

Muskegon Community College  
**REPORT ON FINANCIAL STATEMENTS**  
Year ended June 30, 2014



**Muskegon Community College**

Muskegon Community College

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

November 10, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' 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 of 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.

Board of Trustees  
November 10, 2014  
Muskegon Community College  
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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, 2014, 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 on pages 4 through 14 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.

BRICKLEY DELONG

Board of Trustees  
November 10, 2014  
Muskegon Community College  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, 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 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 Muskegon Community College’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brickley De Long, P.C." The signature is written in a cursive style with a large, prominent 'B' and 'D'.

Muskegon, Michigan



## Management's Discussion and Analysis

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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, 2014. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

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, 2014, the College's revenues and other support exceeded expenses by \$227,939, 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.

# Muskegon Community College

## Management's Discussion and Analysis

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, 2014 and 2013:

### Net Position As of June 30

(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 23,244	\$ 21,960	\$ 1,284	5.85%
Non-current assets				
Restricted assets	9,662	-	9,662	N/A
Capital assets, net	22,585	22,997	(412)	-1.79%
Total assets	<u>55,491</u>	<u>44,957</u>	<u>10,534</u>	23.43%
Liabilities				
Current liabilities	9,735	8,869	866	9.76%
Non-current liabilities				
Bonds	16,093	6,623	9,470	142.99%
Compensated absences	1,976	2,006	(30)	-1.50%
Total liabilities	<u>27,804</u>	<u>17,498</u>	<u>10,306</u>	58.90%
Net Position				
Net investment in capital asset	15,535	15,854	(319)	-2.01%
Restricted	2,995	3,011	(16)	-0.53%
Unrestricted	9,157	8,594	563	6.55%
Total net position	<u>\$ 27,687</u>	<u>\$ 27,459</u>	<u>\$ 228</u>	0.83%

# Muskegon Community College

## Management's Discussion and Analysis

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For current assets, accounts receivable increased by \$444,000 due to outstanding unpaid balances from the current fiscal year at a higher tuition rate than the previous year. Prepaid expenses increased by \$301,000 due to the inclusion of some large annual software maintenance payments that relate to fiscal year 2014-2015 that were paid before year end this year. Offsetting these increases was a decrease in state appropriation receivable by \$114,000 which was primarily due to the inclusion of a \$236,000 Michigan Public Schools Employees' Retirement System (MPERS) stabilization rate payment in last fiscal year while this year's receivable was only \$111,000. Property taxes receivable also decreased by \$78,000 due to some payment in lieu of tax receivables that were included in the prior year balance that have been received.

Restricted assets increased by \$9,662,000 due to the cash and investment increase from the unspent bond proceeds and premium received from the bonds issued by the College in December 2013. Capital assets decreased by \$412,000 net of accumulated depreciation. Total additions of \$721,685 included architectural work on the new science center, some other building improvements, various equipment purchases and technology upgrades. These additions were offset by the reduction in construction in progress and the current year impact of depreciation.

Current liabilities increased by \$865,000. Of this increase \$299,000 was in accounts payable and included several large payables for architectural and construction manager services related to the science center project and repair and maintenance services. In addition, unearned revenue increased by \$395,000 resulting primarily from the increase in tuition and fee rates for the Fall 2014 semester for those students that had registered prior to year end. Also accrued interest payable increased by \$205,000 as a result of the new bond issue.

Bonds increased due to addition of the \$9.6 million in bonds issued this fiscal year. This was offset by the scheduled bonded debt payments of the two previous bond issues.

Compensated absences decreased by \$31,000 primarily due to the retirement of several long-term employees.

Although unrestricted net position is not subject to externally imposed restrictions, a majority of the College's unrestricted net position is designated for purposes which fulfill the College's mission, as well as, designations for capital projects (plant fund - \$2,599,970); fund balance reserve (general fund - \$6,217,582); and scholarships and grants (expendable restricted fund - \$42,850).



Muskegon Community College

**Management's Discussion and Analysis**

**Summary Operating Results for the Year**

(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 10,614	\$ 9,787	\$ 827	8.45%
Grants and contracts	9,469	9,965	(496)	-4.98%
Auxiliary services	428	485	(57)	-11.75%
Other	347	505	(158)	-31.29%
	<u>20,858</u>	<u>20,742</u>	<u>116</u>	<u>0.56%</u>
Total operating revenues				
Total operating expenses	<u>38,552</u>	<u>38,314</u>	<u>238</u>	<u>0.62%</u>
Operating loss	(17,694)	(17,572)	(122)	-0.69%
Non-operating revenues (expenses)				
State appropriations	9,328	8,831	497	5.63%
Property taxes	8,983	9,097	(114)	-1.25%
Gifts	47	109	(62)	-56.88%
Investment income	53	60	(7)	-11.67%
Interest on capital asset - related debt	(490)	(570)	80	14.04%
Gain (loss) on sale of capital asset	-	(11)	11	100.00%
	<u>17,921</u>	<u>17,516</u>	<u>405</u>	<u>2.31%</u>
Total non-operating revenues (expenses)				
Change in net position	227	(56)	283	-505.36%
Net position - beginning of year	<u>27,460</u>	<u>27,516</u>	<u>(56)</u>	<u>-0.20%</u>
Net position - end of year	<u>\$ 27,687</u>	<u>\$ 27,460</u>	<u>\$ 227</u>	<u>0.83%</u>

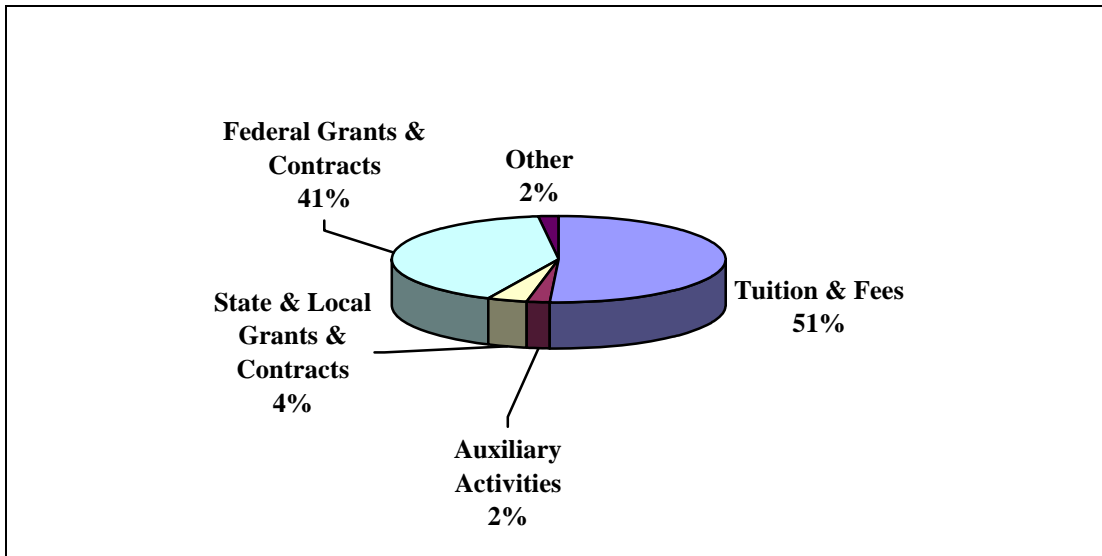
# Muskegon Community College

## Management's Discussion and Analysis

### 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 \$827,000. The College increased tuition rates per contact hour by 4.7%. The College also increased the technology fee from \$10 to \$17 per contact hour. The total contact hours for fiscal year 2013-2014 decreased by approximately 7,300 or 6% from the prior year. The amount of scholarship allowances decreased by \$520,000, which increases the amount of tuition and fees reported.

Federal and state grants decreased by \$496,000. The primary reason for this decrease was due to the stricter income eligibility requirements for receiving a Pell grant which reduced the number of students that qualified for this type of financial aid.

Muskegon Community College

**Management’s Discussion and Analysis**

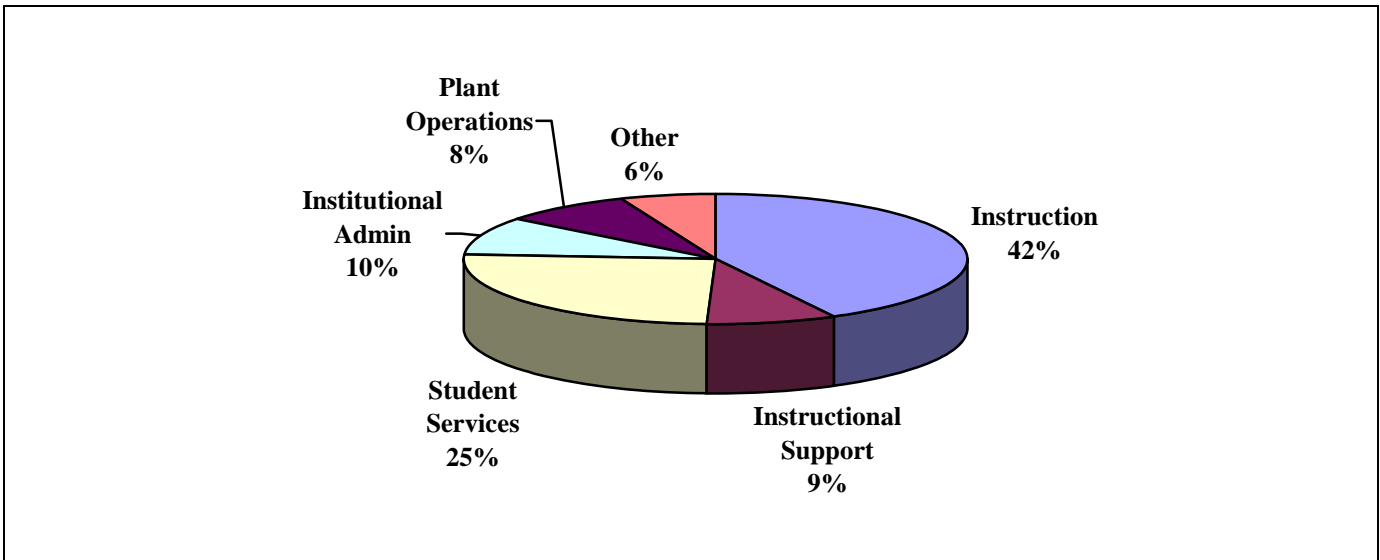
**Operating Expenses**

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, 2014 and 2013 consist of the following:

(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change</u>
Instruction	\$ 16,226	\$ 16,162	\$ 64	0.40%
Public services	570	638	(68)	-10.66%
Instructional support	3,296	3,418	(122)	-3.57%
Student services	9,820	10,086	(266)	-2.64%
Institutional administration	3,681	3,631	50	1.38%
Operation and maintenance of plant	3,156	3,221	(65)	-2.02%
Depreciation and amortization	1,134	1,045	89	8.52%
Other expenses	669	113	556	492.04%
<b>Total</b>	<b>\$ 38,552</b>	<b>\$ 38,314</b>	<b>\$ 238</b>	<b>0.62%</b>

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



## Muskegon Community College

### Management's Discussion and Analysis

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Operating expenses increased by \$238,000. Other expenses increased by \$556,000 which included \$251,000 in bond issuance and millage campaign costs and some significant noncapital repair and maintenance costs including a mold abatement project totaling \$119,000. Additionally there were increases in Instruction of \$64,000, Institutional administration of \$50,000 and Depreciation and amortization of \$89,000. The increase in Instruction expenditures was primarily due to a new federal grant that supported expenditures related to our applied technology programs. The increase in Institutional administration was due to a reorganization of staff that moved employees from Institutional support to Institutional administration. Depreciation increased due to the new fixed asset additions that have occurred over the last few years. Offsetting this increase was a decrease in Student services expenditures by \$266,000 which is partially due the stricter income eligibility requirements for receiving a Pell grant which resulted in fewer awards being offered. Instructional support expenditures also decreased by \$122,000 primarily due to an employee retirement that was not replaced and a reorganization of staff mentioned above. Public services expenditures also decreased by \$68,000 due to an employee retirement that was not replaced. Operation and maintenance of plant expenditures also decreased by \$65,000 due to lower repair and supply costs than in the prior year and lower fringe benefit costs.

#### **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.

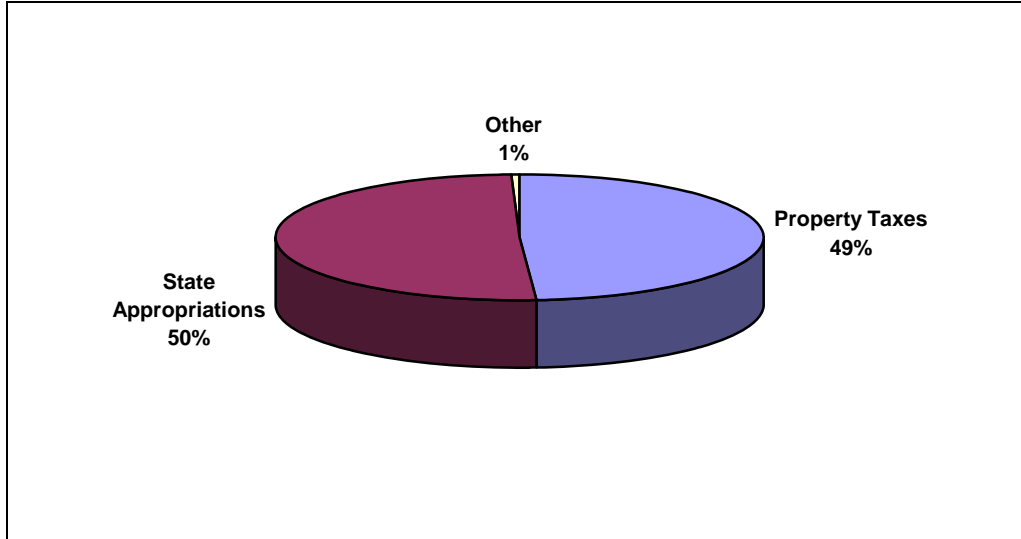
Non-operating revenue (expense) changes were the result of the following factors:

- Increase in state appropriations of \$497,000 or 5.64% was due to an increase in the state aid appropriation as well as the inclusion of the additional MPSERS stabilization rate payment of which was \$374,000 higher than the previous year.
- Decrease in taxable value, for property within the taxing district, resulting in decreased property tax revenues of \$114,000, or a 1.3% decrease.
- Investment income decreased by \$7,000 or 12.30% primarily due to the continuing decline in investment rates.
- Interest on capital asset - related debt decreased 14.13% or \$80,000.
- Gain/(loss) on sale of capital asset decreased \$11,000 as we had no fixed asset disposals during the fiscal year.

Muskegon Community College  
**Management's Discussion and Analysis**

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



Note: Graph does not show non-operating expenses.

**Other Revenue**

Other revenue consists of items that are typically nonrecurring, extraordinary or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments and transfers from related entities. The College had no other revenue during the year ended June 30, 2014.

**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 \$1,409,623.

# Muskegon Community College

## Management's Discussion and Analysis

### Cash Flows for the Year Ended June 30

(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Cash provided by (used for)				
Operating activities	\$ (16,684)	\$ (16,892)	\$ 208	1.23%
Noncapital financing activities	18,550	17,653	897	5.08%
Capital and related financing activities	8,474	(1,804)	10,278	569.73%
Investing activities	<u>(8,930)</u>	<u>2,404</u>	<u>(11,334)</u>	-471.46%
Net change in cash and cash equivalents	1,410	1,361	49	3.60%
Cash and cash equivalents - beginning of year	<u>2,599</u>	<u>1,238</u>	<u>1,361</u>	109.94%
Cash and cash equivalents - end of year	<u>\$ 4,009</u>	<u>\$ 2,599</u>	<u>\$ 1,410</u>	54.25%

### Capital Assets

At June 30, 2014, the College had \$39.0 million invested in capital assets, with accumulated depreciation of \$16.4 million. Depreciation charges totaled \$1,045,000 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)

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Land	\$ 231	\$ 231	-
Construction in progress	268	88	180
Land improvements	484	524	(40)
Buildings and improvements	19,059	19,714	(655)
Equipment	<u>2,543</u>	<u>2,440</u>	<u>103</u>
Total	<u>\$ 22,585</u>	<u>\$ 22,997</u>	<u>\$ (412)</u>

Construction in progress increased as a result of the inclusion of the costs associated with the construction of the new science center. The decrease in land improvements and buildings and improvements is primarily due to the current year depreciation charges. The increase in equipment is primarily due to the capitalization of the some large computer hardware purchases, applied technology equipment and maintenance equipment net of depreciation. See Note C, in the notes to the financial statements, for more detail.

# Muskegon Community College

## Management's Discussion and Analysis

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In the next fiscal year, the College has budgeted for equipment and building and improvements of approximately \$940,000; primarily for instructional equipment and minor facility renovations. It is anticipated that all capital expenditures related to the projects associated with the voter approved debt millage will be in construction in progress at the end of next fiscal year. Only those items with a cost of more than \$5,000 will be capitalized.

### Debt

The College's long-term debt consists of \$16,623,092 in General Obligation – Limited Tax Bonds, issued in 2003, 2005 and 2013. This compares to \$7,142,849 as of June 30, 2013. The College's bond debt rating is AA- (Standard & Poor's) and Aa3 (Moody's). Standard & Poor's bond rating was recently reaffirmed through their periodic reevaluation cycle.

The 2003 bonds were issued for the purpose of constructing the Career Technical Center (CTC) and a new library addition to the College's main campus. The CTC is operated by the Muskegon Area Intermediate School District (MAISD), and has been sold to them on a land contract. The MAISD satisfied its obligation to the College by making its final balloon payment in April 2013, the proceeds of which were used to pay off the remaining debt service requirements on that portion of bonds used to construct that facility. The only remaining portion of the 2003 bonds relates to the College's liability on the library addition.

The 2005 bonds were issued for the purpose of completing the new library addition and renovating/remodeling vacated space.

The 2013 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 will be the property tax revenues from the voter approved debt millage with the first levy to be December 1, 2014.

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

A 2014 bond issue for \$14,085,000 occurred in October 2014 which represents the remainder of the voter approved bond proposal.

### Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. The current state funding for the College is projected to increase by 2.9% for fiscal year 2014-15. Property taxes are also projected to increase by .61% after four consecutive years of decline.

## Muskegon Community College

### Management's Discussion and Analysis

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The national and state economy still seems uncertain even though, in certain areas, there shows signs of turnaround. The layoff of employees seems to have slowed and community colleges continued to see a steady enrollment of students in fiscal year 2014 because of their affordability, compared to four year institutions, and young adults realizing the importance of having some type of college education to get a job. The reduction in state and federal funding has contributed to the slight decline in enrollment of approximately 6.0% in the Fall 2014 semester, which is better than what most other community colleges in the state are experiencing. As a result, we are seeing an increase in the number of part-time students as they seek part-time employment to fill the gap left by the funding reduction.

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. Final approval on the budget and design of the \$9.6 million science center addition and renovation was received as required by the State of Michigan to receive the \$4.6 million capital outlay appropriation included in the state budget. This appropriation requires a 50% local match. The College had a groundbreaking ceremony on September 3, 2014 for the new science center addition. Construction began on October 19, 2014 with an anticipated completion by the Fall 2015 semester. Once the new addition is completed, renovations to the existing science program facilities will begin with an estimated completion by the summer of 2016.

A \$6.2 million addition and renovation to the health education facility is one of the other projects included in the voter approved bond proposal. A consultant has been hired to perform a demographical survey to assess community needs with regard to this facility. Feedback from this survey will be reviewed and decisions will be made on how to incorporate this information into the architectural design for this facility. The anticipated completion of this project is by the end of fall 2015.

The Board of Trustees has decided to relocate the applied technology, entrepreneurship and experiential learning programs to a downtown Muskegon facility estimated to cost \$7.2 million for the purchase and renovation of the facility. In September 2014, the Board signed a purchase agreement for the former Muskegon Chronicle building from The Herald Publishing Co. LLC. The purchase is subject to the College's satisfaction of building and environmental inspections. Closing on the property is anticipated to be in November 2014 followed by the issuance of Requests for Proposals for architectural services in January 2015. Renovations are projected to begin in the spring of 2015 with completion for classes to begin in January 2016.

A \$6.1 million renovation project of the current applied technology building to be the future site of the arts programs is also planned. An oversight committee has been created to develop renovation recommendations. It is anticipated that renovations will begin in the winter of 2016 with completion by the end of fall 2016.

It is the belief that by expanding and enhancing our current facilities that it will help to 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.



Muskegon Community College  
**STATEMENT OF NET POSITION**  
June 30, 2014

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 3,545,422
Investments	11,672,568
Property taxes receivable	105,692
State appropriation receivable	1,710,299
Accounts receivable	5,521,941
Prepaid expenses and other assets	<u>688,233</u>
Total current assets	23,244,155
Noncurrent assets	
Restricted cash and cash equivalents	463,428
Restricted investments	9,197,992
Property and equipment, net	<u>22,585,143</u>
Total noncurrent assets	<u>32,246,563</u>
Total assets	55,490,718

**LIABILITIES**

Current liabilities	
Accounts payable	701,235
Accrued interest payable	252,029
Accrued payroll and other compensation	2,734,948
Deposits	171,082
Unearned revenues - tuition	4,452,329
Bonds, due within one year	530,000
Compensated absences, due within one year	<u>892,757</u>
Total current liabilities	9,734,380
Noncurrent liabilities	
Bonds, less amounts due within one year	16,093,092
Compensated absences, less amounts due within one year	<u>1,975,889</u>
Total noncurrent liabilities	<u>18,068,981</u>
Total liabilities	<u>27,803,361</u>

**NET POSITION**

Net investment in capital assets	15,535,326
Restricted	
Expendable	
Scholarships	154,025
Instructional department uses	91,874
Loans	4,255
Career Tech Center	1,112,395
Library	641,399
Science Center	991,145
Unrestricted	<u>9,156,938</u>
Total net position	<u><b>\$ 27,687,357</b></u>

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, 2014

**REVENUES**

Operating revenues

Tuition and fees (net of scholarship allowances of \$4,277,617)	\$ 10,614,460
Federal grants and contracts	8,615,858
State and local grants and contracts	816,352
Nongovernmental grants	37,637
Auxiliary activities	427,858
Miscellaneous	346,854
Total operating revenue	20,859,019

**EXPENSES**

Operating expenses

Instruction	16,226,312
Public services	570,054
Instructional support	3,296,445
Student services	9,820,819
Institutional administration	3,680,630
Operation and maintenance of plant	3,155,808
Depreciation and amortization	1,133,839
Other expenses	668,501
Total operating expenses	38,552,408

Operating loss (17,693,389)

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	9,328,140
Property tax levy	8,983,104
Gifts	46,934
Investment income	52,903
Interest on capital asset - related debt	(489,753)
Total nonoperating revenues (expenses)	17,921,328

Change in net position 227,939

Net position at July 1, 2013 27,459,418

Net position at June 30, 2014 \$ 27,687,357

The accompanying notes are an integral part of this statement.

Muskegon Community College  
**STATEMENT OF CASH FLOWS**  
Year ended June 30, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 10,568,745
Grants and contracts	9,469,847
Payments to suppliers	(13,026,205)
Payments for employees	(24,471,684)
Auxiliary enterprise charges	427,858
Other	346,854
	(16,684,585)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Local property taxes	9,060,716
Gifts and contributions for other than capital purposes	46,934
State appropriations	9,442,171
	18,549,821

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from issuance of bonds	9,995,767
Purchase of capital assets	(721,685)
Principal paid on capital debt	(520,000)
Interest paid on capital debt	(279,898)
	8,474,184

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments	(8,982,700)
Interest on investments	52,903
	(8,929,797)

Net change in cash and cash equivalents

1,409,623

Cash and cash equivalents at July 1, 2013

2,599,227

Cash and cash equivalents at June 30, 2014

**\$ 4,008,850**

Reconciliation of cash and cash equivalents to Statement of Net Position

Cash and cash equivalents	\$ 3,545,422
Restricted cash and cash equivalents	463,428
	<b><u>\$ 4,008,850</u></b>

Reconciliation of operating loss to net cash used for operating activities

Operating loss	\$ (17,693,389)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,133,839
(Increases) decreases in assets	
Accounts receivable	(444,018)
Prepaid expenses and other assets	(300,984)
Increases (decreases) in liabilities	
Accounts payable	299,101
Accrued payroll and other compensation	(77,437)
Deposits	3,156
Unearned revenues - tuition	395,147
	<b><u>\$ (16,684,585)</u></b>

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, 2014

**ASSETS**

Cash	\$ 74,908
Pledges receivable	2,887
Beneficial interest in assets held by others	<u>154,534</u>
Total assets	232,329

**NET ASSETS**

Unrestricted	210,938
Temporarily restricted	<u>21,391</u>
Total net assets	<u><u>\$ 232,329</u></u>

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, 2014

Revenues and support	
Contributions	
Cash	\$ 177,180
In-kind	195,757
Gain from beneficial interest in assets held by others	<u>19,978</u>
Total revenues and support	392,915
 Expenses	
Distributions for the benefit of Muskegon Community College	198,982
Management and general	85,911
Fundraising	<u>63,405</u>
Total expenses	<u>348,298</u>
 Change in net assets	44,617
 Net assets at July 1, 2013	<u>187,712</u>
 Net assets at June 30, 2014	<u><u>\$ 232,329</u></u>

The accompanying notes are an integral part of this statement

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**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.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

***Property and Equipment—Continued***

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:

<u>Capital Asset Classes</u>	<u>Years</u>
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 and tuition payments received for the subsequent fall semester.

***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.

**Revenues and Expenses**

***Property Taxes***

The College's property tax is levied and lien 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 2013 state taxable value for real/personal property of the College totaled approximately \$4,239,000,000. The ad valorem taxes levied consisted of 2.2037 mills for operating purposes.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Revenues and Expenses—Continued**

***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, 2014, the College had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Days)</b>	<b>Standard &amp; Poor's Rating</b>	<b>Percent</b>
Certificates of deposit	\$ 710,140	203	not rated	3.4 %
U.S. Agency bonds	1,608,691	155	AA+	7.7
Money market mutual fund	645,481	30	AAA	3.1
Money market mutual fund	9,197,991	30	not rated	44.1
Certificate of Deposit Account Registry Service (CDARS)	8,708,257	176	not rated	41.7
Total fair value	<b>\$ 20,870,560</b>			<b>100.0 %</b>
Portfolio weighted average maturity		<b>106</b>		

***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.



Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE B—DEPOSITS AND INVESTMENTS—Continued**

**Deposit and Investment Risks**

***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, 2014, \$3,907,478 of the College's bank balance of \$4,157,691 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, 2014 are comprised of unspent bond proceeds issued for the construction and renovation of various College facilities.

**NOTE C—PROPERTY AND EQUIPMENT**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 231,371	\$ -	\$ -	\$ 231,371
Construction in progress	87,662	216,263	35,694	268,231
Total capital assets, not being depreciated	319,033	216,263	35,694	499,602
<b>Capital assets, being depreciated:</b>				
Land improvements	1,669,990	-	-	1,669,990
Buildings and improvements	30,690,519	21,459	-	30,711,978
Equipment	5,582,166	519,657	-	6,101,823
Total capital assets, being depreciated	37,942,675	541,116	-	38,483,791
<b>Less accumulated depreciation:</b>				
Land improvements	1,145,423	40,257	-	1,185,680
Buildings and improvements	10,976,931	676,650	-	11,653,581
Equipment	3,142,057	416,932	-	3,558,989
Total accumulated depreciation	15,264,411	1,133,839	-	16,398,250
Total capital assets, being depreciated, net	22,678,264	(592,723)	-	22,085,541
Capital assets, net	<b>\$ 22,997,297</b>	<b>\$ (376,460)</b>	<b>\$ 35,694</b>	<b>\$ 22,585,143</b>

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE D—RETIREMENT PLANS**

**Employee Retirement System – Defined Benefit Plan**

***Plan Description***

The College contributes to the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental, and vision. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing, MI 48909  
1-800-381-5111

***Funding Policy***

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4 percent (Basic Plan) or 7 percent (MIP); by doing so they maintain a 1.5 percent pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25 percent pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the MPSERS Defined Contribution plan as of their transition date.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE D—RETIREMENT PLANS—Continued**

**Employee Retirement System – Defined Benefit Plan—Continued**

***Funding Policy—Continued***

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits. The rates for the year ended June 30, 2014 ranged from 22.56 percent to 29.35 percent of payroll. The contribution requirements of plan members and the College are established and may be amended by the MPSERS Board of Trustees. The College contributions to MPSERS for the year ended June 30, 2014, 2013, and 2012 were approximately \$3,464,000, \$3,185,000, and \$2,775,000, respectively and were equal to the required contribution for those years. Employee contributions to the MIP were approximately \$788,000 for the year ended June 30, 2014.

**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 \$518,000 and employee contributions were approximately \$148,000 for the year ended June 30, 2014.

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member. The plan is administered by the MPSERS Board of Trustees and the contribution requirements of plan members and the College are established and may be amended by the MPSERS Board of Trustees.

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee's pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The College is required to match 50 percent of the employee contribution up to 1 percent of the employee's pay. For the year ended June 30, 2014, College and employee contributions were approximately \$11,000 and \$23,000, respectively.

The College is required to contribute 4 percent of employee's pay for employees under the MPSERS Defined Contribution plan. Employees under this plan are not required to contribute. For the year ended June 30, 2014, College and employee contributions were approximately \$44,000 and \$32,000, respectively.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE D—RETIREMENT PLANS—Continued**

**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, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, 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 Postemployment 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 contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

**Other Information**

***Supplemental Payments***

The 2014 contribution to MPSERS above includes state aid received by the College for the sole purpose of making supplemental payments to MPSERS. The College has recorded this amount as state revenue and additional pension expenses for the year ended June 30, 2014.

***Pending Litigation Against MPSERS***

Three cases have been consolidated and are pending in the Michigan Supreme Court (MSC). Plaintiffs are contesting the 3 percent contribution required by Public Act 75 of 2010 to be made by members of the Michigan Public School Employees' Retirement System. Plaintiffs allege a violation of Defendants' contractual obligations and impairment of their contracts as prohibited under both the Michigan and U.S. Constitutions. The trial court ruled in the Plaintiffs' favor and entered a preliminary injunction requiring that the Plaintiffs' contributions not be used and be placed in an interest bearing account. The trial court ruling was affirmed by the Michigan Court of Appeals and an application for leave to the MSC remains pending.

**NOTE E— 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, 2014.

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2014</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 7,195,000	\$ 9,630,000	\$ 520,000	\$ 16,305,000	\$ 530,000
Premium (discount)	(52,151)	365,767	(4,476)	318,092	-
Compensated absences	2,950,417	862,809	944,580	2,868,646	892,757
	<b>\$ 10,093,266</b>	<b>\$ 10,858,576</b>	<b>\$ 1,460,104</b>	<b>\$ 19,491,738</b>	<b>\$ 1,422,757</b>

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE E— LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-Term Obligations—Continued**

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
<b>General obligation bonds:</b>			
2003 Community College Building and Site Bonds	3.6 - 4.4%	May 2023	\$ 1,120,000
2005 College Facilities Bonds	3.5 - 4.125%	May 2025	5,555,000
2013 Community College Facility Bonds	2 - 5%	May 2038	9,630,000
			<u><u>\$ 16,305,000</u></u>

Annual debt service requirements to maturity for debt outstanding as of June 30, 2014 follow:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 530,000	\$ 801,504	\$ 1,331,504
2016	825,000	638,028	1,463,028
2017	845,000	612,538	1,457,538
2018	880,000	585,838	1,465,838
2019	910,000	556,220	1,466,220
2020-2024	4,870,000	2,238,700	7,108,700
2025-2029	2,585,000	1,397,700	3,982,700
2030-2034	2,445,000	937,185	3,382,185
2035-2038	2,415,000	309,250	2,724,250
	<u><u>\$ 16,305,000</u></u>	<u><u>\$ 8,076,963</u></u>	<u><u>\$ 24,381,963</u></u>

**NOTE F—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 \$15,000 per occurrence or \$45,000 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.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE G—COMMITMENTS AND CONTINGENCIES**

**Commitments**

The College has various contract agreements for construction projects as of June 30, 2014 of approximately \$580,000. These costs are being financed with bond proceeds.

**Operating Leases**

The College leases building space and equipment under operating lease agreements expiring in December 2017 and April 2019, respectively. Expense for the year ended June 30, 2014 was approximately \$233,000. The following is a schedule of future minimum rental payments required under operating leases for the College.

<b>Year Ending June 30,</b>	<b>Amount</b>
2015	\$ 210,892
2016	191,369
2017	194,980
2018	157,989
2019	99,290
	<b>\$ 854,520</b>

**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.

**NOTE H—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 \$70,000 per covered individual per year. Benefit payments in excess of \$70,000 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 \$2,596,000 for the year ended June 30, 2014.

Muskegon Community College  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE I—UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the College's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension 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 pension liability and expense for the cost-sharing plan.

**NOTE J—SUBSEQUENT EVENTS**

In September 2014, the College entered into a contract to purchase a new building at a cost of approximately \$700,000. The project will be paid with bond proceeds.

In October 2014, the College issued new bonds in the amount of \$14,085,000. These bonds will be used for future construction projects.

**SUPPLEMENTAL INFORMATION**



Muskegon Community College  
**CONSOLIDATING BALANCE SHEET**  
 June 30, 2014

	<b>Combined Total</b>	<b>General Fund</b>	<b>Designated Fund</b>	<b>Auxiliary Activities Fund</b>	<b>Expendable Restricted Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>	<b>Agency Fund</b>
<b>ASSETS</b>								
Current assets								
Cash and cash equivalents	\$ 3,545,422	\$ 3,545,209	\$ -	\$ -	\$ -	\$ 213	\$ -	\$ -
Investments	11,672,568	11,672,568	-	-	-	-	-	-
Property taxes receivable	105,692	105,692	-	-	-	-	-	-
State appropriation receivable	1,710,299	1,710,299	-	-	-	-	-	-
Accounts receivable	5,521,941	5,521,941	-	-	-	-	-	-
Prepaid expenses and other assets	688,233	688,233	-	-	-	-	-	-
Due from (due to) other funds	-	(6,379,992)	-	297,036	288,749	4,042	5,619,083	171,082
Total current assets	23,244,155	16,863,950	-	297,036	288,749	4,255	5,619,083	171,082
Noncurrent assets								
Restricted cash and cash equivalents	463,428	-	-	-	-	-	463,428	-
Restricted investments	9,197,992	-	-	-	-	-	9,197,992	-
Property and equipment								
Land and improvements	1,901,361	-	-	-	-	-	1,901,361	-
Buildings and improvements	30,711,978	-	-	-	-	-	30,711,978	-
Equipment	6,101,823	-	-	-	-	-	6,101,823	-
Construction in progress	268,231	-	-	-	-	-	268,231	-
Allowance for depreciation	(16,398,250)	-	-	-	-	-	(16,398,250)	-
Net property and equipment	22,585,143	-	-	-	-	-	22,585,143	-
Total noncurrent assets	32,246,563	-	-	-	-	-	32,246,563	-
Total assets	55,490,718	16,863,950	-	297,036	288,749	4,255	37,865,646	171,082

Muskegon Community College  
**CONSOLIDATING BALANCE SHEET—CONTINUED**  
 June 30, 2014

	<u>Combined Total</u>	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable	\$ 701,235	\$ 590,445	\$ -	\$ 500	\$ -	\$ -	\$ 110,290	\$ -
Accrued interest payable	252,029	-	-	-	-	-	252,029	-
Accrued payrolls and other compensation	2,734,948	2,734,948	-	-	-	-	-	-
Deposits	171,082	-	-	-	-	-	-	171,082
Unearned revenues - tuition	4,452,329	4,452,329	-	-	-	-	-	-
Bonds, due within one year	530,000	-	-	-	-	-	530,000	-
Compensated absences, due within one year	892,757	892,757	-	-	-	-	-	-
Total current liabilities	9,734,380	8,670,479	-	500	-	-	892,319	171,082
Noncurrent liabilities								
Bonds, less amounts due within one year	16,093,092	-	-	-	-	-	16,093,092	-
Compensated absences, less amounts due within one year	1,975,889	1,975,889	-	-	-	-	-	-
Total noncurrent liabilities	18,068,981	1,975,889	-	-	-	-	16,093,092	-
Total liabilities	27,803,361	10,646,368	-	500	-	-	16,985,411	171,082
<b>NET POSITION</b>								
Net investment in capital assets	15,535,326	-	-	-	-	-	15,535,326	-
Restricted								
Expendable								
Scholarships	154,025	-	-	-	154,025	-	-	-
Instructional department uses	91,874	-	-	-	91,874	-	-	-
Loans	4,255	-	-	-	-	4,255	-	-
Career Tech Center	1,112,395	-	-	-	-	-	1,112,395	-
Library	641,399	-	-	-	-	-	641,399	-
Science Center	991,145	-	-	-	-	-	991,145	-
Unrestricted	9,156,938	6,217,582	-	296,536	42,850	-	2,599,970	-
Total net position	<b>\$ 27,687,357</b>	<b>\$ 6,217,582</b>	<b>\$ -</b>	<b>\$ 296,536</b>	<b>\$ 288,749</b>	<b>\$ 4,255</b>	<b>\$ 20,880,235</b>	<b>\$ -</b>

Muskegon Community College  
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,  
 TRANSFERS AND CHANGES IN NET POSITION**  
 For the year ended June 30, 2014

	<b>Combined Total</b>	<b>Eliminations</b>	<b>General Fund</b>	<b>Designated Fund</b>	<b>Auxiliary Activities Fund</b>	<b>Expendable Restricted Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>
<b>REVENUES</b>								
Operating revenues								
Tuition and fees (net of scholarship allowances of \$4,277,617)	\$ 10,614,460	\$ (4,277,617)	\$ 14,892,077	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	8,615,858	-	-	-	-	8,615,858	-	-
State and local grants and contracts	816,352	-	-	-	-	816,352	-	-
Nongovernmental grants	37,637	-	-	-	-	37,637	-	-
Auxiliary activities	427,858	-	-	-	427,858	-	-	-
Miscellaneous	346,854	-	328,813	-	-	-	800	17,241
<b>Total operating revenue</b>	<b>20,859,019</b>	<b>(4,277,617)</b>	<b>15,220,890</b>	<b>-</b>	<b>427,858</b>	<b>9,469,847</b>	<b>800</b>	<b>17,241</b>
<b>EXPENSES</b>								
Operating expenses								
Instruction	16,226,312	-	15,978,679	-	2,025	245,608	-	-
Public services	570,054	-	513,946	-	55,491	617	-	-
Instructional support	3,296,445	-	3,278,195	-	-	18,250	-	-
Student services	9,820,819	(4,277,617)	4,797,655	-	209,438	9,091,343	-	-
Institutional administration	3,680,630	-	3,543,743	-	136,887	-	-	-
Operation and maintenance of plant	3,155,808	-	2,768,493	-	387,315	-	-	-
Depreciation and amortization	1,133,839	-	-	-	-	-	-	1,133,839
Other expenses	668,501	-	-	-	-	-	445	668,056
<b>Total operating expenses</b>	<b>38,552,408</b>	<b>(4,277,617)</b>	<b>30,880,711</b>	<b>-</b>	<b>791,156</b>	<b>9,355,818</b>	<b>445</b>	<b>1,801,895</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(17,693,389)</b>	<b>-</b>	<b>(15,659,821)</b>	<b>-</b>	<b>(363,298)</b>	<b>114,029</b>	<b>355</b>	<b>(1,784,654)</b>

Muskegon Community College  
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,  
TRANSFERS AND CHANGES IN NET POSITION—CONTINUED**  
For the year ended June 30, 2014

	<b>Combined Total</b>	<b>Eliminations</b>	<b>General Fund</b>	<b>Designated Fund</b>	<b>Auxiliary Activities Fund</b>	<b>Expendable Restricted Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>								
State appropriations	\$ 9,328,140	\$ -	\$ 9,328,140	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	8,983,104	-	8,983,104	-	-	-	-	-
Gifts	46,934	-	-	-	-	-	17	46,917
Investment income	52,903	-	47,621	-	-	-	-	5,282
Interest on capital asset - related debt	(489,753)	-	-	-	-	-	-	(489,753)
Total nonoperating revenues (expenses)	17,921,328	-	18,358,865	-	-	-	17	(437,554)
Change in net position	227,939	-	2,699,044	-	(363,298)	114,029	372	(2,222,208)
Transfers in (out)	-	-	928,253	(410,000)	(1,813,803)	(183,724)	(413)	1,479,687
Net change in net position	227,939	-	3,627,297	(410,000)	(2,177,101)	(69,695)	(41)	(742,521)
Net position at July 1, 2013	27,459,418	-	2,590,285	410,000	2,473,637	358,444	4,296	21,622,756
Net position at June 30, 2014	<b>\$ 27,687,357</b>	<b>\$ -</b>	<b>\$ 6,217,582</b>	<b>\$ -</b>	<b>\$ 296,536</b>	<b>\$ 288,749</b>	<b>\$ 4,255</b>	<b>\$ 20,880,235</b>