**A Review of the Financial Reports**

of

**Lansing Community College**

2012 to 2016

This analysis is based on a review of the audited financial statements for Lansing Community College (LCC) dated June 30, 2012 through 2016. These audits were prepared according to the Governmental Accounting Standards Board (GASB). The following notes refer to the enclosed “LCC 2016.”

**Revenues Page 1**

*Revenues* details revenue sources with the relative percentages displayed to the right. Since 2012 revenues have shown more than a $12 million decrease, due to a $14.4 million cut in Pell Grants. State Appropriations is an increasingly important revenue source and one that increased $5.1 million since 2012:

**Change in Revenue Sources Since 2012**

Tuition and fees ($1,762,424)

Federal grants ($1,054,855)

State grants $390,794

Local grants ($346,577)

Sales, ed active ($1,054,328)

Sales, auxiliary active ($2,102,089)

Job training ($498,205)

Misc $4,033,565

State approps $5,109,231

Property taxes $663,471

Also striking about this is the $4 million increase in miscellaneous funding. The audit identifies the 2016 sources of this funding:

…unanticipated revenues from several programs including the High School Advantage, MAT2, RESA contracts, and the increased administrative fee earned as a result of the increase in the Michigan New Job Training Program activity. (2016 Audit Page 18)

GASB introduced the concept of operating vs. non-operating revenues, which is entirely responsible for the school’s “operating loss” (see page 27 of the 2016 audit). Every school in the state of Michigan and probably the nation now shows an operating loss. This is due to the removal of three of the school’s most important revenue sources, state appropriations Pell grants and property taxes, from the operating revenues list. Only after the operating loss is calculated are these revenue sources listed (as “Non-operating Revenues”). Also contributing to this illusory loss is the introduction of Depreciation as an operating expense, although it involves no actual expenditure of funds (See “A Word About Depreciation” near the end of this analysis).

This distinction between “operating” and “non-operating” revenues causes great confusion thanks to the counter-intuitive classification of state appropriations and property taxes in the Non-operating revenue list. Because these funds are actually used for school operations, I’ve calculated a revenue total shown as “Revenues for Operations” which is intended to give the reader an opportunity to monitor all of the revenues used to fund operations.

**Expenses Page 2**

*Expenses* shows the school’s spending for various purposes, with the relative percentages displayed below. The upper right hand graphic shows revenues closely followed spending during this period. Instruction spending remained flat while spending on administration increased a great deal. Its share of total expenses increased from just 8.7% to over 15% during a period where the share devoted to Instruction fell from 35.3% to 34%. The last page of this analysis, *Typical Expense Categories Described,* gives some detail of the programs supported by each expense category.

**Assets Page 3**

A recent change in accounting rules, GASB 68, requires college audits include each school’s share of the state’s MPSERS long term liability. For LCC, this means a new $131 million debt. This change has a massive effect on the college’s financial statements, but not on its financial condition:

“While the implementation of GASB 68 impacted total net position, it did not have any impact on the College’s cash flows or operating budgets.” (2016 Audit Page 13)

*Revenue for Operations over Expenses* expresses the extent to which the school raised more money than it spent on operations. The percentage below each figure shows year to year changes. Most colleges show a year or two where expenses exceeded revenues.

The audit does suggest LCC acquisition of capital assets (buildings to books) is running below long term averages. (See “A Word About Depreciation” near the end of this Review).

*Unrestricted Assets as a Percentage of Total Expenses* expresses the relative size of the school’s unrestricted assets. Unrestricted assets are those that come to the school unencumbered (state appropriations and tuition, for example), that the Board can spend at its discretion, including on pay increases. In 2014, these assets peaked at $45.3 million and fell to 36.3 billion in 2016.

Note: The audit’s negative Unrestricted Asset figure shows one of the effects of GASB 68. That figure is expressed as ($89,673,074) which reflects the impact of the new MPSERS debt. (2016 Audit Page 26)

When this amount is compared to the school’s operating expenses (sometimes inexactly referred to as its operating budget), the relative size is expressed. This percentage effectively illustrates the percentage of the year that the school could operate without *any* incoming revenues. It addresses the reality that a given amount of money is worth more to a small school than to a larger one.

In 2016, this “fund equity” was 36.7%. LCC’s fund equity was at about the midpoint of all community college fund equities in the state. The K-12 average that year has been calculated to be about 17% (a figure that includes a large number of deficit districts).

*LCC Foundation* lists the assets for the school’s foundation. The amounts shown as unrestricted reflect assets available to the foundation’s board, the membership of which overlaps with, but is different than, the school’s board of directors. As the audit points out, the foundation bylaws require that “The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs.” (2016 Audit page 30) Whether these funds are available to it upon request likely depends on the degree to which the administration effectively directs the decisions of the foundation’s board, something that varies from college to college.

The unrestricted assets of the LCC Foundation at the end of the 2016 fiscal year amounted to just $100,440 (2016 Audit page 26). Most colleges have much more funding sequestered in these accounts.

*Unrestricted Net Assets* lists the composition of the school’s unrestricted asset total (2016 Audit page 49). Note that while only $20.2 million is shown as “undesignated,” the entire $36.3 million total qualifies as unrestricted. Boards routinely designate funds at board meetings, and then complain that these funds are committed and beyond their control. Any such allocation could represent the Board’s attempt to look poor by tying its own hands. Board resolutions “designating” or “committing” funds can be just as easily undone by the Board.

Notice that the amounts designated often remain unspent or grew during the study period. Designations reflect Board spending priorities. But when they go unspent, it leaves the importance of the project, as well as the designation itself, open to question. The amount left unallocated suggests a 15% fund equity, rather than the actual 26.7%.

College administrations typically prepare a General Fund PowerPoint presentation that shows much lower fund balances than are reflected in the audit. The difference between the unrestricted assets total found in the audit and this General Fund balance is almost always equal to the funds that have been designated, and are often held in a Designated Fund and/or the Plant Fund. The balances of these funds appear on page 65 of the 2016 audit.

Net Position is the total monetary value of the college and LCC’s increasing Net Position suggests improving fiscal health. This is impressive given that this occurred during a period of falling revenues in a recession, but recoveries of this kind are often accomplished on the backs of employees.

The administration suggests this period of belt tightening may be over:

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 144,300 jobs (32.8%) between June 2009, when the U.S. recession ended,

and December 2014. (2016 Audit page 4) This language appears verbatim in the 2014 and 2015 audits, although the jobs figures have been updated.

It quotes a positive assessment by the Senate Fiscal Agency:

In Michigan, higher vehicle sales, stability in the housing market, and tepid national economy are expected to combine to lower the unemployment rate to 5.1% in both 2016 and 2017, and 5.0% in 2018, compared with the 5.4% unemployment rate in 2015. Improved vehicle sales and stronger profitability in

Michigan’s vehicle sector will provide stability to the Michigan employment situation.

The school has plans to continue spending:

Over the past four years, the Build Forward project fundamentally changed the student experience by creating a variety of dynamic and adaptable teaching, learning, and support environments. Build Forward was substantially completed in FY 2015-16 with final completion expected in FY 2016-17. (2016 Audit page 5)

**A Word About Depreciation**

GASB 35 requires that community college audits conform to business accounting standards including the use of depreciation. Calculations in the LCC Finances report include depreciation figures for this reason, although depreciation expenses do not involve the actual expenditure of funds; they reflect the expenditure of assets, meaning their decrease in value.

The depreciation expense can be seen as a kind of rough average amount spent on capital goods (buildings, equipment, etc.), in that it spreads the expensing of these assets over their useful lives. Therefore, one can compare the listed depreciation expense to the amount actually spent on capital goods that year. If the actual spending exceeds the depreciation amount, especially during a period when the administration suggests funding is tight, this spending is susceptible to complaints. In this case, the capital spending amounts have varied a bit, but were always well below the depreciation (see “Capital additions” listed below Total Expenses on Page 2 of the study) suggesting capital spending is lower than long term averages. The audit shows nearly all of this spending in 2016 was for “Furniture and equipment” (2016 Audit page 37)**Typical Expense Categories Described**

**Instruction** – Can include spending for credit or noncredit academic, occupational, or vocational regular, special, or extension classes. It also includes departmental chairperson and office costs. Departmental research and public services are categorized separately.

**Academic/Instructional Support** - Includes expenditures for materials and staff for libraries, audio visual and computer services, the academic offices support staff (including academic deans) and sometimes the personnel department.

**Institutional Support/Administration** – Includes spending for central executive management and board staff and programs including legal services, fiscal operations, employee personnel, and community and alumni relations.

**Student Services** – Can include expenditures for operations that enhance students’ intellectual, cultural, emotional and physical well being outside the classroom: student admissions and registrar; academic advising; student career counseling, records, financial aid administration and health services; and occasionally athletics. It can also include the student newspaper and other student organizations.

**Public Service** – Spending that qualifies for inclusion here includes any expended for noninstructional services external to the school. These can include workshops and seminars, community services and broadcasting services (not including student stations), and cooperative extension services