Muskegon Community College

REPORT ON FINANCIAL STATEMENTS

June 30, 2016

Muskegon Community College

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

November 11, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise Muskegon Community College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Muskegon Community College and its discretely presented component unit as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information on pages 4 through 14 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016, 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.

Brickley DeLong, P.C.

Muskegon, Michigan

Muskegon Community College

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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, 2016. 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, 2016, the College's revenues and other support exceeded expenses by $4,366,067, 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.

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, 2016 and 2015:

Net Position
As of June 30

(in thousands)

	2016	2015	Change	Percent Change
Assets				
Current assets	$ 20,450	$ 24,156	$ (3,706)	-15.34%
Non-current assets				
Restricted assets	16,172	18,299	(2,127)	-11.62%
Capital assets, net	37,667	29,845	7,822	26.21%
Total assets	74,289	72,300	1,989	2.75%
Deferred Outflows of Resources				
Related to pensions	5,006	3,354	1,652	49.25%
Total assets and deferred outflows of resources	79,295	75,654	3,641	4.81%
Liabilities				
Current liabilities	10,390	12,057	(1,667)	-13.83%
Non-current liabilities				
Bonds	27,830	29,083	(1,253)	-4.31%
Net pension liabilities	34,318	30,080	4,238	14.09%
Compensated absences	2,359	2,000	359	17.95%
Total liabilities	74,897	73,220	1,677	2.29%
Deferred Inflows of Resources				
Related to pensions	923	3,325	(2,402)	-72.24%
Total liabilities and deferred inflows of resources	75,820	76,545	(725)	-0.95%
Net Position				
Net investment in capital assets	26,594	16,123	10,471	64.94%
Restricted	336	3,005	(2,669)	-88.82%
Unrestricted	(23,455)	(20,019)	(3,436)	17.16%
Total net position	$ 3,475	$ (891)	$ 4,366	-490.01%

Current assets decreased $3,706,000 primarily due to a decrease in cash and investments. Cash and investments were directed towards a number of significant capital purchases in the current year. This decrease in funds was partially offset by a $1,845,000 increase in accounts receivable primarily related to a $1,166,000 receivable at year-end for capital outlay appropriations related to the science center. In addition, student outstanding balances from the current fiscal year increased $455,000 due to higher tuition and fee rates than the previous year. State appropriation receivable increased $119,000 due to an increase in the annual State appropriation and contribution for Michigan Public Schools Employees’ Retirement System (MPSERS) Unfunded Actuarial Accrued Liability (UAAL) rate stabilization.

Restricted assets decreased $2,127,000 due to the expenditure of bond proceeds, from the bonds issued by the College in 2013 and 2014, on multiple building projects – Science Center, Downtown Center, Health and Wellness Center, and Arts and Humanities.

Capital assets increased $7,822,000 net of accumulated depreciation. Total additions of $8,967,000 included the remainder of the construction costs for the new science center, and pre-construction phases for the other three projects mentioned above. In addition, the College purchased the Muskegon YMCA (which is now operating as the Lakeshore Fitness Center) for $1,200,000, completed $1,200,000 in infrastructure upgrades at the main campus, and purchased $1,409,000 in equipment related to the MEDC grant (to be reimbursed when the College meets its match). Finally some other building improvements, various equipment purchases and technology upgrades were completed according the capital budget. These additions were offset by the current year impact of depreciation.

Current liabilities decreased $1,667,000 primarily due to a $1,321,000 decrease in accounts payable. In 2015, there were several large payables related to the science center construction project and repair and maintenance services. In addition, accrued payroll decreased $343,000 primarily due to the timing of the year-end payroll accrual.

The long-term portion of the bonds decreased $1,253,000 due to the scheduled bond debt payments the College made on its four bond issues.

In 2015, the College adopted a new Governmental Accounting Standards Board (GASB) Statement No. 68, which requires governments providing defined benefit pensions through a cost-sharing plan to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability increased $4,238,000 from 2015 to 2016.

Summary Operating Results for the Year

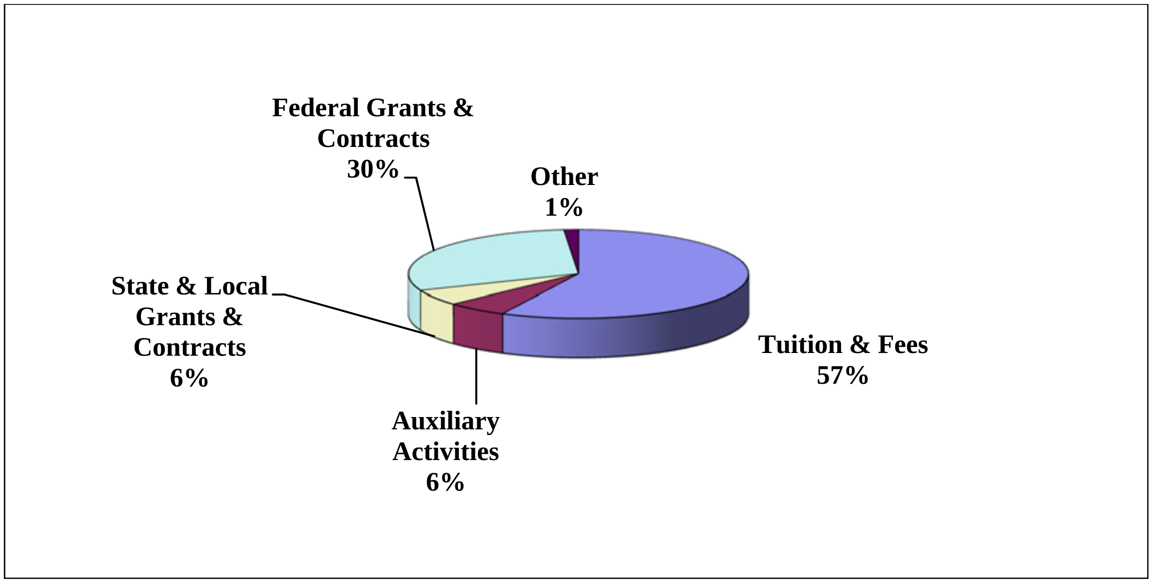
(in thousands**)**

	2016	2015	Change	Percent Change
Operating revenues				
Tuition and fees	$ 12,579	$ 11,644	$ 935	8.03%
Grants and contracts	7,789	8,960	(1,171)	-13.07%
Auxiliary services	1,267	457	810	177.24%
Other	300	323	(23)	-7.12%
Total operating revenues	21,935	21,384	551	2.58%
Total operating expenses	41,690	39,819	1,871	4.70%
Operating loss	(19,755)	(18,435)	(1,320)	-7.16%
Non-operating revenues (expenses)				
State appropriations	9,702	9,993	(291)	-2.91%
Property taxes	10,761	10,543	218	2.07%
Gifts	-	27	(27)	-100.00%
Investment income	32	1	31	3100.00%
Interest on capital asset - related debt	(1,021)	(872)	(149)	-17.09%
Gain (loss) on sale of capital asset	-	14	(14)	100.00%
Total non-operating revenues	19,474	19,706	(232)	-1.18%
Income before other revenues	(281)	1,271	(1,552)	-122.11%
Other Revenues	4,647	-	4,647	N/A
Change in net position	4,366	1,271	3,095	243.51%
Net position - beginning	(891)	(2,162)	1,271	58.79%
Net position - end	$ 3,475	$ (891)	$ 4,366	490.01%

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 $935,000. The College increased tuition rates per contact hour by 3%. Also, the College added a new $5 per contact hour infrastructure fee, and the technology fee remained $20 per contact hour. The total contact hours for fiscal year 2015-2016 decreased by approximately 1,500 or 1.5% from the prior year. The amount of scholarship allowances decreased by $365,000, which increases the amount of tuition and fees reported.

Federal and state grants decreased by $1,171,000. This decrease is due to approximately 10% fewer FAFSA's (Free Application for Federal Student Aid) received by the College, and stricter income eligibility requirements for receiving a Pell grant which reduced the number of students that qualified for this type of financial aid.

Auxiliary activities increased $810,000 primarily due to $651,000 in revenue at the Lakeshore Fitness Center. In addition, the College assumed management of University Park and that resulted in a $60,000 increase. Finally, other course offerings, like experiential learning, resulted in increased revenue.

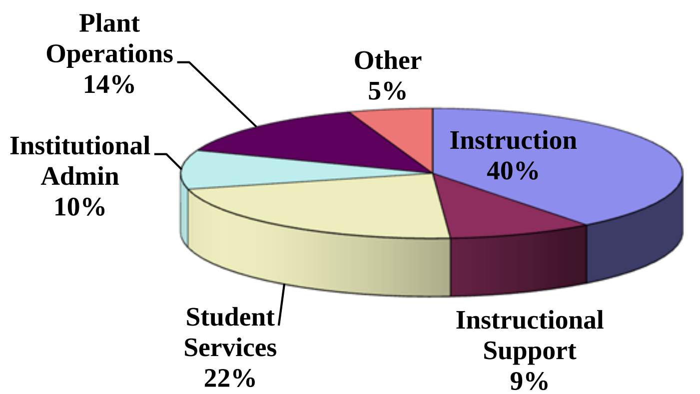
Operating Expenses

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, 2016 and 2015 consist of the following:

(in thousands)

	2016	2015	Change	Percent Change
Instruction	$ 16,502	$ 16,940	$ (438)	-2.59%
Public services	693	705	(12)	-1.70%
Instructional support	3,876	3,571	305	8.54%
Student services	9,250	9,745	(495)	-5.08%
Institutional administration	4,030	3,661	369	10.08%
Operation and maintenance of plant	5,778	3,695	2,083	56.37%
Depreciation and amortization	1,561	1,230	331	26.91%
Other expenses	-	272	(272)	-100.00%
Total	$ 41,690	$ 39,819	$ 1,871	4.70%

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



Operating expenses increased $1,871,000 primarily due to the $2,083,000 increase in Operation and Maintenance of Plant. A significant portion of this increase was the result of operations and improvements at the Lakeshore Fitness Center which the College started operating in October 2015. In addition, the College assumed management of University Park and had other course offerings, like experiential learning, which resulted in increased expenses. These expenses are partially offset by corresponding items mentioned in the operating revenues section. Depreciation increased $331,000, and will continue to increase in future years, as the College continues the commitment to improve the infrastructure and expand the campus. While the College had increased expenses in the above mentioned, savings were experienced in the areas of Instructional expenses and Student Services. A significant portion of this decrease was due to the adjustment in Pension Expense for GASB 68, but Student Services was also impacted by a decrease in Pell Grant.

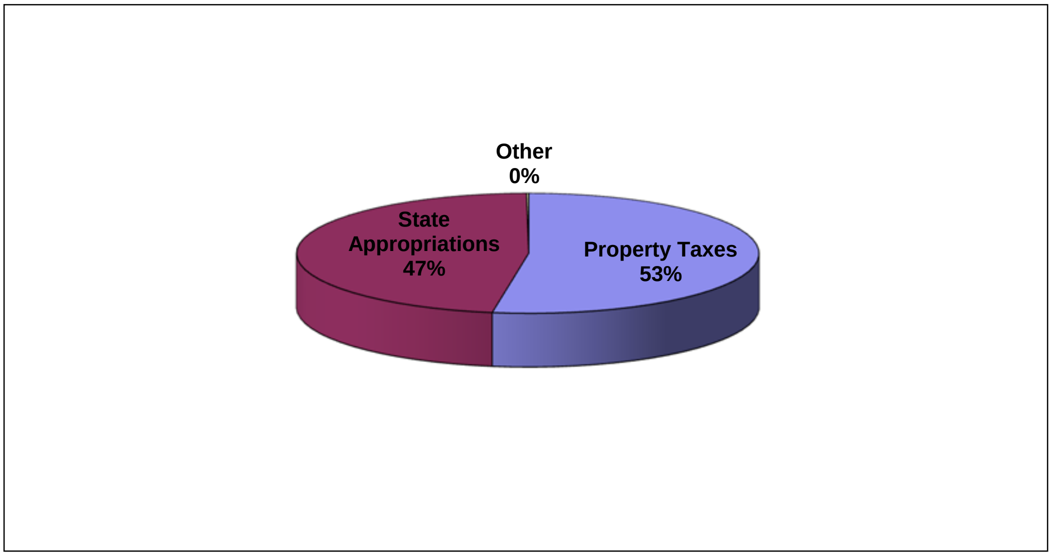
Non-operating Revenues (Expenses)

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:

- Decrease in state appropriations of $291,000 is primarily due to the $810,000 GASB 68 adjustment to MPSERS stabilization rate payments. This was offset by a $130,000 or 1.3% increase in the state aid appropriation and a $368,000 or 3.5% increase in MPSERS stabilization rate payments.
- Property tax revenues increased $218,000 or 2.1% primarily due to the fact the property within the taxing district experienced an increase in taxable value resulting in increased property tax revenues.
- In 2014, income was over accrued resulting in a reduced income number for 2015. Investment income of $31,000 is the result of current investments held in certificates of deposit or money market accounts with yields ranging from 10 to 30 basis points.
- Interest on capital asset - related debt increased $149,000 due to 2015-2016 being the first full year of interest expense associated with the 2014 bonds.

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 State capital appropriations of $4,646,800 during the year ended June 30, 2016.

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 decreased by $1,386,439.

Cash Flows for the Year Ended June 30

(in thousands)

	2016	2015	Change	Percent Change
Cash provided by (used for)				
Operating activities	$ (18,681)	$ (17,295)	$ (1,386)	-8.01%
Noncapital financing activities	20,421	20,393	28	0.14%
Capital and related financing activities	(9,538)	5,630	(15,168)	-269.41%
Investing activities	6,412	(8,585)	14,997	174.69%
Net change in cash and cash equivalents	(1,386)	143	(1,529)	-1069.23%
Cash and cash equivalents - beginning of year	4,152	4,009	143	3.57%
Cash and cash equivalents - end of year	$ 2,766	$ 4,152	$ (1,386)	-33.38%

Capital Assets

At June 30, 2016, the College had $56,851,000 invested in capital assets, with accumulated depreciation of $19,184,000. Depreciation charges totaled $1,561,000 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)

	2016	2015	Change
Land	$ 776	$ 231	$ 545
Construction in progress	1,460	6,814	(5,354)
Land improvements	404	444	(40)
Buildings and improvements	30,152	19,604	10,548
Equipment	4,875	2,752	2,123
Total	$ 37,667	$ 29,845	$ 7,822

Land increased due to the purchase of the Muskegon YMCA (now Lakeshore Fitness Center). Construction in progress decreased due to the new science center being placed in service, and current construction in progress includes pre-construction costs for Downtown Center, Health and Wellness Center, and Arts and Humanities project. Land improvements decreased primarily due to the current year depreciation charges. Buildings and improvements increased due to the addition of the Science Center and Lakeshore Fitness Center. 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 D, in the notes to the financial statements, for more detail.

In the next fiscal year, the College has budgeted for equipment and building improvements of approximately $1,196,000; primarily for technology, instructional equipment, and minor facility renovations. In addition, the College will have significant costs associated with the three building projects mentioned above. These costs will consist primarily of construction costs for the Downtown Center and pre-construction costs for the other two projects. Only those items with a cost of more than $5,000 will be capitalized.

Debt

The College’s long-term debt consists of $29,055,159 in General Obligation – Limited Tax Bonds, issued in 2003, 2005, 2013 and 2014. This compares to $30,267,773 as of June 30, 2015. 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 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 F of the notes to financial statements.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. The current state funding for the College is projected to increase by 1.4% for fiscal year 2016-17. In 2016, property tax revenue increased again making it two consecutive years of increases after four consecutive years of declines. Home sales and new construction continues to improve and in 2017 we expect property taxes to increase another 1%.

The national and state economy has improved, and the state unemployment rate of approximately 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 fifth year in a row is not unexpected and it is being monitored. The Fall 2016 semester saw this trend continue with a slight decline in enrollment of approximately 2% compared to the prior year, but this is better than what most other community colleges in the state are experiencing.

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

A $6.1 million addition and renovation to the health education facility is one of the other projects included in the voter approved bond proposal. The scope of the project has increased resulting in a new cost of $14.1 million, and the College will need to secure other funding sources beyond the millage dollars for this increased cost. In June 2016, the College received planning authorization from the State of Michigan for a $5.6 million capital outlay appropriation which requires a 50% local match. In order for the College to proceed with state financing the project needs to receive construction authorization from the State. The College has started this process and is hopeful to receive approval of construction plans in February 2017. Renovations are projected to begin in the spring of 2017 with completion of the new on campus Health and Wellness Center in summer 2018. In addition, on October 1, 2015 the College purchased the Muskegon YMCA which is now operating under the name of Muskegon Community College Lakeshore Fitness Center, and this location will also serve as part of the overall Health and Wellness Center of the College.

The Board of Trustees decided to relocate the applied technology, entrepreneurism and experiential learning programs to a downtown Muskegon facility. The College purchased the former Muskegon Chronicle building in December 2014 for $700,000 and the Masonic Temple was donated to the College in May 2015. The budget for the construction and renovation of the Downtown Center project is $14.2 million and $7.2 million will come from the millage fund. The College has already been awarded a $2.5 million grant from the Economic Development Administration (EDA), and continues to pursue other grants and donations to fund this project. In addition, the College received a $4.1 million appropriation from the Michigan State Budget Office for the Community Colleges Skilled Trades Equipment Program for equipment only which requires a $2.6 million match. Construction started in August 2016 and estimated completion of the project is fall 2017.

A $6.1 million renovation project of the current applied technology building to be the future site of the arts and humanities programs is also planned. An oversight committee has been created to develop renovation recommendations, and they continue to work with the architect on design principles, budget, etc. Estimated completion of the project is 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.

In September 2016, the College started the process to issue refunding bonds for the outstanding balances of the 2003 and 2005 bonds. This refunding will save the College $529,000 in total debt service payments over the next nine years, at which time the refunding bonds will be paid off. The College closed on the 2016 Refunding Bonds on November 10, 2016.

Muskegon Community College
STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Current assets	
Cash and cash equivalents	$ 1,990,520
Investments	7,678,761
Property taxes receivable	97,762
State appropriation receivable	1,929,706
Accounts receivable	8,251,372
Prepaid expenses and other assets	501,480
Total current assets	20,449,601
Noncurrent assets	
Restricted cash and cash equivalents	774,259
Restricted investments	15,398,540
Property and equipment, net	37,667,395
Total noncurrent assets	53,840,194
Total assets	74,289,795
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	5,005,678
Total assets and deferred outflows of resources	79,295,473
LIABILITIES	
Current liabilities	
Accounts payable	798,032
Due to Muskegon Community College Foundation	2,186
Accrued interest payable	182,987
Accrued payroll and other compensation	2,060,286
Deposits	156,639
Unearned revenues - tuition	5,191,375
Bonds, due within one year	1,225,000
Compensated absences, due within one year	773,527
Total current liabilities	10,390,032
Noncurrent liabilities	
Bonds, less amounts due within one year	27,830,159
Net pension liabilities	34,318,140
Compensated absences, less amounts due within one year	2,358,344
Total noncurrent liabilities	64,506,643
Total liabilities	74,896,675
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	923,466
Total liabilities and deferred inflows of resources	75,820,141
NET POSITION	
Net investment in capital assets	26,594,174
Restricted	
Expendable	
Scholarships	117,075
Instructional department uses	107,756
Debt service	110,943
Unrestricted	(23,454,616)
Total net position	**$ 3,475,332**

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, 2016

REVENUES	
Operating revenues	
Tuition and fees (net of scholarship allowances of $3,402,380)	$ 12,578,762
Federal grants and contracts	6,529,156
State and local grants and contracts	1,150,198
Nongovernmental grants	109,600
Auxiliary activities	1,267,386
Miscellaneous	300,130
Total operating revenue	21,935,232
EXPENSES	
Operating expenses	
Instruction	16,501,844
Public services	693,389
Instructional support	3,875,889
Student services	9,249,920
Institutional administration	4,029,897
Operation and maintenance of plant	5,778,276
Depreciation and amortization	1,561,059
Total operating expenses	41,690,274
Operating loss	(19,755,042)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	9,701,992
Property tax levy	10,760,996
Investment income	31,972
Interest on capital asset - related debt	(1,020,651)
Total nonoperating revenues (expenses)	19,474,309
Income (loss) before other revenues	(280,733)
OTHER REVENUES	
State capital appropriations	4,646,800
Change in net position	4,366,067
Net position at July 1, 2015	(890,735)
Net position at June 30, 2016	**$ 3,475,332**

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	12,097,322
Grants and contracts		7,788,954
Payments to suppliers		(13,255,114)
Payments for employees		(26,880,004)
Auxiliary enterprise charges		1,267,386
Other		300,130
Net cash used for operating activities		(18,681,326)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local property taxes		10,838,455
State appropriations		9,582,823
Net cash provided by noncapital financing activities		20,421,278
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets		(10,780,141)
Principal paid on capital debt		(1,185,000)
Interest paid on capital debt		(1,053,714)
Capital appropriations		3,480,813
Net cash used for capital and related financing activities		(9,538,042)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments		6,379,679
Interest on investments		31,972
Net cash provided by investing activities		6,411,651
Net change in cash and cash equivalents		(1,386,439)
Cash and cash equivalents at July 1, 2015		4,151,218
Cash and cash equivalents at June 30, 2016	**$**	**2,764,779**
Reconciliation of cash and cash equivalents to Statement of Net Position		
Cash and cash equivalents	$	1,990,520
Restricted cash and cash equivalents		774,259
	$	**2,764,779**
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	$	(19,755,042)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization expense		1,561,059
(Increases) decreases in assets		
Accounts receivable		(679,294)
Prepaid expenses and other assets		(46,067)
Increases (decreases) in liabilities		
Accounts payable		(35,216)
Accrued payroll and other compensation		75,380
Deposits		(36,902)
Unearned revenues - tuition		234,756
Net cash used for operating activities	**$**	**(18,681,326)**

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, 2016

ASSETS	
Cash	$ 146,962
Pledges receivable	4,240
Beneficial interest in assets held by others	150,899
Due from Muskegon Community College	2,186
Total assets	304,287
NET ASSETS	
Unrestricted	157,244
Temporarily restricted	147,043
Total net assets	**$ 304,287**

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, 2016

Revenues and support	
Contributions	
Cash	$ 313,344
In-kind	137,091
Gain from beneficial interest in assets held by others	3,538
Total revenues and support	453,973
Expenses	
Distributions for the benefit of Muskegon Community College	418,318
Management and general	107,676
Fundraising	21,289
Total expenses	547,283
Change in net assets	(93,310)
Net assets at July 1, 2015	397,597
Net assets at June 30, 2016	**$ 304,287**

The accompanying notes are an integral part of this statement

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Property and Equipment—Continued
Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year ended June 30, 2016, the College capitalized $76,899 of interest.

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

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

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

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 2015 state taxable value for real/personal property of the College totaled approximately $4,338,000,000. 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, 2016, the College had the following investments:

Investment Type	**Fair Value**	**Weighted Average Maturity (Days)**	**Standard & Poor's Rating**	**Percent**
Money market mutual fund	$ 15,398,540	30	not rated	68.8 %
Certificate of Deposit Account Registry Service (CDARS)	6,970,999	64	not rated	31.2
Total fair value	**$ 22,369,539**			**100.0** %
Portfolio weighted average maturity		**41**		

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, 2016, $2,837,361 of the College's bank balance of $3,795,664 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, 2016 are comprised of unspent bond proceeds issued for the construction and renovation of various College facilities.

NOTE C— FAIR VALUE MEASUREMENTS

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

NOTE C— FAIR VALUE MEASUREMENTS –Continued

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

Level 2 Inputs to the valuation methodology include the following:

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

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

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

The following table sets forth by level, within the fair value hierarchy, the College's assets at fair value on a recurring basis as of June 30, 2016:

	Assets at Fair Value as of June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	**$ -**	**$ 15,398,540**	**$ -**	**$ 15,398,540**

NOTE D—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 231,371	$ 544,500	$ -	$ 775,871
Construction in progress	6,814,001	1,304,881	6,659,086	1,459,796
Total capital assets, not being depreciated	7,045,372	1,849,381	6,659,086	2,235,667
Capital assets, being depreciated:				
Land improvements	1,669,990	-	-	1,669,990
Buildings and improvements	31,948,361	11,399,807	-	43,348,168
Equipment	6,804,013	2,793,218	-	9,597,231
Total capital assets, being depreciated	40,422,364	14,193,025	-	54,615,389
Less accumulated depreciation:				
Land improvements	1,225,939	40,259	-	1,266,198
Buildings and improvements	12,344,918	850,768	-	13,195,686
Equipment	4,051,745	670,032	-	4,721,777
Total accumulated depreciation	17,622,602	1,561,059	-	19,183,661
Total capital assets, being depreciated, net	22,799,762	12,631,966	-	35,431,728
Capital assets, net	**$ 29,845,134**	**$ 14,481,347**	**$ 6,659,086**	**$ 37,667,395**

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—RETIREMENT PLANS

Employee Retirement System – Defined Benefit Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html.

NOTE E—RETIREMENT PLANS—Continued

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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.

NOTE E—RETIREMENT PLANS—Continued

Regular Retirement

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

Post-Retirement Adjustments

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

Contributions

The majority of the members currently participate on a contributory basis. 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, 2015.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

The College's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately $4,552,400, including Section 147c contributions.

For the year ended June 30, 2016, the College and employee defined contribution plan contributions were $70,837 and $105,425, respectively.

NOTE E—RETIREMENT PLANS—Continued

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

At June 30, 2016, the College reported a liability of $34,318,140 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014, 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, 2015, the College's proportion was 0.14050 percent.

For the year ended June 30, 2016, the College recognized pension expense of $3,112,599.

At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 113,672
Changes of assumptions	844,985	-
Net difference between projected and actual earnings on pension plan investments	175,166	-
Changes in proportion and differences between College contributions and proportionate share of contributions	787,670	-
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	809,794
College contributions subsequent to the measurement date	3,197,857	-
Total	**$ 5,005,678**	**$ 923,466**

NOTE E—RETIREMENT PLANS—Continued

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

The College contributions subsequent to the measurement date of $3,197,857, 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, 2017. 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
2017	$ 308,281
2018	308,281
2019	262,462
2020	815,125

Actuarial assumptions

Valuation Assumptions

Investment rate of return –	8% a year for the MIP and Basic plans and 7% a year for the Pension Plus plan, both rates are compounded annually net of investment and administrative expenses.
Salary increases –	3.5%
Inflation –	2.1%
Cost-of-living adjustments –	3% annual non-compounded for MIP members

Mortality Assumptions

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

Experience Study

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

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE E—RETIREMENT PLANS—Continued

Actuarial assumptions—Continued

Long-Term Expected Rate of Return on Investments—Continued
The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount rate
The discount rate used to measure the total pension liability was 8 percent (7 percent for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that 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:

	1% Lower (7%)	Discount Rate (8%)	1% Higher (9%)
College's proportionate share of the net pension liability	$ 44,244,879	$ 34,318,140	$ 25,949,492

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 2015 Comprehensive Annual Financial Report.

NOTE E—RETIREMENT PLANS—Continued

Defined Contribution Plans

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

The ORP is a non-voluntary defined-contribution plan in which the College contributes 14.0 percent and the employee contributes 4.0 percent of the participating employee’s includible compensation. Participants are immediately 100 percent vested in all ORP contributions. Participating employees elect their own allocation of contributions among the available investment vehicles offered by TIAA-CREF. ORP retirement benefits are based on the accumulation of contributions and the related investment income for each participant. Distributions of retirement benefits are available under the ORP when participants attain age 55. The College’s contributions to the ORP were approximately $627,400 and employee contributions were approximately $179,200 for the year ended June 30, 2016.

Other Postemployment Benefits

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

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

Retiree Healthcare Reform of 2012

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

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

NOTE E—RETIREMENT PLANS—Continued

Employer Contributions

The College is required to contribute the full actuarial funding contribution amount to fund retiree health care benefits. The contribution requirements of the School District are established and may be amended by the MPSERS Board of Trustees. The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% - 2.71% of covered payroll for the period March 10, 2015 to September 30, 2015, and from 6.4% - 6.83% of covered payroll for the period October 1, 2015 to June 30, 2016. The School District post-employment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $850,000, $315,000 and $705,000 respectively, and were equal to the required contribution for those years.

NOTE F—LONG-TERM OBLIGATIONS

Summary of Long-Term Obligations

The following is a summary of long-term obligations activity for the College for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General obligation bonds	$ 29,535,000	$ -	$ 1,185,000	$ 28,350,000	$ 1,225,000
Net premium	732,773	-	27,614	705,159	-
Compensated absences	2,925,470	945,801	739,400	3,131,871	773,527
	$ 33,193,243	**$ 945,801**	**$ 1,952,014**	**$ 32,187,030**	**$ 1,998,527**

	Interest Rate	Date of Maturity	Balance
General obligation bonds:			
2003 Community College Building and Site Bonds	3.6 - 4.4%	May 2023	$ 910,000
2005 College Facilities Bonds	3.5 - 4.125%	May 2025	4,680,000
2013 Community College Facility Bonds	2 - 5%	May 2038	9,360,000
2014 Community College Facility Bonds	2 - 4%	May 2039	13,400,000
			$ 28,350,000

NOTE F—LONG-TERM OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2016 follow:

Year Ending June 30,	Principal	Interest	Total
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	1,400,000	937,098	2,337,098
2022-2026	6,680,000	3,880,718	10,560,718
2027-2031	5,055,000	2,750,950	7,805,950
2032-2036	6,185,000	1,634,125	7,819,125
2037-2039	3,850,000	309,010	4,159,010
	$ 28,350,000	**$ 13,680,642**	**$ 42,030,642**

NOTE G—RISK MANAGEMENT

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

The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to general and auto liability, motor vehicle physical damage, and property. Member contributions, which provide for losses incurred, reinsurance premiums, and risk management fees are allocated according to the actual costs incurred for each member. A member stop-loss fund provides for losses exceeding $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.

NOTE H—COMMITMENTS AND CONTINGENCIES

Operating Leases

The College leases building space and equipment under operating lease agreements expiring in December 2017 and January 2020, respectively. Expense for the year ended June 30, 2016 was approximately $245,000. The following is a schedule of future minimum rental payments required under operating leases for the College.

Year Ending June 30,	Amount
2017	$ 228,336
2018	179,145
2019	140,108
2020	70,156
	$ 617,745

Grant Programs

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

Commitments

As of June 30, 2016, the College had approved architect and construction commitments of approximately $13,066,000.

NOTE I—SELF-INSURANCE

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

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments for claims to the third party administrator, which have been charged to expense, approximated $2,743,000 for the year ended June 30, 2016.

NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENTS

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

GASB Statement 77—*Tax Abatement Disclosures* was issued by the GASB in August 2015 and will be effective for the College's 2017 fiscal year. This Statement requires Colleges to disclose the following information about tax abatement agreements entered into by other governments that reduce the College's tax revenues: the names of the governments that entered into the agreements, the specific taxes being abated, and the gross dollar amount of taxes abated during the period

NOTE K—SUBSEQUENT EVENT

On November 10, 2016, the College issued $5,045,000 of 2016 Refunding Bonds to refund the entire outstanding balance of the 2003 Community College Building and Site Bonds and $4,220,000 of the 2005 College Facilities Bonds. The College refunded these bonds to reduce its total debt service payments over the next 9 years by $529,158 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $503,676.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Community College

REQUIRED SUPPLEMENTARY INFORMATION

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

Michigan Public School Employees Retirement System

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

	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
College's proportion of the net pension liability (%)	0.14050%	0.13656%	-	-	-	-	-	-	-	-
College's proportionate share of the net pension liability	$ 34,318,140	$ 30,080,234	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
College's covered-employee payroll	$ 13,419,535	$ 10,608,895	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	255.73%	283.54%	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%	-	-	-	-	-	-	-	-

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

Muskegon Community College

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the College's Contributions

Michigan Public School Employees Retirement System

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contributions	$ 4,481,527	$ 3,967,493	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the statutorily required contributions	4,481,527	3,967,493	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
College's covered-employee payroll	$ 14,691,726	$ 11,290,051	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered-employee payroll	30.50%	35.14%	-	-	-	-	-	-	-	-

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

Changes of benefit terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
June 30, 2016

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Pension Liability Fund	Agency Fund
ASSETS								
Current assets								
Cash and cash equivalents	$ 1,990,520	$ 1,773,702	$ 216,818	$ -	$ -	$ -	$ -	$ -
Investments	7,678,761	7,678,761	-	-	-	-	-	-
Property taxes receivable	97,762	97,762	-	-	-	-	-	-
State appropriation receivable	1,929,706	1,929,706	-	-	-	-	-	-
Accounts receivable	8,251,372	8,233,445	17,927	-	-	-	-	-
Prepaid expenses and other assets	501,480	416,792	84,688	-	-	-	-	-
Due from (due to) other funds	-	(1,345,490)	(18,833)	337,621	-	870,063	-	156,639
Total current assets	20,449,601	18,784,678	300,600	337,621	-	870,063	-	156,639
Noncurrent assets								
Restricted cash and cash equivalents	774,259	-	-	-	-	774,259	-	-
Restricted investments	15,398,540	-	-	-	-	15,398,540	-	-
Property and equipment								
Land and improvements	2,445,861	-	-	-	-	2,445,861	-	-
Buildings and improvements	43,348,168	-	-	-	-	43,348,168	-	-
Equipment	9,597,231	-	-	-	-	9,597,231	-	-
Construction in progress	1,459,796	-	-	-	-	1,459,796	-	-
Allowance for depreciation	(19,183,661)	-	-	-	-	(19,183,661)	-	-
Net property and equipment	37,667,395	-	-	-	-	37,667,395	-	-
Total noncurrent assets	53,840,194	-	-	-	-	53,840,194	-	-
Total assets	74,289,795	18,784,678	300,600	337,621	-	54,710,257	-	156,639
DEFERRED OUTFLOWS OF RESOURCES								
Related to pensions	5,005,678	-	-	-	-	-	5,005,678	-
Total assets and deferred outflows of resources	79,295,473	18,784,678	300,600	337,621	-	54,710,257	5,005,678	156,639

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
June 30, 2016

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Pension Liability Fund	Agency Fund
LIABILITIES								
Current liabilities								
Accounts payable	$ 798,032	$ 571,803	$ 52,368	$ -	$ -	$ 173,861	$ -	$ -
Due to Muskegon Community College Foundation	2,186	2,186	-	-	-	-	-	-
Accrued interest payable	182,987	-	-	-	-	182,987	-	-
Accrued payrolls and other compensation	2,060,286	2,032,926	27,360	-	-	-	-	-
Deposits	156,639	-	-	-	-	-	-	156,639
Unearned revenues - tuition	5,191,375	5,174,176	17,199	-	-	-	-	-
Bonds, due within one year	1,225,000	-	-	-	-	1,225,000	-	-
Compensated absences, due within one year	773,527	773,527	-	-	-	-	-	-
Total current liabilities	10,390,032	8,554,618	96,927	-	-	1,581,848	-	156,639
Noncurrent liabilities								
Bonds, less amounts due within one year	27,830,159	-	-	-	-	27,830,159	-	-
Net pension liabilities	34,318,140	-	-	-	-	-	34,318,140	-
Compensated absences, less amounts due within one year	2,358,344	2,358,344	-	-	-	-	-	-
Total noncurrent liabilities	64,506,643	2,358,344	-	-	-	27,830,159	34,318,140	-
Total liabilities	74,896,675	10,912,962	96,927	-	-	29,412,007	34,318,140	156,639
DEFERRED INFLOWS OF RESOURCES								
Related to pensions	923,466	-	-	-	-	-	923,466	-
Total liabilities and deferred inflows of resources	75,820,141	10,912,962	96,927	-	-	29,412,007	35,241,606	156,639
NET POSITION								
Net investment in capital assets	26,594,174	-	-	-	-	26,594,174	-	-
Restricted								
Expendable								
Scholarships	117,075	-	-	117,075	-	-	-	-
Instructional department uses	107,756	-	-	107,756	-	-	-	-
Debt service	110,943	-	-	-	-	110,943	-	-
Unrestricted	(23,454,616)	7,871,716	203,673	112,790	-	(1,406,867)	(30,235,928)	-
Total net position	**$ 3,475,332**	**$ 7,871,716**	**$ 203,673**	**$ 337,621**	**$ -**	**$ 25,298,250**	**$ (30,235,928)**	**$ -**

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION
For the year ended June 30, 2016

	Combined Total	Eliminations	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Pension Liability Fund
REVENUES								
Operating revenues								
Tuition and fees (net of scholarship allowances of $3,402,380)	$ 12,578,762	$ (3,402,380)	$ 15,981,142	$ -	$ -	$ -	$ -	$ -
Federal grants and contracts	6,529,156	-	-	-	6,529,156	-	-	-
State and local grants and contracts	1,150,198	-	-	-	1,150,198	-	-	-
Nongovernmental grants	109,600	-	-	-	109,600	-	-	-
Auxiliary activities	1,267,386	-	-	1,267,386	-	-	-	-
Miscellaneous	300,130	-	300,130	-	-	-	-	-
Total operating revenue	21,935,232	(3,402,380)	16,281,272	1,267,386	7,788,954	-	-	-
EXPENSES								
Operating expenses								
Instruction	16,501,844	-	16,601,442	-	221,075	-	-	(320,673)
Public services	693,389	-	558,217	145,492	2,021	-	-	(12,341)
Instructional support	3,875,889	-	3,924,778	-	18,400	-	-	(67,289)
Student services	9,249,920	(3,402,380)	4,886,223	312,248	7,548,398	-	-	(94,569)
Institutional administration	4,029,897	-	3,770,087	325,868	-	-	450	(66,508)
Operation and maintenance of plant	5,778,276	-	3,578,148	2,106,227	832	-	157,025	(63,956)
Depreciation and amortization	1,561,059	-	-	-	-	-	1,561,059	-
Total operating expenses	41,690,274	(3,402,380)	33,318,895	2,889,835	7,790,726	-	1,718,534	(625,336)
OPERATING INCOME (LOSS)	(19,755,042)	-	(17,037,623)	(1,622,449)	(1,772)	-	(1,718,534)	625,336

Muskegon Community College

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION—CONTINUED

For the year ended June 30, 2016

	Combined Total	Eliminations	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Pension Liability Fund
NONOPERATING REVENUES (EXPENSES)								
State appropriations	$ 9,701,992	$ -	$ 10,511,786	$ -	$ -	$ -	$ -	$ (809,794)
Property tax levy	10,760,996	-	9,333,381	-	-	-	1,427,615	-
Investment income	31,972	-	8,860	-	-	-	23,112	-
Interest on capital asset - related debt	(1,020,651)	-	-	-	-	-	(1,020,651)	-
Total nonoperating revenues (expenses)	19,474,309	-	19,854,027	-	-	-	430,076	(809,794)
Income (loss) before other revenues	(280,733)	-	2,816,404	(1,622,449)	(1,772)	-	(1,288,458)	(184,458)
OTHER REVENUES								
State capital appropriation	4,646,800	-	-	-	-	-	4,646,800	-
Change in net position	4,366,067	-	2,816,404	(1,622,449)	(1,772)	-	3,358,342	(184,458)
Transfers in (out)	-	-	(1,666,206)	1,383,796	52,683	(4,255)	233,982	-
Net change in net position	4,366,067	-	1,150,198	(238,653)	50,911	(4,255)	3,592,324	(184,458)
Net position at July 1, 2015	(890,735)	-	6,721,518	442,326	286,710	4,255	21,705,926	(30,051,470)
Net position at June 30, 2016	**$ 3,475,332**	**$ -**	**$ 7,871,716**	**$ 203,673**	**$ 337,621**	**$ -**	**$ 25,298,250**	**$ (30,235,928)**