	(154)	-3.31%
Change in net position	3,810	4,366	(556)	-12.73%
Net position - beginning	3,475	(891)	4,366	490.01%
Net position - end	$ 7,285	$ 3,475	$ 3,810	109.64%

Operating Revenues

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

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



Most of the College's operating revenue comes from federal and state grants and tuition and fees. Tuition and fees increased in total by $993,000. The College increased tuition rates per contact hour by 3%. Also, the College infrastructure fee increased to $8 per contact hour, and the technology fee increased to $22 per contact hour. The total contact hours for fiscal year 2016-2017 decreased by approximately 3,000 or 3% from the prior year. The amount of scholarship allowances decreased by $389,000, which increases the amount of tuition and fees reported.

Federal and state grants decreased by $560,000. This decrease is due to approximately 10% fewer FAFSA's (Free Application for Federal Student Aid) received by the College, which is primarily due to an increase in dual enrolled and early college students. These students are not eligible to complete a FAFSA or qualify for these programs, as the school districts are paying for their tuition.

Auxiliary activities increased by $373,000 primarily due to $438,000 in additional revenue at the Lakeshore Fitness Center due to a full year of ownership, compared to a partial year in fiscal year 2015-16. The remaining difference is due to a reduction in internal rent allocation, and fluctuations in other course offerings, like experiential learning.

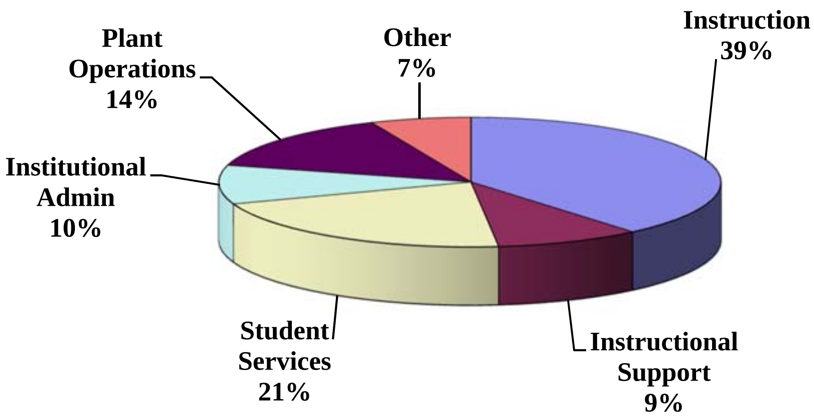
Operating Expenses

Operating expenses include all the costs necessary to perform and conduct the programs and primary purposes of the College. Operating expenses for the fiscal year ended June 30, 2017 and 2016 consist of the following:

(in thousands)

	2017	2016	Change	Percent Change
Instruction	$ 17,545	$ 16,502	$ 1,043	6.32%
Public services	1,028	693	335	48.34%
Instructional support	4,189	3,876	313	8.08%
Student services	9,563	9,250	313	3.38%
Institutional administration	4,361	4,030	331	8.21%
Operation and maintenance of plant	6,476	5,778	698	12.08%
Depreciation and amortization	1,885	1,561	324	20.76%
Total	$ 45,047	$ 41,690	$ 3,357	8.05%

The following is a graphic illustration of operating expenses by source:



Operating expenses increased by $3,357,000 primarily due to the adjustment in pension expense for GASB 68, which was $1,309,423 higher than last year. Wages and fringes increased by approximately $880,000, Lakeshore Business and Industrial Service Center instruction increased by approximately $363,000 for increased technical training, depreciation increased by $323,828 and Lakeshore Fitness Center operating expenses increased by $215,346.

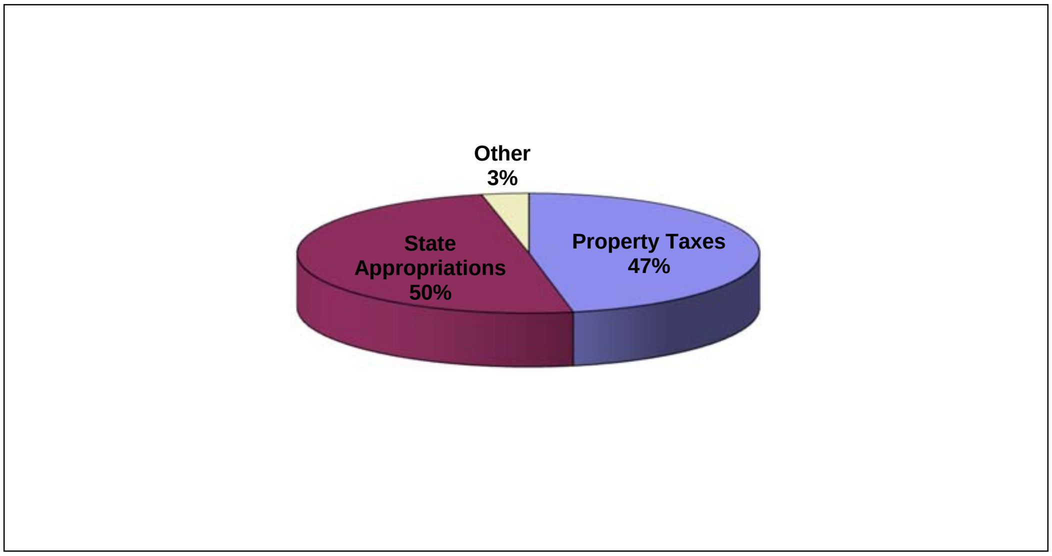
Non-operating Revenues (Expenses)

Non-operating revenues (expenses) include all revenue sources or expenses that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), grants and contracts (that do not require any services to be performed), interest expense on bond issues and gains or losses on sale of capital assets.

Non-operating revenue (expense) changes were the result of the following factors:

- Increase in state appropriations of $1,430,000 is primarily due to a $722,886 reduction in the GASB 68 adjustment to MPSERS stabilization rate payments, and a $510,436 reimbursement for personal property taxes. There was a 1.4% increase in state aid of $129,900, and a 5.5% increase in MPSERS stabilization rate payments of $78,673.
- Property tax revenues decreased by $261,000 or 2.4% primarily due to the phase-out of taxation on eligible industrial personal property.
- Non-operating gifts consisted of grants from the Arconic Foundation and donations for the Sturrus Technology Center, Health and Wellness Center and Arts and Humanities Project.
- Investment income increased due to the interest earned on the 2013 and 2014 capital projects bond funds.
- Interest on capital asset - related debt decreased by $233,991 primarily due to the refunding of the 2003 and 2005 bonds.

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



Note: Graph does not show non-operating expenses.

Other Revenue

Other revenues consist of items that are typically nonrecurring, extraordinary or unusual to the College. Examples would be state and federal capital grants, state capital appropriations, additions to permanent endowments and transfers from related entities. The College had $2,340,465 in federal capital grant revenue related to the EDA grant, and $2,152,128 in state capital grant revenue related to the MEDC grant.

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 obligations as they come due
- Its needs for external financing

Overall, the College's year-end cash position increased by $1,233,345.

Cash Flows for the Year Ended June 30

(in thousands)

	2017	2016	Change	Percent Change
Cash provided by (used for)				
Operating activities	$ (18,028)	$ (18,681)	$ 653	3.50%
Noncapital financing activities	22,293	20,421	1,872	9.17%
Capital and related financing activities	(10,164)	(9,538)	(626)	-6.56%
Investing activities	7,132	6,412	720	11.23%
Net change in cash and cash equivalents	1,233	(1,386)	2,619	188.96%
Cash and cash equivalents - beginning of year	2,765	4,151	(1,386)	-33.39%
Cash and cash equivalents - end of year	$ 3,998	$ 2,765	$ 1,233	44.59%

Capital Assets

At June 30, 2017, the College had approximately $70,009,000 invested in capital assets, with accumulated depreciation of approximately $21,069,000. Depreciation charges totaled approximately $1,885,000 for the current fiscal year. Details of these assets, net of depreciation at June 30, are shown in the following table.

Fixed Assets for the Year Ended June 30

(in thousands)

	2017	2016	Change
Land	$ 821	$ 776	$ 45
Construction in progress	12,720	1,460	11,260
Land improvements	364	404	(40)
Buildings and improvements	29,654	30,152	(498)
Equipment	5,382	4,875	507
Total	$ 48,941	$ 37,667	$ 11,274

Land increased due to the purchase of a piece of property on Harvey Street. Construction in progress increased due to current construction in progress costs for the Sturrus Technology Center, and pre-construction charges for the Health and Wellness Center and Arts and Humanities project. Land and building improvements decreased primarily due to the current year depreciation charges. The increase in equipment is primarily due to the capitalization of large computer hardware purchases, applied technology equipment and maintenance equipment, net of depreciation. See Note D, in the notes to the financial statements, for more detail.

In the next fiscal year, the College has budgeted for equipment and building improvements of approximately $1,132,000; primarily for technology, instructional equipment, and facility improvements. In addition, the College will have significant costs associated with the Health and Wellness Center and Arts and Humanities project. Only those items with a cost of more than $5,000 will be capitalized.

Debt

The College's long-term debt consists of $28,056,941 in General Obligation – Limited Tax Bonds, issued in 2013, 2014 and 2016. This compares to $29,055,159 as of June 30, 2016. The College's bond debt rating is AA- (Standard & Poor's) and Aa3 (Moody's).

The 2016 bond was a refunding of the 2003 bonds which related to the College's liability on the library addition, and the 2005 bonds which were issued for the purpose of completing the new library addition and renovating/remodeling vacated space.

The 2013 and 2014 bonds were issued for the purpose of construction and renovation of facilities for the science, arts and health education programs, in addition to the development of a downtown Muskegon facility. The funding source to pay the debt service payments on these bonds is the property tax revenues from the voter approved debt millage.

At the September 2017 board meeting, the Trustees approved the issuance of new bonds, not to exceed $10,000,000, for the purpose of providing the necessary funding to complete the remaining building projects.

More detailed information about the College's long-term liabilities is presented in Note F of the notes to financial statements.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. The College will receive a .6% increase in appropriations for general operations from the state in fiscal year 2017-18. Property tax revenue is projected to increase as the county taxable value continues to increase due to increased home sales and new construction.

The national and state economy has improved, and the state unemployment rate of approximately 4% is just below that of the national rate. As the economy improves, it is anticipated that enrollment levels will decline because historically community college enrollment in Michigan has run counter-cyclical to the State's economy. The fact that the College experienced a decline in enrollment for the sixth year in a row is not unexpected and it is being monitored. The Fall 2017 semester saw this trend continue with a slight decline in enrollment of approximately 2% compared to the prior year, but this is better than what most other community colleges in the state are experiencing.

In the November 2013 election, the College received voter approval for a $24 million bonding proposal to be used for the construction and renovation of facilities for the science, arts and health education programs as well as upgrades to existing facilities infrastructure. These projects included a $9.6 million science center addition and renovation, and the College received a $4.6 million capital outlay appropriation from the State of Michigan which required a 50% local match. The College had a ribbon cutting ceremony on August 21, 2015 for the new science center addition, and classes began in the addition for the fall 2015 semester. This project has been completed, and the College has received the $4.6 million appropriation from the State.

The Board of Trustees decided to relocate the applied technology, entrepreneurism and experiential learning programs to a downtown Muskegon facility. The College purchased the former Muskegon Chronicle building in December 2014 for approximately $700,000, and the Masonic Temple was donated to the College in May 2015. The budget for the construction and renovation of the downtown center project is $14.27 million, and $7.2 million will come from the millage fund. The downtown center was renamed the Carolyn I. and Peter Sturrus Technology Center, thanks to a generous donation of $1.5 million. The College was awarded a $2.5 million grant from the EDA, and will fund the remaining balance with bonds to be issued in November 2017. In addition, the College received a $4.1 million appropriation from the Michigan State Budget Office for the Community Colleges Skilled Trades Equipment Program, for equipment only, which requires a $2.6 million match. The Sturrus Technology Center was mostly complete the beginning of the fall 2017 semester, and classes were held at this location. The remaining renovations were completed in the fall, and a grand opening ceremony will be held on January 11, 2018.

A $6.1 million addition and renovation to the health education facility is one of the other projects included in the voter approved bond proposal. The scope of the project has increased, resulting in a new cost of $14.1 million. The remaining funds will come from bonds to be issued in November 2017, and the College received a $5.6 million capital outlay appropriation from the State of Michigan, which requires a 50% local match. Construction began in fall 2017 and is expected to be complete by the end of 2018. In addition, on October 1, 2015, the College purchased the Muskegon YMCA which is now operating under the name of Muskegon Community College Lakeshore Fitness Center, and this location will also serve as part of the overall Health and Wellness Center of the College.

A $9 million renovation project of the former applied technology building on the main campus is to be the future site of the arts and humanities programs. An oversight committee has been created to develop renovation recommendations, and they continue to work with the architect on design principles, budget, etc. Estimated completion of the project is summer of 2019.

It is the belief that expanding and enhancing our current facilities will help grow our enrollment by attracting more students to the College and simultaneously provide some much needed upgrades to existing facilities. Overall, the College's current financial condition, and future growth plans, indicates that the College is positioned to not only maintain but to grow its present level of services.

Requests for Information

This financial report is designed to provide a general overview of Muskegon Community College's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Community College Finance Department, 221 S. Quarterline Rd., Muskegon, Michigan 49442, (231) 777-0560.

Muskegon Community College
STATEMENT OF NET POSITION
June 30, 2017

ASSETS	
Current assets	
Cash and cash equivalents	$ 3,605,841
Investments	8,212,913
Property taxes receivable	80,875
State appropriation receivable	1,955,785
Accounts receivable	3,566,458
Prepaid expenses and other assets	546,640
Total current assets	17,968,512
Noncurrent assets	
Restricted cash and cash equivalents	392,283
Restricted investments	7,796,429
Property and equipment, net	48,940,715
Total noncurrent assets	57,129,427
Total assets	75,097,939
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	5,719,409
Total assets and deferred outflows of resources	80,817,348
LIABILITIES	
Current liabilities	
Accounts payable	3,002,261
Due to Muskegon Community College Foundation	11,050
Accrued interest payable	162,253
Accrued payroll and other compensation	2,229,281
Deposits	122,440
Unearned revenues	222,500
Bonds, due within one year	1,325,000
Compensated absences, due within one year	749,889
Total current liabilities	7,824,674
Noncurrent liabilities	
Bonds, less amounts due within one year	26,731,941
Net pension liabilities	35,727,595
Compensated absences, less amounts due within one year	2,249,667
Total noncurrent liabilities	64,709,203
Total liabilities	72,533,877
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	998,737
Total liabilities and deferred inflows of resources	73,532,614
NET POSITION	
Net investment in capital assets	30,693,719
Restricted	
Expendable	
Scholarships	81,729
Instructional department uses	224,326
Sturrus Technology Center	48,047
Science Center	1,361
Debt service	1,066
Unrestricted	(23,765,514)
Total net position	**$ 7,284,734**

The accompanying notes are an integral part of this statement.

Muskegon Community College

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30, 2017

REVENUES	
Operating revenues	
Tuition and fees (net of scholarship allowances of $3,013,719)	$ 13,571,655
Federal grants and contracts	5,985,335
State and local grants and contracts	1,280,764
Nongovernmental grants	93,740
Auxiliary activities	1,640,314
Miscellaneous	304,009
Total operating revenue	22,875,817
EXPENSES	
Operating expenses	
Instruction	17,545,470
Public services	1,027,697
Instructional support	4,189,224
Student services	9,562,836
Institutional administration	4,361,109
Operation and maintenance of plant	6,476,314
Depreciation and amortization	1,884,887
Total operating expenses	45,047,537
Operating loss	(22,171,720)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	11,132,146
Property tax levy	10,500,387
Gifts	670,177
Investment income	64,182
Interest on capital asset - related debt	(786,660)
Bond issuance costs	(92,453)
Gain on disposal of capital asset	750
Total nonoperating revenues (expenses)	21,488,529
Income (loss) before other revenues	(683,191)
OTHER REVENUES	
Federal capital grants	2,340,465
State capital grants	2,152,128
Total other revenues	4,492,593
Change in net position	3,809,402
Net position at July 1, 2016	3,475,332
Net position at June 30, 2017	**$ 7,284,734**

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 14,582,035
Grants and contracts	7,359,839
Payments to suppliers	(14,863,278)
Payments for employees	(27,051,285)
Auxiliary enterprise charges	1,640,314
Other	304,009
Net cash used for operating activities	(18,028,366)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Local property taxes	10,517,274
Gifts	670,177
State appropriations	11,106,067
Net cash provided by noncapital financing activities	22,293,518
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of bonds	5,251,627
Purchase of capital assets	(11,430,686)
Principal paid on capital debt	(6,245,000)
Interest paid on capital debt	(812,239)
Bond issuance costs	(92,453)
Capital grants	3,164,053
Proceeds from sale of capital assets	750
Net cash used for capital and related financing activities	(10,163,948)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	7,067,959
Interest on investments	64,182
Net cash provided by investing activities	7,132,141
Net change in cash and cash equivalents	1,233,345
Cash and cash equivalents at July 1, 2016	2,764,779
Cash and cash equivalents at June 30, 2017	**$ 3,998,124**
Reconciliation of cash and cash equivalents to Statement of Net Position	
Cash and cash equivalents	$ 3,605,841
Restricted cash and cash equivalents	392,283
	$ 3,998,124
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	$ (22,171,720)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,884,887
(Increases) decreases in assets	
Accounts receivable	6,013,454
Prepaid expenses and other assets	(45,160)
Increases (decreases) in liabilities	
Accounts payable	485,572
Accrued payroll and other compensation	807,675
Deposits	(34,199)
Unearned revenues	(4,968,875)
Net cash used for operating activities	**$ (18,028,366)**

The accompanying notes are an integral part of this statement.

Muskegon Community College

COMPONENT UNIT STATEMENT OF FINANCIAL POSITION

FOR MUSKEGON COMMUNITY COLLEGE FOUNDATION

June 30, 2017

ASSETS		
Cash	$	251,312
Pledges receivable		21,358
Beneficial interest in assets held by others		122,685
Due from Muskegon Community College		11,050
Total assets		406,405
NET ASSETS		
Unrestricted		166,653
Temporarily restricted		239,752
Total net assets	**$**	**406,405**

The accompanying notes are an integral part of this statement.

Muskegon Community College
COMPONENT UNIT STATEMENT OF ACTIVITIES
FOR MUSKEGON COMMUNITY COLLEGE FOUNDATION
Year ended June 30, 2017

Revenues and support	
Contributions	
Cash	$ 861,272
In-kind	202,683
Gain from beneficial interest in assets held by others	8,588
Interest income	292
Total revenues and support	1,072,835
Expenses	
Distributions for the benefit of Muskegon Community College	768,361
Management and general	168,364
Fundraising	33,992
Total expenses	970,717
Change in net assets	102,118
Net assets at July 1, 2016	304,287
Net assets at June 30, 2017	**$ 406,405**

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Community College (College) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units and outlined in *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the College's accounting policies are described below.

Reporting Entity
Muskegon Community College, established in 1926, is located in Muskegon, Michigan. The College provides educational services to residents of Muskegon County. A seven-member Board, which is elected by residents of Muskegon County, governs the College. The accompanying financial statements present the College and its component units, entities for which the College is considered to be financially accountable.

Discretely Presented Component Unit
Muskegon Community College Foundation (Foundation). The Foundation for Muskegon Community College (Foundation) was established in 1981. The Foundation's sole purpose is to support the mission of Muskegon Community College (College) through fund development. As part of this purpose, it is responsible for managing the fundraising efforts of the College. Foundation Board members are appointed by the College Board. The Foundation is reported in separate statements in the financial statements to emphasize that it is legally separate from the College.

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

Measurement Focus and Basis of Accounting
The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Gifts are recorded when received and pledges are recorded when it is determined that the gift is probable of collection at its net present value.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash and Cash Equivalents
Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments
Investments are recorded at fair value, based on quoted market prices.

Prepaid Items
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Property and Equipment
Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Capitalized property and equipment are assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position—Continued

Property and Equipment—Continued

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year ended June 30, 2017, the College capitalized $264,922 of interest.

Land and construction in progress are not depreciated. The other property and equipment of the College are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Years
Land improvements	20
Buildings and improvements	15-50
Equipment	5-20

Unearned Revenues

Revenues received prior to year-end that are related to the next fiscal period are recorded as unearned revenues. These consist primarily of grants and entitlements received before the eligibility requirements are met.

Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Deferred Outflows/Inflows 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the College’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenses

Property Taxes
The College's property tax is levied and liened on December 1 on the taxable valuation of property (as defined by statutes) located in the College's jurisdiction as of the preceding December 31. Local governmental units within the College's jurisdiction collect and remit taxes until March 1, at which time the uncollected real property taxes are turned over to the County of Muskegon for collection. The County advances the College all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the local governmental units within the College's jurisdiction and are recorded as revenue when received.

The 2016 state taxable value for real/personal property of the College totaled approximately $4,272,000,000. The ad valorem taxes levied consisted of 2.2037 and .34 mills for operating purposes and debt service, respectively.

Compensated Absences
Compensated absences represent the accumulated liability to be paid under the College's current vacation, sick, and banked pay policies. Under the College's policy, employees earn vacation, sick, and banked time based on time of service and/or contract with the College. Employment contracts generally provide for the payment of all accumulated vacation and banked time, as well as, one-half of unused sick leave to a maximum per individual at retirement, or for clerical and custodial staff, at termination.

Internal Service Activities
Both revenue and expenses related to internal service activities including office equipment, maintenance, and copying have been eliminated.

NOTE B—DEPOSITS AND INVESTMENTS

As of June 30, 2017, the College had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating	Percent
Money market mutual fund	$ 7,796,429	30	not rated	51.0 %
Certificate of Deposit Account Registry Service (CDARS)	7,501,841	158	not rated	49.0
Total fair value	**$ 15,298,270**			**100.0** %
Portfolio weighted average maturity		**93**		

NOTE B—DEPOSITS AND INVESTMENTS—Continued

Deposit and Investment Risks

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

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

Concentration of Credit Risk
The College does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the College investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits
In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2017, $4,216,909 of the College's bank balance of $5,178,442 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments
The College does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

Restricted Cash and Cash Equivalents and Investments
Restricted cash and cash equivalents and investments as of June 30, 2017 are comprised of unspent bond proceeds issued for the construction and renovation of various College facilities.

NOTE C—FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

NOTE C—FAIR VALUE MEASUREMENTS—Continued

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Money market funds: Valued at amortized cost which approximates fair value.

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, while the College believes its 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.

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value on a recurring basis as of June 30, 2017:

	Assets at Fair Value as of June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	**$ -**	**$ 7,796,429**	**$ -**	**$ 7,796,429**

NOTE D—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 775,871	$ 45,473	$ -	$ 821,344
Construction in progress	1,459,796	11,262,882	2,500	12,720,178
Total capital assets, not being depreciated	2,235,667	11,308,355	2,500	13,541,522
Capital assets, being depreciated:				
Land improvements	1,669,990	-	-	1,669,990
Buildings and improvements	43,348,168	469,497	-	43,817,665
Equipment	9,597,231	1,382,855	-	10,980,086
Total capital assets, being depreciated	54,615,389	1,852,352	-	56,467,741
Less accumulated depreciation:				
Land improvements	1,266,198	40,260	-	1,306,458
Buildings and improvements	13,195,686	968,249	-	14,163,935
Equipment	4,721,777	876,378	-	5,598,155
Total accumulated depreciation	19,183,661	1,884,887	-	21,068,548
Total capital assets, being depreciated, net	35,431,728	(32,535)	-	35,399,193
Capital assets, net	**$ 37,667,395**	**$ 11,275,820**	**$ 2,500**	**$ 48,940,715**

Depreciation
Depreciation expense has been charged as unallocated depreciation.

NOTE E—RETIREMENT PLANS

Employee Retirement System – Defined Benefit Plan

Plan Description
The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/mpsers-cafr.

NOTE E—RETIREMENT PLANS—Continued

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 (Basic, Member Investment Plan (MIP), Pension Plus), member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan college employment may request a refund of his or her member contributions to the retirement system account. 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.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System who became a member after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50% after two years of service, 75% after three years of service, and 100% after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

NOTE E—RETIREMENT PLANS—Continued

Regular Retirement

The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Plan Status

The Basic and MIP plans are closed to new entrants. The Pension Plus plan will close to new entrants beginning with those hired after January 31, 2018. The DC plan is still open to new entrants.

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (over funded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for the System's fiscal year ended September 30, 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.95-22.60 %
Member Investment Plan	3.0 - 7.0	18.95-22.60
Pension Plus	3.0 - 6.4	17.73
Defined Contribution	0.0	14.56-17.73

The College's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $3,241,000, including Section 147c contributions.

NOTE E—RETIREMENT PLANS—Continued

Contributions—Continued
For the year ended June 30, 2017, the College and employee defined contribution plan contributions were approximately $81,000 and $129,000, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the College reported a liability of $35,727,595 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial rolled forward from September 30, 2015. The College's portion 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 for all applicable employers during the measurement period. At September 30, 2016 and 2015, the College's proportion was 0.14320 and 0.14050 percent, respectively.

For the year ended June 30, 2017, the College recognized pension expense of $3,751,144.

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 445,260	$ 84,675
Changes of assumptions	558,573	-
Net difference between projected and actual earnings on pension plan investments	593,792	-
Changes in proportion and differences between College contributions and proportionate share of contributions	1,078,521	17,360
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	896,702
College contributions subsequent to the measurement date	3,043,263	-
Total	**$ 5,719,409**	**$ 998,737**

NOTE E—RETIREMENT PLANS—Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—Continued
The College contributions subsequent to the measurement date of $3,043,263 reported as deferred outflows of resources related to pensions above, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date of $896,702 reported as deferred inflows of resources related to pensions above, will be recognized as revenue in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2018	$ 627,210
2019	580,511
2020	1,144,941
2021	221,449

Actuarial assumptions
Valuation Assumptions

Investment rate of return –	8% a year for the MIP and Basic plans and 7% a year for the Pension Plus plan, both rates are compounded annually net of investment and administrative expenses.
Salary increases –	3.5% - 12.3%
Inflation –	3.5%
Cost-of-living adjustments –	3% annual non-compounded for MIP members

Mortality Assumptions
The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.

Experience Study
The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Long-Term Expected Rate of Return on Investments
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.

NOTE E—RETIREMENT PLANS—Continued

Actuarial assumptions—Continued

Long-Term Expected Rate of Return on Investments—Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
Alternative Investment Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	-
Total	**100.0** %	

*Long term rates of return does are net of administrative expenses and 2.1% inflation.

Discount rate

The discount rate used to measure the total pension liability was 8 percent (7 percent for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 8 percent (7 percent for Pension Plus 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 (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Lower (7%)	Discount Rate (8%)	1% Higher (9%)
College's proportionate share of the net pension liability	$ 46,008,150	$ 35,727,595	$ 27,060,099

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

NOTE E—RETIREMENT PLANS—Continued

Defined Contribution Plans

Effective, July 1, 1999, the Muskegon Community College Board of Trustees approved an Optional Retirement Plan (ORP) to be administered by TIAA-CREF. The ORP is available for all full-time faculty and full-time salaried administrative staff. Upon eligibility to participate in the ORP, employees have 90 days in which to elect participation in either the ORP or the MPSERS plan.

The ORP is a non-voluntary defined-contribution plan in which the College contributes 14.0 percent and the employee contributes 4.0 percent of the participating employee’s includible compensation. Participants are immediately 100 percent vested in all ORP contributions. Participating employees elect their own allocation of contributions among the available investment vehicles offered by TIAA-CREF. ORP retirement benefits are based on the accumulation of contributions and the related investment income for each participant. Distributions of retirement benefits are available under the ORP when participants attain age 55. The College’s contributions to the ORP were approximately $679,000 and employee contributions were approximately $194,000 for the year ended June 30, 2017.

Other Postemployment Benefits

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

NOTE E—RETIREMENT PLANS—Continued

Employer Contributions

The College is required to contribute the full actuarial funding contribution amount to fund retiree health care benefits. The contribution requirements of the College are established and may be amended by the MPSERS Board of Trustees. The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% - 2.71% of covered payroll for the period March 10, 2015 to September 30, 2015, 6.4% - 6.83% of covered payroll for the period October 1, 2015 to September 30, 2016, and from 5.69% - 5.91% of covered payroll for the period October 1, 2016 to June 30, 2017. The College post-employment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016 and 2015 were approximately $735,000, $850,000 and $315,000 respectively, and were equal to the required contribution for those years.

NOTE F—LONG-TERM OBLIGATIONS

Summary of Long-Term Obligations

The following is a summary of long-term obligations activity for the College for the year ended June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
General obligation bonds	$ 28,350,000	$ 5,045,000	$ 6,245,000	$ 27,150,000	$ 1,325,000
Net premium (discount)	705,159	206,627	4,845	906,941	-
Compensated absences	3,131,871	1,257,340	1,389,655	2,999,556	749,889
	$ 32,187,030	**$ 6,508,967**	**$ 7,639,500**	**$ 31,056,497**	**$ 2,074,889**

	Interest Rate	Date of Maturity	Balance
General obligation bonds:			
2013 Community College Facility Bonds	2 - 5%	May 2038	$ 9,085,000
2014 Community College Facility Bonds	2 - 4%	May 2039	13,020,000
2016 Refunding Bonds	2 - 3%	May 2025	5,045,000
			$ 27,150,000

On November 10, 2016, the College issued $5,045,000 of 2016 Refunding Bonds to refund the entire outstanding balance of the 2003 Community College Building and Site Bonds and $4,220,000 of the 2005 College Facilities Bonds. As a result, the 2003 Community College Building and Site Bonds and the 2005 College Facilities Bonds are considered to be defeased and the liabilities for those bonds has been removed from long-term obligations.

The College refunded these bonds to reduce its total debt service payments over the next 9 years by $529,158 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $503,676.

NOTE F—LONG-TERM OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2017 follow:

Year Ending June 30,	Principal	Interest	Total
2018	$ 1,325,000	$ 861,865	$ 2,186,865
2019	1,350,000	846,740	2,196,740
2020	1,385,000	825,590	2,210,590
2021	1,410,000	807,028	2,217,028
2022	1,445,000	783,678	2,228,678
2023-2027	6,075,000	3,474,250	9,549,250
2028-2032	5,265,000	2,548,750	7,813,750
2033-2037	6,440,000	1,372,845	7,812,845
2038-2039	2,455,000	144,700	2,599,700
	$ 27,150,000	**$ 11,665,445**	**$ 38,815,445**

NOTE G—RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the College carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated.

The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to general and auto liability, motor vehicle physical damage, and property. Member contributions, which provide for losses incurred, reinsurance premiums, and risk management fees are allocated according to the actual costs incurred for each member. A member stop-loss fund provides for losses exceeding $28,000 per occurrence or $84,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

NOTE H—COMMITMENTS AND CONTINGENCIES

Operating Leases

The College leases building space and equipment under operating lease agreements expiring in December 2018 and January 2020, respectively. Expense for the year ended June 30, 2017 was approximately $255,000. The following is a schedule of future minimum rental payments required under operating leases for the College.

Year Ending June 30,	Amount
2018	$ 235,387
2019	176,332
2020	70,156
	$ 481,875

Grant Programs

The College participates in federal student financial aid grant and loan programs which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of grants or expenditures which may be disallowed by the granting agencies cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

Commitments

As of June 30, 2017, the College had approved architect and construction commitments of approximately $5,616,000.

NOTE I—SELF-INSURANCE

The College has a self-insured medical reimbursement plan for substantially all employees. In general, the College is liable for benefits up to $80,000 per covered individual per year. Benefit payments in excess of $80,000 per covered individual are payable by an insurance company.

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments for claims to the third party administrator, which have been charged to expense, approximated $3,057,000 for the year ended June 30, 2017.

NOTE J—TAX ABATEMENTS

For the year ended June 30, 2017 the College adopted GASB Statement 77—*Tax Abatement Disclosures*.

The College receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions, Brownfield Redevelopment Agreements (BRA), and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all fund types by municipality under these programs are as follows:

Municipality	IFT Taxes Abated	BRA Taxes Abated	PILOT Taxes Abated	Total Taxes Abated
City of Montague	$ 14,432	$ -	$ -	$ 14,432
City of Muskegon	22,863	16,196	23,732	62,791
City of Muskegon Heights	8,655	-	-	8,655
City of Norton Shores	37,731	6,494	-	44,225
City of Roosevelt Park	777	-	-	777
City of Whitehall	17,683	724	-	18,407
Egelston Township	10,656	-	-	10,656
Fruitport Township	2,725	-	-	2,725
Montague Township	4,170	-	-	4,170
Muskegon Township	18,727	-	-	18,727
Ravenna Township	3,338	-	-	3,338
Sulivan Township	2,198	-	-	2,198
Village of Ravenna	-	602	-	602
Whitehall Township	249	365	-	614
Totals	**$ 144,204**	**$ 24,381**	**$ 23,732**	**$ 192,317**

NOTE K—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the College's 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The net OPEB liability recorded in the Statement of Net Position on July 1, 2017 will be very significant.

NOTE K—UPCOMING ACCOUNTING PRONOUNCEMENTS—Continued

GASB Statement 84—*Fiduciary Activities* was issued by the GASB in January 2017 and will be effective for the College's 2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

NOTE L—SUBSEQUENT EVENT

Subsequent to June 30, 2017, the College approved construction commitments of approximately $296,000.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Community College

REQUIRED SUPPLEMENTARY INFORMATION

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

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
College's proportion of the net pension liability (%)	0.14320%	0.14050%	0.13656%	-	-	-	-	-	-	-
College's proportionate share of the net pension liability	$ 35,727,595	$ 34,318,140	$ 30,080,234	$ -	$ -	$ -	$ -	$ -	$ -	$ -
College's covered payroll	$ 13,864,640	$ 13,419,535	$ 10,608,895	$ -	$ -	$ -	$ -	$ -	$ -	$ -
College's proportionate share of the net pension liability as a percentage of its covered payroll	257.69%	255.73%	283.54%	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Muskegon Community College

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the College's Contributions

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contributions	$ 3,240,553	$ 4,009,424	$ 3,967,493	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the statutorily required contributions	3,240,553	4,009,424	3,967,493	-	-	-	-	-	-	-
Contribution deficiency (excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
College's covered payroll	$ 12,218,226	$ 14,691,726	$ 11,290,051	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	26.52%	27.29%	35.14%	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Changes of benefit terms: There were no changes of benefit terms in 2017.

Changes of assumptions: There were no changes of benefit assumptions in 2017.

SUPPLEMENTAL INFORMATION

Muskegon Community College

CONSOLIDATING BALANCE SHEET

June 30, 2017

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Liability Fund	Agency Fund
ASSETS							
Current assets							
Cash and cash equivalents	$ 3,605,841	$ 3,559,436	$ 46,405	$ -	$ -	$ -	$ -
Investments	8,212,913	8,212,913	-	-	-	-	-
Property taxes receivable	80,875	80,875	-	-	-	-	-
State appropriation receivable	1,955,785	1,955,785	-	-	-	-	-
Accounts receivable	3,566,458	3,542,350	24,108	-	-	-	-
Prepaid expenses and other assets	546,640	452,159	94,481	-	-	-	-
Due from (due to) other funds	-	(1,752,443)	227,459	1,184,173	218,371	-	122,440
Total current assets	17,968,512	16,051,075	392,453	1,184,173	218,371	-	122,440
Noncurrent assets							
Restricted cash and cash equivalents	392,283	-	-	-	392,283	-	-
Restricted investments	7,796,429	-	-	-	7,796,429	-	-
Property and equipment							
Land and improvements	2,491,334	-	-	-	2,491,334	-	-
Buildings and improvements	43,817,665	-	-	-	43,817,665	-	-
Equipment	10,980,086	-	-	-	10,980,086	-	-
Construction in progress	12,720,178	-	-	-	12,720,178	-	-
Allowance for depreciation	(21,068,548)	-	-	-	(21,068,548)	-	-
Net property and equipment	48,940,715	-	-	-	48,940,715	-	-
Total noncurrent assets	57,129,427	-	-	-	57,129,427	-	-
Total assets	75,097,939	16,051,075	392,453	1,184,173	57,347,798	-	122,440
DEFERRED OUTFLOWS OF RESOURCES							
Related to pensions	5,719,409	-	-	-	-	5,719,409	-
Total assets and deferred outflows of resources	80,817,348	16,051,075	392,453	1,184,173	57,347,798	5,719,409	122,440

Muskegon Community College

CONSOLIDATING BALANCE SHEET—CONTINUED

June 30, 2017

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Liability Fund	Agency Fund
LIABILITIES							
Current liabilities							
Accounts payable	$ 3,002,261	$ 1,066,645	$ 34,235	$ -	$ 1,901,381	$ -	$ -
Due to Muskegon Community College Foundation	11,050	11,050	-	-	-	-	-
Accrued interest payable	162,253	-	-	-	162,253	-	-
Accrued payrolls and other compensation	2,229,281	2,185,540	43,741	-	-	-	-
Deposits	122,440	-	-	-	-	-	122,440
Unearned revenues	222,500	185,917	36,583	-	-	-	-
Bonds, due within one year	1,325,000	-	-	-	1,325,000	-	-
Compensated absences, due within one year	749,889	749,889	-	-	-	-	-
Total current liabilities	7,824,674	4,199,041	114,559	-	3,388,634	-	122,440
Noncurrent liabilities							
Bonds, less amounts due within one year	26,731,941	-	-	-	26,731,941	-	-
Net pension liabilities	35,727,595	-	-	-	-	35,727,595	-
Compensated absences, less amounts due within one year	2,249,667	2,249,667	-	-	-	-	-
Total noncurrent liabilities	64,709,203	2,249,667	-	-	26,731,941	35,727,595	-
Total liabilities	72,533,877	6,448,708	114,559	-	30,120,575	35,727,595	122,440
DEFERRED INFLOWS OF RESOURCES							
Related to pensions	998,737	-	-	-	-	998,737	-
Total liabilities and deferred inflows of resources	73,532,614	6,448,708	114,559	-	30,120,575	36,726,332	122,440
NET POSITION							
Net investment in capital assets	30,693,719	-	-	-	30,693,719	-	-
Restricted							
Expendable							
Scholarships	81,729	-	-	81,729	-	-	-
Instructional department uses	224,326	-	-	224,326	-	-	-
Sturrus Technology Center	48,047	-	-	-	48,047		-
Science Center	1,361	-	-	-	1,361		-
Debt service	1,066	-	-	-	1,066	-	-
Unrestricted	(23,765,514)	9,602,367	277,894	878,118	(3,516,970)	(31,006,923)	-
Total net position	**$ 7,284,734**	**$ 9,602,367**	**$ 277,894**	**$ 1,184,173**	**$ 27,227,223**	**$ (31,006,923)**	**$ -**

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION
For the year ended June 30, 2017

	Combined Total	Eliminations	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Liability Fund
REVENUES							
Operating revenues							
Tuition and fees (net of scholarship allowances of $3,013,719)	$ 13,571,655	$ (3,013,719)	$ 16,585,374	$ -	$ -	$ -	$ -
Federal grants and contracts	5,985,335	-	-	-	5,985,335	-	-
State and local grants and contracts	1,280,764	-	-	-	1,280,764	-	-
Nongovernmental grants	93,740	-	-	-	93,740	-	-
Auxiliary activities	1,640,314	-	-	1,640,314	-	-	-
Miscellaneous	304,009	-	303,780	-	-	229	-
Total operating revenue	22,875,817	(3,013,719)	16,889,154	1,640,314	7,359,839	229	-
EXPENSES							
Operating expenses							
Instruction	17,545,470	-	17,062,479	1,009	149,035	-	332,947
Public services	1,027,697	-	873,469	132,447	4,816	-	16,965
Instructional support	4,189,224	-	4,065,660	-	44,415	-	79,149
Student services	9,562,836	(3,013,719)	5,068,398	202,615	7,206,829	-	98,713
Institutional administration	4,361,109	-	3,947,359	336,709	-	150	76,891
Operation and maintenance of plant	6,476,314	-	3,719,485	2,401,553	6,941	268,913	79,422
Depreciation and amortization	1,884,887	-	-	-	-	1,884,887	-
Total operating expenses	45,047,537	(3,013,719)	34,736,850	3,074,333	7,412,036	2,153,950	684,087
OPERATING INCOME (LOSS)	(22,171,720)	-	(17,847,696)	(1,434,019)	(52,197)	(2,153,721)	(684,087)

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION—CONTINUED
For the year ended June 30, 2017

	Combined Total	Eliminations	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Pension Liability Fund
NONOPERATING REVENUES (EXPENSES)							
State appropriations	$ 11,132,146	$ -	$ 11,219,054	$ -	$ -	$ -	$ (86,908)
Property tax levy	10,500,387	-	9,101,838	-	-	1,398,549	-
Gifts	670,177	-	-	-	130,000	540,177	
Investment income	64,182	-	15,489	-	-	48,693	-
Interest on capital asset - related debt	(786,660)	-	-	-	-	(786,660)	-
Bond issuance costs	(92,453)	-	-	-	-	(92,453)	-
Gain on disposal of capital asset	750	-	-	-	-	750	
Total nonoperating revenues (expenses)	21,488,529	-	20,336,381	-	130,000	1,109,056	(86,908)
Income (loss) before other revenues	(683,191)	-	2,488,685	(1,434,019)	77,803	(1,044,665)	(770,995)
OTHER REVENUES							
Federal capital grant	2,340,465	-	-	-	2,340,465	-	-
State capital grant	2,152,128	-	-	-	2,152,128	-	-
Total other revenues	4,492,593	-	-	-	4,492,593	-	-
Change in net position	3,809,402	-	2,488,685	(1,434,019)	4,570,396	(1,044,665)	(770,995)
Transfers in (out)	-	-	(758,034)	1,508,240	(3,723,844)	2,973,638	-
Net change in net position	3,809,402	-	1,730,651	74,221	846,552	1,928,973	(770,995)
Net position at July 1, 2016	3,475,332	-	7,871,716	203,673	337,621	25,298,250	(30,235,928)
Net position at June 30, 2017	**$ 7,284,734**	**$ -**	**$ 9,602,367**	**$ 277,894**	**$ 1,184,173**	**$ 27,227,223**	**$ (31,006,923)**