



{Michigan Community College Association}

Trustees Summer
Institute
July 23, 2015

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Agenda

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- Understanding College Funds
- Revenue Sources and Expense Classification
- Statement of Net Position
- Reading the Financial Statements
- Upcoming Accounting Pronouncement
- Key Ratio's to consider

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Understanding College Funds

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General Fund	Primary Operating Fund
Auxiliary Fund	College bookstore and cafeteria
Designated Fund	Board designated money
Restricted Fund	Federal, state, and local grants
Plant Fund	Bonded debt and capital related activities
Agency Fund	Student club activity

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Revenue Sources and Expense Classifications

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- Operating Revenue Sources
 - › **Tuition and fees** (fees = service, course, registration, laboratory, technology and infrastructure)
 - › **Federal Grants** (SEOG, FWS, Vocational Education, WIA)
 - › **State and Local Grants** (Michigan Tuition Incentive, Community Foundation Scholarship Fund)
 - › **Auxiliary Enterprises** (Bookstore & Cafeteria)
- Non-operating Revenue Sources
 - › Pell Grants
 - › **State Appropriations**
 - › **Property Taxes**

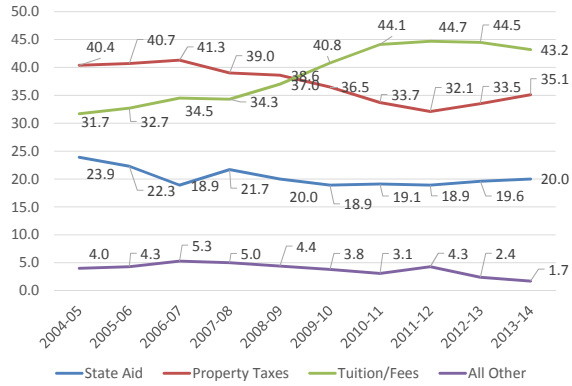
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Three Legged Stool Concept General Fund

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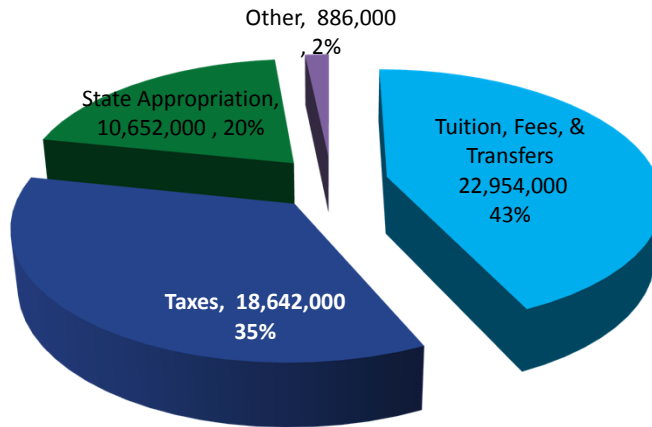


MI Comm Colleges Revenue by source
(%age)



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Average Operating Fund Revenue Year Ended June 30, 2014



Total Average Revenue: \$53,134,000

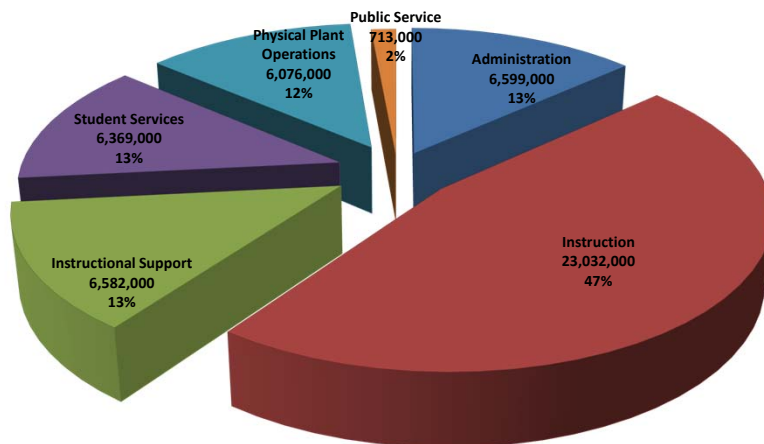
Expense Classifications

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- Operating Expenses (with examples)
 - › Instruction (faculty salaries and benefits, classroom supplies)
 - › Instructional support (Academic affairs, corporate training, library, career education)
 - › Student services (Enrollment services, admission office, financial aid)
 - › Institutional administration (President's office, financial services, marketing)
 - › Physical plant operations (Campus safety, building & grounds, facilities services)
 - › Auxiliary enterprises (Bookstore and Cafeteria)
 - › Repairs and maintenance
 - › Depreciation Expense
- Non-operating Expenses – Interest on capital asset-related debt
- Transfers In (Out)

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Average Operating Fund Expenditures Year Ended June 30, 2014



Total Average Operating Fund Expenditures: \$49,371,000

Combining Statement of Revenue and Expenses Year-ended June 30, 2014

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	General Fund	Auxiliary Fund	Restricted Fund	Plant Fund	Total	Eliminations	Combined Total
Operating Revenue							
Tuition and fees - Net of scholarship allowance	\$ 16,000,000	\$ 200,000	\$ 500,000	\$ -	\$ 16,700,000	\$ (5,000,000)	\$ 11,700,000
Federal grants and contracts	-	-	2,000,000	-	2,000,000	-	2,000,000
State grants and contracts	250,000	-	500,000	-	750,000	-	750,000
Private gifts, grants, and contracts	50,000	-	1,500,000	500,000	2,050,000	-	2,050,000
Sales and services of auxiliary activities - Net of scholarship allowance	100,000	4,000,000	-	-	4,100,000	(1,000,000)	3,100,000
Other sources	1,000,000	150,000	150,000	-	1,300,000	(275,000)	1,025,000
Total operating revenue	17,400,000	4,350,000	4,650,000	500,000	26,900,000	(6,275,000)	20,625,000
Operating Expenses							
Instruction	19,500,000	-	1,300,000	-	20,800,000	-	20,800,000
Public service	150,000	-	700,000	-	850,000	-	850,000
Instructional support	6,000,000	-	-	-	6,000,000	-	6,000,000
Student services	3,500,000	300,000	14,000,000	-	17,800,000	(5,000,000)	12,800,000
Institutional administration	4,500,000	-	-	-	4,500,000	-	4,500,000
Physical plant operations	4,000,000	-	-	500,000	4,500,000	-	4,500,000
Independent operations	-	3,000,000	-	-	3,000,000	(1,275,000)	1,725,000
Depreciation	-	-	-	2,000,000	2,000,000	-	2,000,000
Total operating expenses	37,650,000	3,300,000	16,000,000	2,500,000	59,450,000	(6,275,000)	53,175,000
Operating (Loss) Income	(20,250,000)	1,050,000	(11,350,000)	(2,000,000)	(32,550,000)	-	(32,550,000)
Nonoperating Revenue (Expenses)							
State appropriations	10,000,000	-	35,000	-	10,035,000	-	10,035,000
Property taxes	10,000,000	-	-	2,500,000	12,500,000	-	12,500,000
Pell revenue	-	-	12,000,000	-	12,000,000	-	12,000,000
Investment income	50,000	-	-	10,000	60,000	-	60,000
Interest on capital asset - Related debt	-	-	-	(150,000)	(150,000)	-	(150,000)
Debt issuance cost	-	-	-	-	-	-	-
Net nonoperating revenue	20,050,000	-	12,035,000	2,360,000	34,445,000	-	34,445,000
Decrease) Increase in Net Position - Before transfers	(200,000)	1,050,000	685,000	360,000	1,895,000	-	1,895,000
Transfers	(50,000)	(500,000)	(675,000)	1,225,000	-	-	-
Increase (Decrease) in Net Position	(250,000)	550,000	10,000	1,585,000	1,895,000	-	1,895,000
Net Position - Beginning of year	5,120,000	80,000	240,000	47,865,000	53,305,000	-	53,305,000
Net Position - End of year	\$ 4,870,000	\$ 630,000	\$ 250,000	\$ 49,450,000	\$ 55,200,000	\$ -	\$ 55,200,000

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Statement of Net Position

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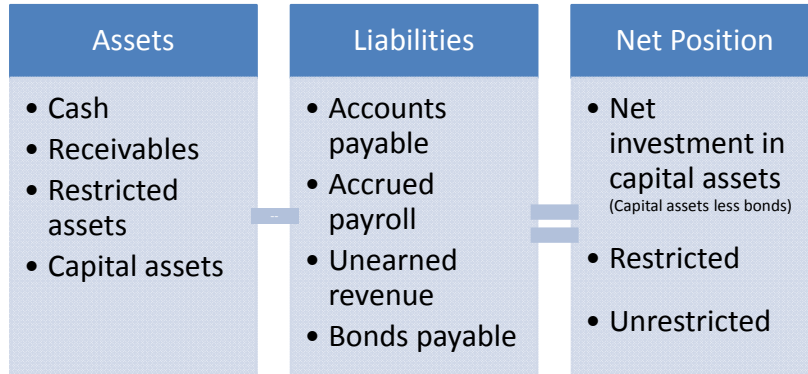
- Statement of Net Position (Also known as – Balance Sheet)
 - › Illustrates the College's financial health at a point in time
 - › Net Position is also referred to as: fund balance, equity, net assets
 - › Home mortgage example: Asset (home) - Liabilities (mortgage) = net position (equity in the home)



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Statement of Net Position

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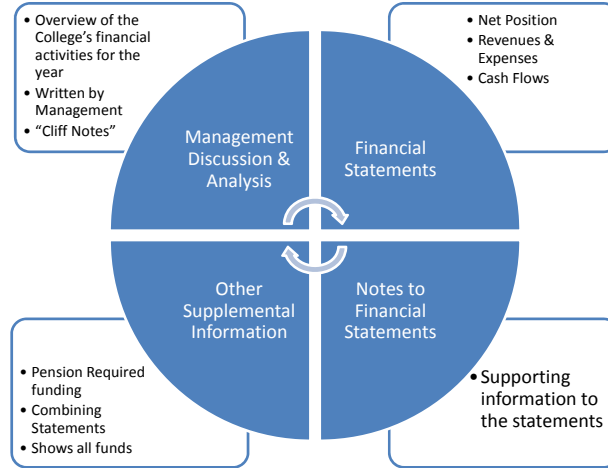
Statement of Net Position June 30, 2014

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	General Fund	Auxiliary Fund	Restricted Fund	Plant Fund	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 10,000,000	\$ -	\$ -	\$ -	10,000,000
Short-term investments	3,000,000	-	-	2,000,000	5,000,000
Accounts receivable - Net	3,250,000	250,000	1,000,000	500,000	5,000,000
Other current assets	800,000	500,000	-	-	1,300,000
Due (to) from other funds	(4,000,000)	-	-	4,000,000	-
Total current assets	13,050,000	750,000	1,000,000	6,500,000	21,300,000
Noncurrent assets:					
Restricted cash	-	-	1,000,000	3,000,000	4,000,000
Long-term investments	800,000	-	-	-	800,000
Capital assets	-	-	-	51,000,000	51,000,000
Total noncurrent assets	800,000	-	1,000,000	54,000,000	55,800,000
Total assets	13,850,000	750,000	2,000,000	60,500,000	77,100,000
Liabilities					
Current liabilities:					
Accounts payable	1,980,000	20,000	-	-	2,000,000
Accrued payroll and related liabilities	1,500,000	-	-	-	1,500,000
Unearned revenue	1,300,000	-	1,700,000	-	3,000,000
Accrued retirement and compensated absences - Current	900,000	50,000	50,000	-	1,000,000
Bonds payable - Current	-	-	-	1,000,000	1,000,000
Unamortized bond premium - Current	-	-	-	-	-
Other current liabilities	800,000	50,000	-	50,000	900,000
Total current liabilities	6,480,000	120,000	1,750,000	1,050,000	9,400,000
Noncurrent liabilities:					
Accrued retirement and compensated absences - Noncurrent	2,500,000	-	-	-	2,500,000
Bonds payable - Noncurrent	-	-	-	10,000,000	10,000,000
Total noncurrent liabilities	2,500,000	-	-	10,000,000	12,500,000
Total liabilities	8,980,000	120,000	1,750,000	11,050,000	21,900,000
Net Position					
Net investment in capital assets	-	-	-	40,000,000	40,000,000
Restricted for:					
Expendable scholarships and fellowships	-	-	250,000	-	250,000
Capital improvements	-	-	-	9,000,000	9,000,000
Unrestricted	4,870,000	630,000	-	450,000	5,950,000
Total net position	\$ 4,870,000	\$ 630,000	\$ 250,000	\$ 49,450,000	\$ 55,200,000

Reading the Financial Statements

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"Nope, our financial report doesn't look any better in 3D."

Management's Discussion & Analysis

- **The most important part of your statement for the reader**
 - › Trend info is informative
 - › This is your business story
 - › Flexibility in required elements
 - › Should be concise and to the point
 - › Be creative – think pictures and executive summary
 - › Be strategic – what does the public want to hear!

Statement of Net Position

- Good
 - › Order of liquidity for Current Portion
- Bad
 - › “Position” vs “Asset” vs “Fund balance”
 - › Current and Non-current
- Ugly
 - › Deferred inflows and outflows

Statement of Revenues, Expenses and Changes in Net Position

- Good
 - › Simplified – items out of control of institution in “non-operating” or “other”
- Bad
 - › Interest expense in non-operating
 - › Scholarship allowance + scholarship allowance does not equal aid given
 - › Depreciation and Operation/Maintenance are not allocated

Statement of Revenues, Expenses and Changes in Net Position

- Ugly
 - › Pell is non-operating
 - › Operating loss
 - › Definition of operations isn't same as definition used in current funds

Statement of Cash Flows

- Good
 - › Ties to cash!
- Bad
 - › Very time consuming to prepare
- Ugly
 - › Has a lot of information
 - › No one (almost no one) cares!

Footnotes

- Good
 - › Discloses Accounting policies
 - › Should follow flow of balance sheet and flow and changes in net position
 - › Capital assets and debt are pretty easy to prepare

Footnotes

- Bad
 - › Cash & Investments
 - › Pension
 - › OPEB
- Ugly
 - › Derivative Instruments
 - › Have become very cumbersome

Additional Information

- Required or Optional
 - › Consolidating fund schedules (Required by State)
 - › Pension disclosures
 - › Endowment disclosures (optional)
 - › Others (optional)
 - › If not required, consider no longer doing

Upcoming Pronouncements

- GASB 68
 - › College's share of the MPSEB's liability for retirement (pension)
 - › Effective for June 30, 2015
 - › Change in Accounting for the Pension Liability on Statement of Revenues, Expenses and Changes in Net Position
 - › Most likely creates a deficit in unrestricted net position
 - › Will be referenced in opinion letter due to adoption
 - › Also creates several new pages to the footnotes and required supplement schedules that start this year and build up to 10 years of data

GASB 68 Impact on Net Position

	June 30	
	2014	with GASB 68
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,000,000	\$ 10,000,000
Short-term investments	5,000,000	5,000,000
Accounts receivable - Net	5,000,000	5,000,000
Other current assets	1,300,000	1,300,000
Total current assets	21,300,000	21,300,000
Noncurrent assets:		
Restricted cash	4,000,000	4,000,000
Long-term investments	800,000	800,000
Capital assets	51,000,000	51,000,000
Total noncurrent assets	55,800,000	55,800,000
Total assets	77,100,000	77,100,000
Liabilities		
Current liabilities:		
Accounts payable	2,000,000	2,000,000
Accrued payroll and related liabilities	1,500,000	1,500,000
Unearned revenue	3,000,000	3,000,000
Bonds payable - Current	1,000,000	1,000,000
Accrued retirement and compensated absences - Current	1,000,000	1,000,000
Other current liabilities	900,000	900,000
Total current liabilities	9,400,000	9,400,000
Noncurrent liabilities:		
Accrued retirement and compensated absences - Net of current portion	2,500,000	2,500,000
Bonds payable - Net of current portion	10,000,000	10,000,000
Net pension liability	-	36,800,000
Total noncurrent liabilities	12,500,000	49,300,000
Total liabilities	21,900,000	58,700,000
Deferred Inflows of Resources	-	(625,000)
Net Position		
Net investment in capital assets	40,000,000	40,000,000
Expendable restricted for:		
Expendable scholarships and fellowships	250,000	250,000
Capital improvements	9,000,000	9,000,000
Unrestricted (Deficit)	5,950,000	(30,225,000)
Total net position	\$ 55,200,000	\$ 19,025,000

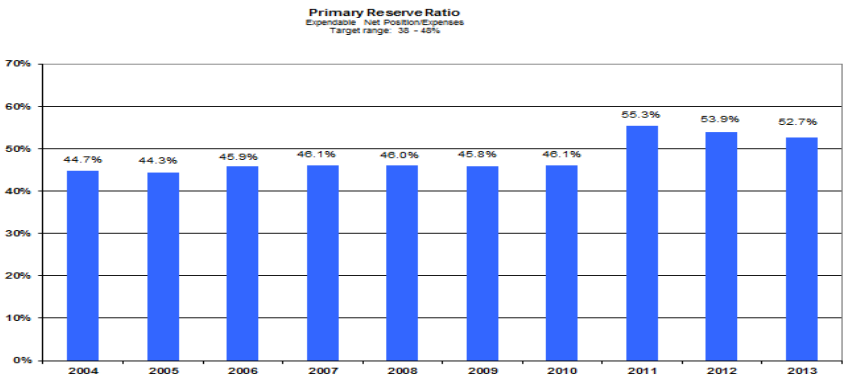
GASB 68 Impact on SRECNP

	Year Ended June 30	
	2014	with GASB 68
Operating Revenue		
Tuition and fees - Net of scholarship allowance	\$ 11,700,000	\$ 11,700,000
Federal grants and contracts	2,000,000	2,000,000
State grants and contracts	750,000	750,000
Private gifts, grants, and contracts	2,050,000	2,050,000
Sales and services of auxiliary activities - Net of scholarship allowance	3,100,000	3,100,000
Other sources	1,025,000	1,025,000
Total operating revenue	20,625,000	20,625,000
Operating Expenses		
Instruction	20,800,000	20,800,000
Public service	850,000	850,000
Instructional support	6,000,000	6,000,000
Student services	12,800,000	12,800,000
Institutional administration	4,500,000	4,500,000
Physical plant operations	4,500,000	4,500,000
Independent operations	1,725,000	1,725,000
Depreciation	2,000,000	2,000,000
Total operating expenses	53,175,000	53,175,000
Operating Loss	(32,550,000)	(32,550,000)
Nonoperating Revenue (Expenses)		
State appropriations	10,035,000	10,035,000
Property taxes	12,500,000	12,500,000
Pell revenue	12,000,000	12,000,000
Investment income	60,000	60,000
Loss on disposal of capital assets	-	-
Interest on capital asset - Related debt	(150,000)	(150,000)
Debt issuance cost	-	-
Net nonoperating revenue	34,445,000	34,445,000
Increase in Net Position	1,895,000	1,895,000
Net Position - Beginning of year	53,305,000	53,305,000
Adjustment for Change in Accounting Principle (Note X)	-	(36,175,000)
Net Position - Beginning of year, as restated	53,305,000	17,130,000
Net Position - End of year	\$ 55,200,000	\$ 19,025,000

Higher Learning Commission Ratios

- Driven from audited financial statements
- Can create comparable charts to peer institutions
- Establish targets with Board and Management

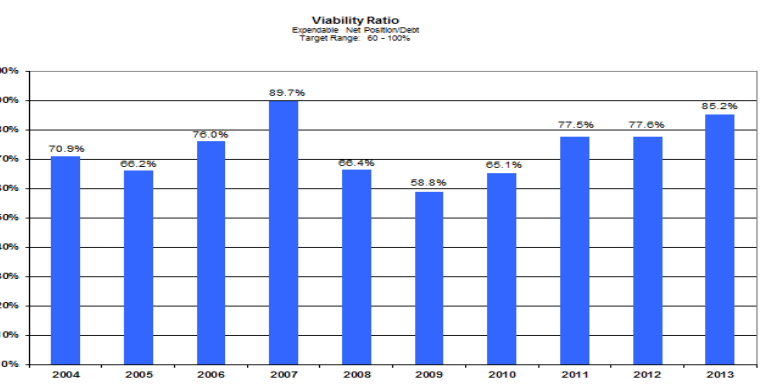
Higher Learning Commission Ratios



Primary Ratio = Expendable Net Assets/Total Expenses

As the institution grows, this ratio is expected to at least remain stable. These reserves are a cushion for unexpected events that impact the operating revenue stream.

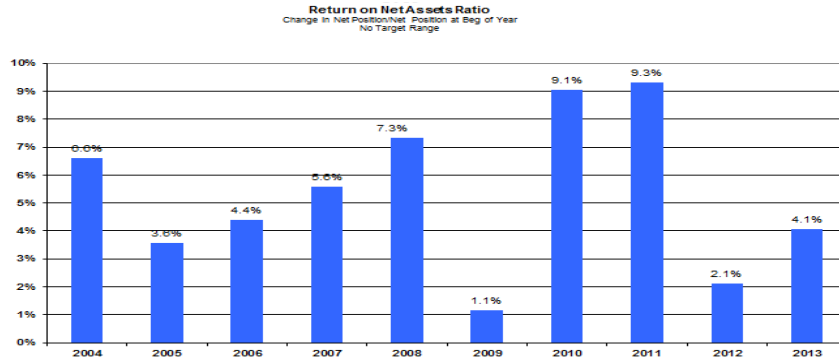
Higher Learning Commission Ratios



Viability Ratio = Expendable Net Assets/Total Debt

Measures the ability of the institution to cover debt payments. Net debt issued decreases the ratio, while payments on principal over time typically increases the ratio.

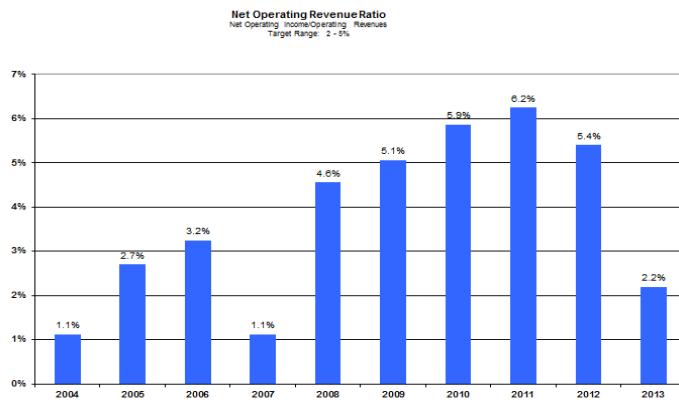
Higher Learning Commission Ratios



Return on Net Assets = Change in NA/Beginning Total NA

Measures overall change in net position. Volatility results from large swings in capital campaign revenue, endowment gifts and market gains or losses on investments.

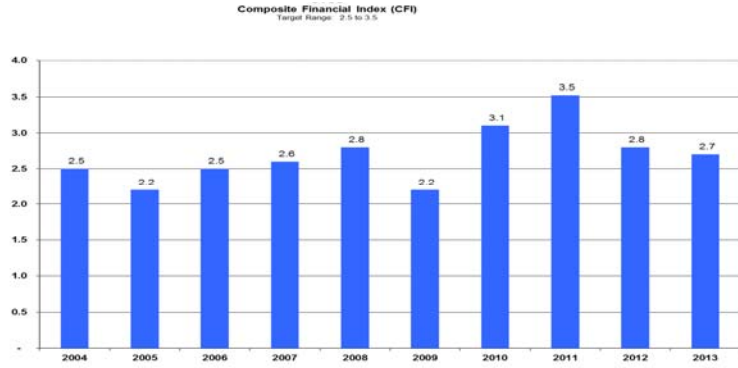
Higher Learning Commission Ratios



Net Operating Income/Operating Revenues

Operating includes “non-operating” GASB revenues/expense. Expect positive ratio, but a negative ratio could be explained.

Higher Learning Commission Ratios



Composite Financial Index

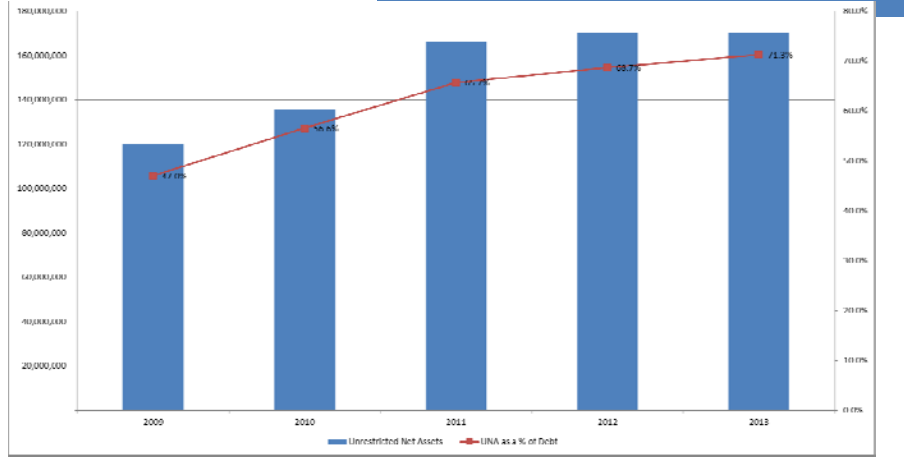
Applies weighting to each ratio and combines into one overall index.

STANDARD & POOR'S RATIOS



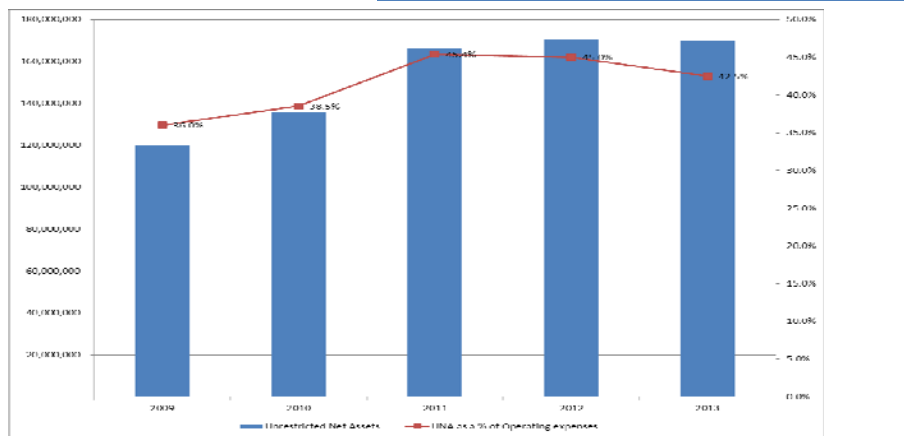
Revenue Diversity – Tuition vs. State Support vs. Other Support.

STANDARD & POOR'S RATIOS



Unrestricted Net Assets to Total Debt - Similar to viability ratio but only includes unrestricted net assets.

STANDARD & POOR'S RATIOS



Unrestricted Net Assets to Total Expenses - Similar to primary ratio but only includes unrestricted net assets.

IPEDS

- Expense Allocations
 - › Operation and Maintenance of Plant –
 - Spread pro-rata or based on square footage
 - › Depreciation
 - Spread pro-rata or based on square footage
 - › Interest Expense
 - Allocated to auxiliaries based on bond issues.
 - Remaining spread pro-rata to non-auxiliary expenses

{Thank you}

We appreciate the opportunity to
serve the Michigan Community
College Association

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