

Muskegon Community College
REPORT ON FINANCIAL STATEMENTS
June 30, 2015



Muskegon Community College

Muskegon Community College

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 10, 2015

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, 2015, 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 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.

Board of Trustees
December 10, 2015
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, 2015, 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.

Emphasis of Matter – Change in Accounting Principle

As described in Note I to the financial statements, Muskegon Community College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

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 36 through 38 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
December 10, 2015
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, 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

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, 2015. 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, 2015, the College's revenues and other support exceeded expenses by \$1,271,669, 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, 2015 and 2014:

Net Position As of June 30

(in thousands)

	<u>2015</u>	<u>2014, as restated</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 24,156	\$ 23,244	\$ 912	3.92%
Non-current assets				
Restricted assets	18,299	9,662	8,637	89.39%
Capital assets, net	29,845	22,585	7,260	32.15%
Total assets	<u>72,300</u>	<u>55,491</u>	<u>16,809</u>	30.29%
Deferred Outflows of Resources				
Related to pensions	<u>3,354</u>	<u>2,131</u>	<u>1,223</u>	57.39%
Total assets and deferred outflows of resources	75,654	57,622	18,032	31.29%
Liabilities				
Current liabilities	12,057	9,735	2,322	23.85%
Non-current liabilities				
Bonds	29,083	16,093	12,990	80.72%
Net pension liabilities	30,080	31,980	(1,900)	-5.94%
Compensated absences	<u>2,000</u>	<u>1,976</u>	<u>24</u>	1.21%
Total liabilities	73,220	59,784	13,436	22.47%
Deferred Inflows of Resources				
Related to pensions	<u>3,325</u>	-	<u>3,325</u>	N/A
Total liabilities and deferred inflows of resources	<u>76,545</u>	<u>59,784</u>	<u>16,761</u>	28.04%
Net Position				
Net investment in capital assets	16,123	15,535	588	3.79%
Restricted	3,005	2,995	10	0.33%
Unrestricted	<u>(20,019)</u>	<u>(20,692)</u>	<u>673</u>	-3.25%
Total net position	<u>\$ (891)</u>	<u>\$ (2,162)</u>	<u>\$ 1,271</u>	-58.79%

Muskegon Community College

Management's Discussion and Analysis

For current assets, accounts receivable increased by \$874,000 primarily due to outstanding unpaid balances from the current fiscal year at a higher tuition rate than the previous year. In addition, the number of sponsored students has increased and some of these sponsors are slower to pay. State appropriation receivable increased by \$100,000 primarily due to an increase in Michigan Public Schools Employees' Retirement System (MPSERS) stabilization rate payments receivable compared to the previous year, and property taxes receivable also increased by \$70,000 due to the timing of a tax distribution. Offsetting these increases, prepaid expenses decreased by \$233,000 primarily due to the expense of some large annual software maintenance payments that were prepaid in fiscal year 2013-2014.

Restricted assets increased by \$8,638,000 due to the cash and investment increase from the unspent bond proceeds and premium received from the bonds issued by the College in 2013 and 2014. Capital assets increased by \$7,260,000 net of accumulated depreciation. Total additions of \$8,498,000 included the construction of the new science center, some other building improvements, various equipment purchases and technology upgrades. These additions were offset by the current year impact of depreciation.

Current liabilities increased by \$2,322,000 due to a \$1,572,000 increase in accounts payable for several large payables related to the science center construction project and repair and maintenance services. In addition, unearned revenue increased \$454,000 primarily due to the increase in tuition and fee rates for the Fall 2015 semester for those students that had registered prior to year-end, and the current portion of bonds payable increased \$655,000 for scheduled payments of the 2013 and 2014 bonds. These increases were partially offset by a \$359,000 decrease in accrued payroll.

The long-term portion of the bonds increased \$12,990,000 primarily due to the new 2014 bond issuance. This was offset by the scheduled bonded debt payments the College made on its other bond issues.

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. See Note I of the Notes to the Financial Statements of this report for additional information on the adoption of this standard and corresponding restatement of beginning net position.

Muskegon Community College

Management's Discussion and Analysis

Summary Operating Results for the Year

(in thousands)

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 11,644	\$ 10,614	\$ 1,030	9.70%
Grants and contracts	8,960	9,469	(509)	-5.38%
Auxiliary services	457	428	29	6.78%
Other	323	347	(24)	-6.92%
Total operating revenues	<u>21,384</u>	<u>20,858</u>	<u>526</u>	<u>2.52%</u>
Total operating expenses	<u>39,819</u>	<u>38,552</u>	<u>1,267</u>	<u>3.29%</u>
Operating loss	(18,435)	(17,694)	(741)	-4.19%
Non-operating revenues (expenses)				
State appropriations	9,993	9,328	665	7.13%
Property taxes	10,543	8,983	1,560	17.37%
Gifts	27	47	(20)	-42.55%
Investment income	1	53	(52)	-98.11%
Interest on capital asset - related debt	(872)	(490)	(382)	-77.96%
Gain (loss) on sale of capital asset	14	-	14	N/A
Total non-operating revenues (expenses)	<u>19,706</u>	<u>17,921</u>	<u>1,785</u>	<u>9.96%</u>
Change in net position	1,271	227	1,044	459.91%
Net position - beginning, as restated	<u>(2,162)</u>	<u>27,460</u>	<u>(29,622)</u>	<u>-107.87%</u>
Net position - end	<u>\$ (891)</u>	<u>\$ 27,687</u>	<u>\$ (28,578)</u>	<u>-103.22%</u>

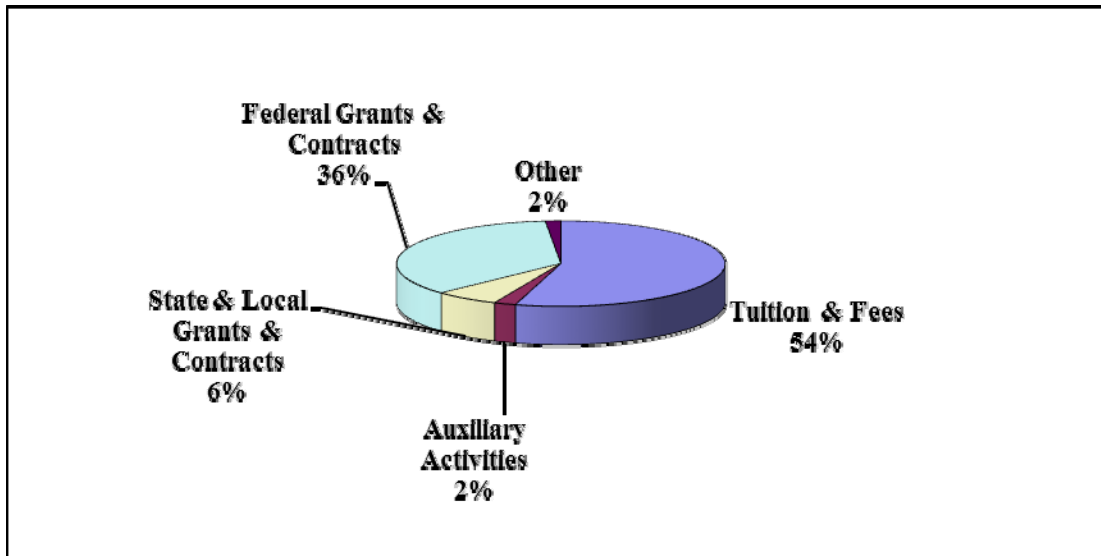
Muskegon Community College

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 \$1,030,000. The College increased tuition rates per contact hour by 6.8%. The College also increased the technology fee from \$17 to \$20 per contact hour, and added a \$5 per contact hour infrastructure fee. The total contact hours for fiscal year 2014-2015 decreased by approximately 2,200 or 2% from the prior year. The amount of scholarship allowances decreased by \$511,000, which increases the amount of tuition and fees reported.

Federal and state grants decreased by \$509,000. The primary reason for this decrease is 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

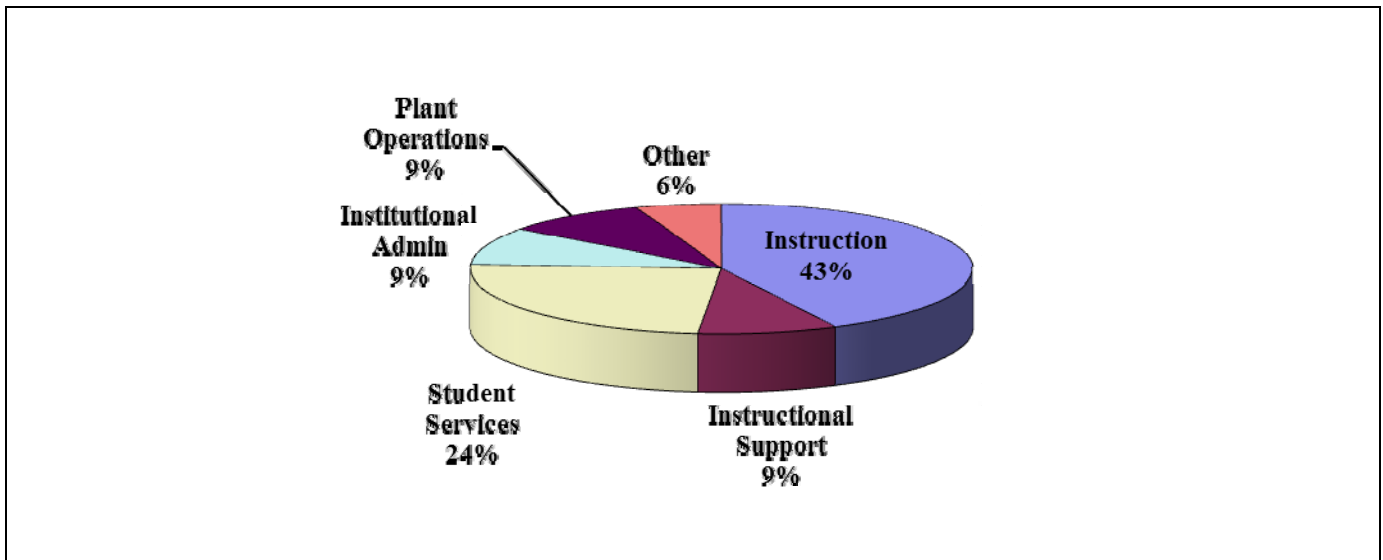
Operating Expenses

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, 2015 and 2014 consist of the following:

(in thousands)

	2015	2014	Change	Percent Change
Instruction	\$ 16,940	\$ 16,226	\$ 714	4.40%
Public services	705	570	135	23.68%
Instructional support	3,571	3,296	275	8.34%
Student services	9,745	9,820	(75)	-0.76%
Institutional administration	3,661	3,681	(20)	-0.54%
Operation and maintenance of plant	3,695	3,156	539	17.08%
Depreciation and amortization	1,230	1,134	96	8.47%
Other expenses	272	669	(397)	-59.34%
Total	\$ 39,819	\$ 38,552	\$ 1,267	3.29%

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



Muskegon Community College

Management's Discussion and Analysis

Operating expenses increased \$1,267,000 primarily due to an increase of \$714,000 in Instruction expenses and an increase of \$275,000 in Instructional Support due to increased salary, wages and fringe benefit costs. These increased costs were the result of contractual salary increases and increased medical expenses. In addition, Operation and Maintenance of Plant increased \$539,000 due to the costs associated with operating the Chronicle building that was acquired in December 2014 to eventually serve as the Downtown Center, and increased Operation and Maintenance salary, wages and fringe benefit costs compared to the prior year. These increases were partially offset by a \$397,000 decrease in Other expenses which was the result of significantly less noncapital repair and maintenance on campus while efforts were focused on the Science Center project. Also, in 2013-2014 there were one-time expenses associated with mold abatement.

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.

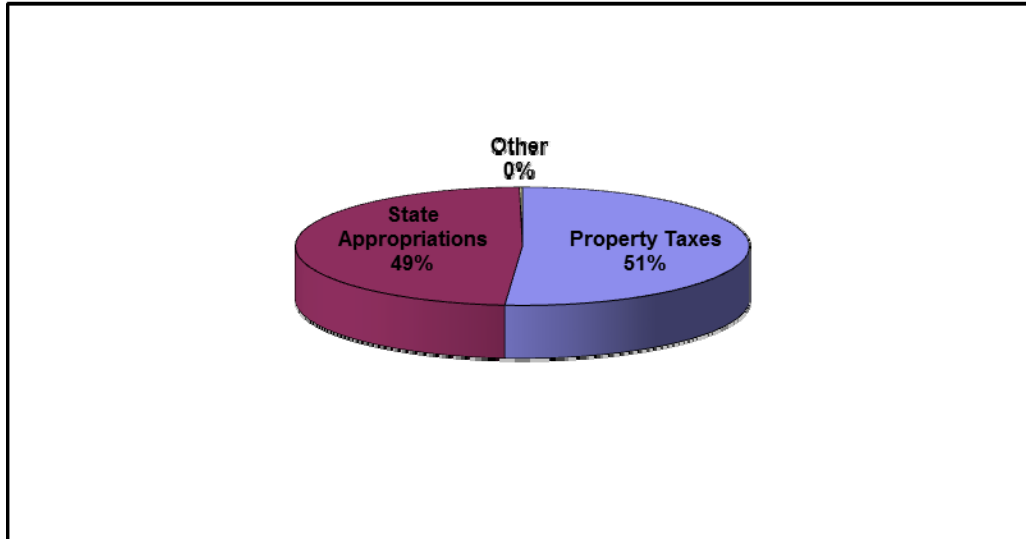
Non-operating revenue (expense) changes were the result of the following factors:

- Increase in state appropriations of \$665,000 or 7.1% was due to an increase in the state aid appropriation and the inclusion of the additional MPSERS stabilization rate payments which were \$447,000 higher than the previous year.
- Property tax revenues increased \$1,560,000 or 17.4% primarily due to the addition of the capital millage. In addition, property within the taxing district experienced an increase in taxable value resulting in increased property tax revenues.
- Investment income decreased by \$52,000 primarily due to income being over accrued in the prior fiscal year. In addition, investment rates have continued to decline.
- Interest on capital asset - related debt increased \$382,000 due to the interest expense associated with the 2013 and 2014 bonds.

Muskegon Community College

Management's Discussion and Analysis

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, 2015.

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 \$142,368.

Muskegon Community College

Management's Discussion and Analysis

Cash Flows for the Year Ended June 30

(in thousands)

	2015	2014	Change	Percent Change
Cash provided by (used for)				
Operating activities	\$ (17,295)	\$ (16,684)	\$ (611)	-3.66%
Noncapital financing activities	20,393	18,550	1,843	9.94%
Capital and related financing activities	5,630	8,474	(2,844)	-33.56%
Investing activities	(8,585)	(8,930)	345	3.86%
Net change in cash and cash equivalents	143	1,410	(1,267)	-89.86%
Cash and cash equivalents - beginning of year	4,009	2,599	1,410	54.25%
Cash and cash equivalents - end of year	\$ 4,152	\$ 4,009	\$ 143	3.57%

Capital Assets

At June 30, 2015, the College had \$47,468,000 invested in capital assets, with accumulated depreciation of \$17,623,000. Depreciation charges totaled \$1,230,000 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)

	2015	2014	Change
Land	\$ 231	\$ 231	-
Construction in progress	6,814	268	6,546
Land improvements	444	484	(40)
Buildings and improvements	19,604	19,059	545
Equipment	2,752	2,543	209
Total	\$ 29,845	\$ 22,585	\$ 7,260

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

In the next fiscal year, the College has budgeted for equipment and building improvements of approximately \$1,104,000; primarily for instructional equipment, technology, and minor facility renovations. Only those items with a cost of more than \$5,000 will be capitalized.

Debt

The College's long-term debt consists of \$30,267,773 in General Obligation – Limited Tax Bonds, issued in 2003, 2005, 2013 and 2014. This compares to \$16,623,092 as of June 30, 2014. 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 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.

More detailed information about the College's long-term liabilities is presented in Note E 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 current state funding for the College is projected to increase by 1.3% for fiscal year 2015-16. In 2015, property tax revenue increased after four consecutive years of declines. Home sales and new construction continues to improve and in 2016 we expect property taxes to increase another 1-2%.

Muskegon Community College

Management's Discussion and Analysis

The national and state economy has improved, and the state unemployment rate of 5% matches 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 third year in a row is not unexpected and it is being monitored. The Fall 2015 semester saw this trend continue with a slight decline in enrollment of approximately 3%, 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. 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 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.

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. The scope of the project has increased and the cost is now projected at \$14 million; the College will need to secure other funding sources for this increased cost. Renovations are projected to begin in the spring of 2016 with completion of the new on campus Health and Wellness Center in winter 2017. 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.

The Board of Trustees decided to relocate the applied technology, entrepreneurship and experiential learning programs to a downtown Muskegon facility. The College purchased the former Muskegon Chronicle building in December 2014 for \$700,000 and the Masonic Temple was donated to The College in May 2015. The budget for the Downtown Center project is \$14.77 million (\$7.2 million will come from the millage). Estimated completion of the project is Spring 2017 and classes to begin building-wide in Fall 2017.

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 some of the renovations will begin in the winter of 2016 with completion by the winter of 2018.

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, 2015

ASSETS

Current assets

Cash and cash equivalents	\$ 3,054,886
Investments	12,254,220
Property taxes receivable	175,221
State appropriation receivable	1,810,537
Accounts receivable	6,406,091
Prepaid expenses and other assets	<u>455,413</u>
Total current assets	24,156,368

Noncurrent assets

Restricted cash and cash equivalents	1,096,332
Restricted investments	17,202,760
Property and equipment, net	<u>29,845,134</u>
Total noncurrent assets	<u>48,144,226</u>

Total assets

72,300,594

DEFERRED OUTFLOWS OF RESOURCES

Related to pensions	<u>3,354,146</u>
Total assets and deferred outflows of resources	75,654,740

LIABILITIES

Current liabilities

Accounts payable	2,232,255
Accrued interest payable	188,436
Accrued payroll and other compensation	2,375,765
Deposits	193,541
Unearned revenues - tuition	4,956,619
Bonds, due within one year	1,185,000
Compensated absences, due within one year	<u>925,471</u>
Total current liabilities	12,057,087

Noncurrent liabilities

Bonds, less amounts due within one year	29,082,773
Net pension liabilities	30,080,234
Compensated absences, less amounts due within one year	<u>1,999,999</u>
Total noncurrent liabilities	<u>61,163,006</u>

Total liabilities

73,220,093

DEFERRED INFLOWS OF RESOURCES

Related to pensions	<u>3,325,382</u>
Total liabilities and deferred inflows of resources	<u>76,545,475</u>

NET POSITION

Net investment in capital assets	16,122,729
Restricted	
Expendable	
Scholarships	139,593
Instructional department uses	100,953
Loans	4,255
Career Tech Center	1,112,395
Library	641,399
Science Center	960,025
Debt service	46,700
Unrestricted	<u>(20,018,784)</u>
Total net position	<u><u>\$ (890,735)</u></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, 2015

REVENUES

Operating revenues

Tuition and fees (net of scholarship allowances of \$3,766,687)	\$ 11,643,972
Federal grants and contracts	7,604,637
State and local grants and contracts	1,321,309
Nongovernmental grants	34,498
Auxiliary activities	457,145
Miscellaneous	322,590
Total operating revenue	21,384,151

EXPENSES

Operating expenses

Instruction	16,939,741
Public services	705,142
Instructional support	3,570,494
Student services	9,744,762
Institutional administration	3,661,156
Operation and maintenance of plant	3,694,856
Depreciation and amortization	1,230,328
Other expenses	272,177
Total operating expenses	39,818,656
Operating loss	(18,434,505)

NONOPERATING REVENUES (EXPENSES)

State appropriations	9,992,978
Property tax levy	10,543,259
Gifts	26,899
Investment income	1,018
Interest on capital asset - related debt	(871,516)
Gain on disposal of capital asset	13,536
Total nonoperating revenues (expenses)	19,706,174

Change in net position	1,271,669
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Net position at July 1, 2014, as restated	(2,162,404)
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Net position at June 30, 2015	\$ (890,735)
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The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 11,286,571
Grants and contracts	8,960,444
Payments to suppliers	(12,402,629)
Payments for employees	(25,919,330)
Auxiliary enterprise charges	457,145
Other	322,590
	(17,295,209)
Net cash used for operating activities	(17,295,209)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Local property taxes	14,473,730
Gifts and contributions for other than capital purposes	26,899
State appropriations	9,892,740
	20,393,369
Net cash provided by noncapital financing activities	20,393,369

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from issuance of bonds	14,521,475
Purchase of capital assets	(7,101,312)
Principal paid on capital debt	(855,000)
Interest paid on capital debt	(956,903)
Proceeds from sale of capital assets	21,350
	5,629,610
Net cash provided by capital and related financing activities	5,629,610

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(8,586,420)
Interest on investments	1,018
	(8,585,402)
Net cash used for investing activities	(8,585,402)

Net change in cash and cash equivalents 142,368

Cash and cash equivalents at July 1, 2014 4,008,850

Cash and cash equivalents at June 30, 2015 \$ 4,151,218

Reconciliation of cash and cash equivalents to Statement of Net Position

Cash and cash equivalents	\$ 3,054,886
Restricted cash and cash equivalents	1,096,332
	\$ 4,151,218

Reconciliation of operating loss to net cash used for operating activities

Operating loss	\$ (18,434,505)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,230,328
(Increases) decreases in assets	
Accounts receivable	(884,150)
Prepaid expenses and other assets	232,820
Increases (decreases) in liabilities	
Accounts payable	134,199
Accrued payroll and other compensation	(100,650)
Deposits	22,459
Unearned revenues - tuition	504,290
	\$ (17,295,209)

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, 2015

ASSETS

Cash	\$ 248,943
Pledges receivable	1,293
Beneficial interest in assets held by others	<u>147,361</u>
Total assets	397,597

NET ASSETS

Unrestricted	352,819
Temporarily restricted	<u>44,778</u>
Total net assets	<u><u>\$ 397,597</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, 2015

Revenues and support	
Contributions	
Cash	\$ 326,469
Building	350,000
In-kind	184,666
Gain from beneficial interest in assets held by others	<u>2,407</u>
Total revenues and support	863,542
 Expenses	
Distributions for the benefit of Muskegon Community College	528,822
Management and general	137,123
Fundraising	<u>32,329</u>
Total expenses	<u>698,274</u>
 Change in net assets	165,268
 Net assets at July 1, 2014	<u>232,329</u>
 Net assets at June 30, 2015	<u><u>\$ 397,597</u></u>

The accompanying notes are an integral part of this statement

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015

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, 2015, the College capitalized \$108,006 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:

<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.

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.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

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 2014 state taxable value for real/personal property of the College totaled approximately \$4,292,000,000. 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, 2015, the College had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating	Percent
Money market mutual fund	\$ 6,987	30	AAA	- %
Money market mutual fund	17,202,760	30	not rated	59.8
Certificate of Deposit Account Registry Service (CDARS)	11,535,411	76	not rated	40.2
Total fair value	<u>\$ 28,745,158</u>			<u>100.0</u> %
Portfolio weighted average maturity		<u>48</u>		

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015, \$4,029,443 of the College's bank balance of \$4,991,526 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, 2015 are comprised of unspent bond proceeds issued for the construction and renovation of various College facilities.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE C—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 231,371	\$ -	\$ -	\$ 231,371
Construction in progress	268,231	6,545,770	-	6,814,001
Total capital assets, not being depreciated	499,602	6,545,770	-	7,045,372
Capital assets, being depreciated:				
Land improvements	1,669,990	-	-	1,669,990
Buildings and improvements	30,711,978	1,236,383	-	31,948,361
Equipment	6,101,823	715,980	13,790	6,804,013
Total capital assets, being depreciated	38,483,791	1,952,363	13,790	40,422,364
Less accumulated depreciation:				
Land improvements	1,185,680	40,259	-	1,225,939
Buildings and improvements	11,653,581	691,337	-	12,344,918
Equipment	3,558,989	498,732	5,976	4,051,745
Total accumulated depreciation	16,398,250	1,230,328	5,976	17,622,602
Total capital assets, being depreciated, net	22,085,541	722,035	7,814	22,799,762
Capital assets, net	\$ 22,585,143	\$ 7,267,805	\$ 7,814	\$ 29,845,134

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE D—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 <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE D—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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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 member or Pension Plus plan member who leaves Michigan public school 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.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—RETIREMENT PLANS—Continued

Regular Retirement

The retirement 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 postretirement 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.

Contributions

The majority of the members currently participate on a contributory basis, as described above under “Benefits Provided.” Organizations are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits. 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 schedule below summarizes pension contribution rates in effect for the System’s fiscal year ended September 30, 2014.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.34 - 19.61 %
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	-	15.44 - 16.61

The College’s pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$4,026,000, including the Section 147 contributions.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—RETIREMENT PLANS—Continued

Contributions—Continued

For the year ended June 30, 2015, the College and employee defined contribution plan contributions were approximately \$61,000 and \$82,000, respectively.

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

At June 30, 2015, the College reported a liability of \$30,080,234 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The College's proportionate share of the net pension liability was based on its statutorily required contributions in relation to all participating organizations' statutorily required contributions for the measurement period. At September 30, 2014, the College's proportion was 0.13656 percent.

For the year ended June 30, 2015, the College recognized pension expense of \$2,436,583. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 1,109,896	\$ -
Net difference between projected and actual earnings on pension plan investments	-	3,325,382
Changes in proportion and differences between College contributions and proportionate share of contributions	30	-
College contributions subsequent to the measurement date	<u>2,244,220</u>	<u>-</u>
Total	<u><u>\$ 3,354,146</u></u>	<u><u>\$ 3,325,382</u></u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—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 \$2,244,220, 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, 2016. 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
2016	\$ (542,730)
2017	(542,730)
2018	(542,730)
2019	(587,266)

Actuarial assumptions

Valuation Assumptions

Investment rate of return –	8.0% a year for the Non-Hybrid groups and 7.0% a year for the Hybrid group (Pension Plus plan), both rates are compounded annually net of investment and administrative expenses.
Salary increases –	3.5%
Inflation –	2.5%
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 2025 using projection scale BB. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a 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.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—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:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	4.8 %
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
Total	100.0 %	

*Long term rate of return does not include 2.5% 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 employee contributions will be made at the current contribution rate and that contributions from organizations will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the 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:

	<u>1% Lower (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Higher (9%)</u>
College's proportionate share of the net pension liability	\$ 39,658,169	\$ 30,080,234	\$ 22,010,682

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 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE D—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 \$536,000 and employee contributions were approximately \$153,000 for the year ended June 30, 2015.

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, 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.

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.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE D—RETIREMENT PLANS—Continued

Employer Contributions

The College's postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$315,000.

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, 2015.

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 16,305,000	\$ 14,085,000	\$ 855,000	\$ 29,535,000	\$ 1,185,000
Net premium	318,092	436,475	21,794	732,773	-
Compensated absences	2,868,646	1,054,635	997,811	2,925,470	925,471
	<u>\$ 19,491,738</u>	<u>\$ 15,576,110</u>	<u>\$ 1,874,605</u>	<u>\$ 33,193,243</u>	<u>\$ 2,110,471</u>

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
General obligation bonds:			
2003 Community College Building and Site Bonds	3.7 - 4.4%	May 2023	\$ 1,020,000
2005 College Facilities Bonds	3.6 - 4.125%	May 2025	5,125,000
2013 Community College Facility Bonds	2 - 5%	May 2038	9,630,000
2014 Community College Facility Bonds	2 - 4%	May 2039	13,760,000
			<u>\$ 29,535,000</u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE E—LONG-TERM OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2015 follow:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,185,000	\$ 1,130,613	\$ 2,315,613
2017	1,225,000	1,097,923	2,322,923
2018	1,280,000	1,063,623	2,343,623
2019	1,315,000	1,026,005	2,341,005
2020	1,360,000	981,190	2,341,190
2021-2025	7,185,000	4,154,225	11,339,225
2026-2030	4,855,000	2,945,150	7,800,150
2031-2035	5,940,000	1,881,955	7,821,955
2036-2039	5,190,000	530,570	5,720,570
	\$ 29,535,000	\$ 14,811,254	\$ 44,346,254

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, 2015

NOTE G—COMMITMENTS AND CONTINGENCIES

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, 2015 was approximately \$223,000. The following is a schedule of future minimum rental payments required under operating leases for the College.

Year Ending June 30,	Amount
2016	\$ 218,066
2017	208,804
2018	171,813
2019	132,972
2020	60,293
	\$ 791,948

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 \$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 \$3,020,000 for the year ended June 30, 2015.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE I—CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the College adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 68—*Accounting and Financial Reporting for Pensions* and GASB Statement No. 71—*Pension Transition for Contributions Made Subsequent to the Measurement Date*

GASB Statement No. 68 requires governments that participate in cost-sharing defined benefit pension plans to report their proportionate share of the plan’s net pension liability in their statement of net position.

GASB Statement No. 71 addressed the issue of contributions made to the cost-sharing defined benefit plans after the measurement date for the year in which GASB Statement No. 68 is implemented.

The restatement of the beginning of the year net position is as follows:

	Plant Fund	Governmental activities
Beginning net position	\$ 20,880,235	\$ 27,687,357
Deferred outflows of resources - related to pensions	2,130,263	2,130,263
Net pension liability	(31,980,024)	(31,980,024)
Beginning net position, as restated	\$ (8,969,526)	\$ (2,162,404)

The effect on the change in net position of the prior year is undeterminable.

NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENT

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—SUBSEQUENT EVENTS

In October 2015, the College entered into a contract to purchase a building at a cost of approximately \$1,200,000. The project will be paid with available fund balance.

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 6/30 of each fiscal year)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
College's proportion of the net pension liability (%)	0.13656%	-	-	-	-	-	-	-	-	-
College's proportionate share of the net pension liability	\$ 30,080,234	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered-employee payroll	\$ 10,608,895	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	283.54%	-	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	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 9/30 of each fiscal year)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contributions	\$ 2,969,529	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	2,969,529	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 11,290,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	26.30%	-	-	-	-	-	-	-	-	-

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
Notes to Required Supplementary Information
For the year ended June 30, 2015

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
 June 30, 2015

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund
ASSETS							
Current assets							
Cash and cash equivalents	\$ 3,054,886	\$ 3,054,886	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	12,254,220	12,254,220	-	-	-	-	-
Property taxes receivable	175,221	175,221	-	-	-	-	-
State appropriation receivable	1,810,537	1,810,537	-	-	-	-	-
Accounts receivable	6,406,091	6,396,211	9,880	-	-	-	-
Prepaid expenses and other assets	455,413	455,413	-	-	-	-	-
Due from (due to) other funds	-	(6,348,364)	432,446	286,710	4,255	5,431,412	193,541
Total current assets	24,156,368	17,798,124	442,326	286,710	4,255	5,431,412	193,541
Noncurrent assets							
Restricted cash and cash equivalents	1,096,332	-	-	-	-	1,096,332	-
Restricted investments	17,202,760	-	-	-	-	17,202,760	-
Property and equipment							
Land and improvements	1,901,361	-	-	-	-	1,901,361	-
Buildings and improvements	31,948,361	-	-	-	-	31,948,361	-
Equipment	6,804,013	-	-	-	-	6,804,013	-
Construction in progress	6,814,001	-	-	-	-	6,814,001	-
Allowance for depreciation	(17,622,602)	-	-	-	-	(17,622,602)	-
Net property and equipment	29,845,134	-	-	-	-	29,845,134	-
Total noncurrent assets	48,144,226	-	-	-	-	48,144,226	-
Total assets	72,300,594	17,798,124	442,326	286,710	4,255	53,575,638	193,541
DEFERRED OUTFLOWS OF RESOURCES							
Related to pensions	3,354,146	-	-	-	-	3,354,146	-
Total assets and deferred outflows of resources	75,654,740	17,798,124	442,326	286,710	4,255	56,929,784	193,541

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
 June 30, 2015

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund
LIABILITIES							
Current liabilities							
Accounts payable	\$ 2,232,255	\$ 818,752	\$ -	\$ -	\$ -	\$ 1,413,503	\$ -
Accrued interest payable	188,436	-	-	-	-	188,436	-
Accrued payrolls and other compensation	2,375,765	2,375,765	-	-	-	-	-
Deposits	193,541	-	-	-	-	-	193,541
Unearned revenues - tuition	4,956,619	4,956,619	-	-	-	-	-
Bonds, due within one year	1,185,000	-	-	-	-	1,185,000	-
Compensated absences, due within one year	925,471	925,471	-	-	-	-	-
Total current liabilities	12,057,087	9,076,607	-	-	-	2,786,939	193,541
Noncurrent liabilities							
Bonds, less amounts due within one year	29,082,773	-	-	-	-	29,082,773	-
Net pension liabilities	30,080,234	-	-	-	-	30,080,234	-
Compensated absences, less amounts due within one year	1,999,999	1,999,999	-	-	-	-	-
Total noncurrent liabilities	61,163,006	1,999,999	-	-	-	59,163,007	-
Total liabilities	73,220,093	11,076,606	-	-	-	61,949,946	193,541
DEFERRED INFLOWS OF RESOURCES							
Related to pensions	3,325,382	-	-	-	-	3,325,382	-
Total liabilities and deferred inflows of resources	76,545,475	11,076,606	-	-	-	65,275,328	193,541
NET POSITION							
Net investment in capital assets	16,122,729	-	-	-	-	16,122,729	-
Restricted							
Expendable							
Scholarships	139,593	-	-	139,593	-	-	-
Instructional department uses	100,953	-	-	100,953	-	-	-
Loans	4,255	-	-	-	4,255	-	-
Career Tech Center	1,112,395	-	-	-	-	1,112,395	-
Library	641,399	-	-	-	-	641,399	-
Science Center	960,025	-	-	-	-	960,025	-
Debt service	46,700	-	-	-	-	46,700	-
Unrestricted	(20,018,784)	6,721,518	442,326	46,164	-	(27,228,792)	-
Total net position	\$ (890,735)	\$ 6,721,518	\$ 442,326	\$ 286,710	\$ 4,255	\$ (8,345,544)	\$ -

Muskegon Community College
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,
 TRANSFERS AND CHANGES IN NET POSITION**
 For the year ended June 30, 2015

	<u>Combined Total</u>	<u>Eliminations</u>	<u>General Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>	<u>Student Loan Fund</u>	<u>Plant Fund</u>
REVENUES							
Operating revenues							
Tuition and fees (net of scholarship allowances of \$3,766,687)	\$ 11,643,972	\$ (3,766,687)	\$ 15,410,659	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	7,604,637	-	-	-	7,604,637	-	-
State and local grants and contracts	1,321,309	-	-	-	971,264	-	350,045
Nongovernmental grants	34,498	-	-	-	34,498	-	-
Auxiliary activities	457,145	-	-	457,145	-	-	-
Miscellaneous	322,590	-	265,502	-	-	-	57,088
Total operating revenue	21,384,151	(3,766,687)	15,676,161	457,145	8,610,399	-	407,133
EXPENSES							
Operating expenses							
Instruction	16,939,741	-	16,587,983	1,879	233,382	-	116,497
Public services	705,142	-	640,929	54,935	7,082	-	2,196
Instructional support	3,570,494	-	3,527,116	-	18,250	-	25,128
Student services	9,744,762	(3,766,687)	4,937,559	254,491	8,291,468	-	27,931
Institutional administration	3,661,156	-	3,445,846	198,731	-	-	16,579
Operation and maintenance of plant	3,694,856	-	3,318,189	363,289	-	-	13,378
Depreciation and amortization	1,230,328	-	-	-	-	-	1,230,328
Other expenses	272,177	-	-	-	-	-	272,177
Total operating expenses	39,818,656	(3,766,687)	32,457,622	873,325	8,550,182	-	1,704,214
OPERATING INCOME (LOSS)	(18,434,505)	-	(16,781,461)	(416,180)	60,217	-	(1,297,081)

Muskegon Community College
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,
TRANSFERS AND CHANGES IN NET POSITION—CONTINUED**
For the year ended June 30, 2015

	Combined Total	Eliminations	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund
NONOPERATING REVENUES (EXPENSES)							
State appropriations	\$ 9,992,978	\$ -	\$ 9,992,978	\$ -	\$ -	\$ -	\$ -
Property tax levy	10,543,259	-	9,161,601	-	-	-	1,381,658
Gifts	26,899	-	-	-	-	-	26,899
Investment income	1,018	-	(2,146)	-	-	-	3,164
Interest on capital asset - related debt	(871,516)	-	-	-	-	-	(871,516)
Gain on disposal of capital asset	13,536	-	-	-	-	-	13,536
Total nonoperating revenues (expenses)	19,706,174	-	19,152,433	-	-	-	553,741
Change in net position	1,271,669	-	2,370,972	(416,180)	60,217	-	(743,340)
Transfers in (out)	-	-	(1,867,036)	561,970	(62,256)	-	1,367,322
Net change in net position	1,271,669	-	503,936	145,790	(2,039)	-	623,982
Net position at July 1, 2014, as restated	(2,162,404)	-	6,217,582	296,536	288,749	4,255	(8,969,526)
Net position at June 30, 2015	\$ (890,735)	\$ -	\$ 6,721,518	\$ 442,326	\$ 286,710	\$ 4,255	\$ (8,345,544)