

Board of Trustees

Washtenaw Community College

4800 E. Huron River Drive
Ann Arbor, Michigan 48105-4800

ACTION

Subject
Financial Reports (Year End – June 2020)

Date
September 22, 2020

RECOMMENDATION

That the Board of Trustees receive the Financial Reports for June 2020 as follows: General Fund, Deferred Maintenance Fund, Capital Fund, and Combined Schedule of Investments-All Funds.

A ROLL CALL VOTE WILL BE TAKEN

Prepared by: William Johnson
Title: Executive Vice President of Finance
and CFO

Recommended by:

Rose B. Bellanca, Ed.D.
Rose B. Bellanca, President

Financial Narrative

June 2020

The financial narrative discusses the financial operating performance of Washtenaw Community College for fiscal year 2019-20, the year ended June 30, 2020.

Revenue

As of June 30, 2020, Total Revenues were \$111.1 million; Total Expenditures and Operating Transfers were \$108.3 million. Revenues in total were behind the expected budget for the fiscal year by approximately \$1.6 million.

For both the Fall and Winter semesters credit hour enrollment for was down 1.2% from budget. The college attributes this variance to sustained economic improvement and historic low unemployment rates, along with the impact of the college's efforts to improve student completion rates. Spring Tuition revenue in total was ahead of the budget by approximately \$62,000. The Spring Tuition revenue amount includes 63% of the tuition revenue billed through June for the current Spring/Summer term, along with \$2.1 million of tuition revenue that was earned for the prior 2019 Spring/Summer term. Student fees represented the largest deviation from budget. This was attributed primarily to the loss of virtually all contact hour fees for the Spring/Summer semester as all classes were moved to an online environment. The COVID-19 pandemic did not have a severe impact on enrollment in fiscal year 2020 for the college. This was due in large part to the college doing an outstanding job transitioning to a primarily online and virtual learning environment.

State Aid revenue reflects the approved annual budget appropriation. The original budget appropriation was decreased by a State approved budget reduction of 11%, or \$1.5 million, in response to the COVID-19 pandemic. This reduction was partially offset by payments from the State to offset increases in the cost of the MPERS pension plan which exceeded the college's budgeted revenue amounts by approximately \$905,000. Also included within State Aid revenue are two payments totaling approximately \$784,000 from the Local Community Stabilization Authority (the make whole mechanism for lost personal property tax revenue).

Receipts for Local Government Taxes were \$56.7 million for the fiscal year, which represents 101 percent of the total budgeted revenue from property taxes. Refunds of prior year taxes were below budget for the year.

The COVID-19 pandemic has also had a significant impact on a number of other revenue areas for the college. Contract training and community enrichment courses are often face-to-face classes and as such were not able to be offered during early stages of the pandemic. The conference center has cancelled all of its events for the foreseeable future.

Due to a worsening economy as a result of the COVID-19 pandemic, interest rates have fallen to close to zero. As a result, the college's short-term investment strategy fell behind budget expectations.

Operating Expenditures and Transfers

Total Expenditures and Transfers for fiscal year 2020, were \$108.3 million, which was \$4.4 million below budgeted expenditures and transfers for the fiscal year.

Personnel expenses of \$81.1 million were \$1.8 million below budget. Full time and part time position vacancy savings exceeded budget expectations of \$2.3 million by approximately \$500,000 and \$1.2 million, respectively. Non-personnel costs were below budget by \$3.5 million. Although the college was trending towards completing the fiscal year below budgeted expenditures prior to the COVID-19 pandemic, a large portion of expenditure variance to budget can be attributed to cost containment initiatives implemented by the college as a result of financial uncertainties stemming from the pandemic. These cost containment initiatives included a reduction of scheduled hours for part-time employees, a hiring freeze on open positions, and limiting direct expenditures to those that were either contractual in nature or were directly related to safety and reliability.

Operating transfers fell mostly in line with budget with the notable exception of the health and fitness center. As a result of the COVID-19 pandemic and in accordance with the executive order of the governor, the health and fitness center was closed for the last three months of the fiscal year. Fitness center members were not billed during these months and transfers from the fitness center to the college were reduced by approximately \$1.0 million.

Non-operating activity

Non-operating activity reflects items outside the normal course of business for the college. For the year ended June 30, 2020 this is comprised solely of the net increase in market value of the college's investment portfolio over the course of the year.

At the beginning of the fiscal year, the investment portfolio had a market value approximately \$220,000 more than the purchase cost. As of the end of the fiscal year, the college investments had a market value of approximately \$780,000 greater than the purchase cost of the roughly \$26 million of long term investments. When interest rates decrease as they did over the course of fiscal year 2020, the value of the college's fixed income portfolio normally increases. The college typically holds its investments until maturity, which effectively eliminates any cash impact from these market value fluctuations.

Deferred Maintenance Fund

Through June 30, 2020, the college has funded \$19.8 million to the Deferred Maintenance Fund since its inception in 2012, including \$2.5 million in fiscal year 2020. Of this amount, \$16.0 million has been spent on completed projects and \$3.7 million has been committed towards projects in progress and/or scheduled for completion within the next twelve months. The college has identified a list of additional projects which will be funded by the fiscal year 2021 budgeted transfer from the General Fund of \$1.5 million.

Long Term Investments

During fiscal year 2020, the college's long-term investment income remained consistent with the prior year. The average yield of the college's portfolio decreased slightly from 2.33% to 2.29%. This is in stark contrast to the steep decline in the current interest rate environment. The college's strategic decision to reduce the average age to maturity of its portfolio continues to pay dividends and has positioned the college well to react quickly to fluctuating market conditions. As long-term bond holdings mature, the college continues to assess the interest rate environment and seek investments that place

the college in the most advantageous position to attract the highest yield available while the portfolio remains in accordance with Board policy.

COVID-19 Pandemic Related Expenditures

During the year, the college was allocated federal funding as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. As of June 30, 2020, the college identified approximately \$195,000 of expenditures that were eligible for reimbursement under the CARES Act. These costs were transferred from the General Fund to the Restricted Fund. Additionally, refunds of approximately \$142,000 of tuition and fees from the Winter and Spring semesters were provided to students due to reasons pertaining to COVID-19. This lost revenue was also eligible for reimbursement.

Washtenaw Community College
Revenues and Expenditures - General Fund
Statement as of June 30, 2020

	Annual Budget	FY20 Actual	Variance
REVENUES			
Tuition Fall	12,083,106	11,747,507	(335,599)
Tuition Winter	11,416,133	11,100,778	(315,355)
Tuition Spring	5,032,391	5,094,617	62,226
Student Fees	4,915,734	4,403,858	(511,876)
Total Tuition and Fees	<u>33,447,364</u>	<u>32,346,760</u>	<u>(1,100,604)</u>
Local Property Taxes	55,950,000	56,669,556	719,556
State Appropriations	14,683,926	14,038,775	(645,151)
Trade Partnerships	4,295,741	4,459,012	163,271
Investment Income	1,100,000	1,010,169	(89,831)
Other	1,930,458	1,544,288	(386,170)
Auxiliary Activities	1,308,350	1,051,045	(257,305)
Total Revenue	112,715,839	111,119,605	(1,596,234)
EXPENDITURES			
Humanities & Social Sciences	11,803,207	11,611,130	192,077
Math, Science & Engineering Technologies	9,337,211	9,386,669	(49,458)
Health Sciences	6,242,327	5,583,909	658,418
Business & Computer Technologies	7,327,486	7,218,685	108,801
Advanced Technologies & Public Service Careers	7,351,161	6,749,581	601,580
Continuing Education	720,540	510,962	209,578
Distance Learning	1,841,011	1,812,847	28,164
Instructional Support	15,709,454	13,925,762	1,783,692
Total Instruction	<u>60,332,397</u>	<u>56,799,544</u>	<u>3,532,853</u>
Student Services	10,014,190	9,210,968	803,222
Scholarships	1,918,598	1,599,699	318,899
Executive Management	2,243,367	1,972,118	271,249
General Admin - Institutional Services	8,286,887	8,148,293	138,594
Budgeted Personnel Vacancy Savings	(2,336,625)	-	(2,336,625)
MIS/Computer Services	9,096,714	8,732,130	364,584
Public Relations Development	3,153,679	2,705,265	448,414
Community Services	1,966,125	1,812,454	153,671
Physical Plant Operations	10,857,600	9,954,804	902,796
Utilities	2,089,700	1,851,366	238,334
Equipment	1,771,332	1,263,621	507,711
Total Non-Instruction	<u>49,061,567</u>	<u>47,250,719</u>	<u>1,810,848</u>
Total Expenditures	109,393,964	104,050,262	5,343,702
OPERATING TRANSFERS			
Repair & Maintenance	750,000	750,000	-
Debt Retirement	1,221,875	1,227,075	(5,200)
Health & Fitness Center	(1,750,000)	(767,340)	(982,660)
Deferred Maintenance	2,500,000	2,500,000	-
Furniture & Other	600,000	557,929	42,071
Total Operating Transfers	3,321,875	4,267,664	(945,789)
Total Expenditures and Operating Transfers	112,715,839	108,317,926	4,397,913
Operating Revenue Over Expenditures & Transfers	-	2,801,678	2,801,678
OTHER NON-OPERATING ACTIVITY			
Unrealized Gain/(Loss) on Investment	-	560,791	560,791
Total Revenue over Expenditures & Transfers	-	3,362,469	3,362,469

Capital Fund
Project Summary
June 30, 2020

Project Category	Budget	Actuals	Commitment	Balance
Revenues				
State Appropriation CC - STEP Equipment	4,516,749	4,516,749	-	0
General Fund	6,055,178	6,055,178	-	0
Misc. Revenue		11,167		11,167
Total Revenues	\$ 10,571,927	10,583,094	-	11,167
Construction/Repair Projects				
Storage Receiving Building				
Renovations:				
SRB Addition	1,830,000	1,828,220	-	1,780
Total Storage Receiving Building	\$ 1,830,000	\$ 1,828,220	\$ -	1,780
Campus Wide				
System Improvements:				
Classroom & Lab access Control	570,802	570,742	-	60
CC - STEP Equipment	7,627,434	7,504,061	-	123,373
Campus Security System Upgrades	318,691	317,723	-	968
Huron River Dr Road Modifications	225,000	224,080	-	920
Total Campus Wide	\$ 8,741,927	\$ 8,616,606	\$ -	125,321
Grand Total Construction/Repair Projects	\$ 10,571,927	\$ 10,444,827	\$ -	127,101
Revenue Over (Under) Expenditures		\$ 138,268		

Washtenaw Community College Deferred Maintenance Fund June 30, 2020

Since inception of fund:

General Fund Transfers	19,800,000
Completed projects	(15,968,419)
Projects in process	(3,663,146)
Uncommitted Fund Balance	<u>168,435</u>

Completed Projects:

Final Cost

Projects completed in prior years	12,107,926
Current year completed projects:	
HFC Hot Water Capacity	328,168
ML Boiler Repl & System Mats	591,114
ML Gun Range AHU Repl	1,154,993
HFC 10 Yr Chiller Test	100,983
HFC Womens Hot Tub Repair	176,449
HFC Steam & Sauna Replacement	33,647
LA RPLC Chemistry Hood	847,987
LA-2nd FL Tile Corridor	375,505
OEB Exhaust Fan Rplcmnts	51,074
OE Underground Exhaust	68,200
Total of FY20 completed projects < \$50,000 each	132,372
Total Completed	<u>15,968,419</u>

Projects in Process or scheduled to begin:

Allocated Budget

	EC Boiler Control & Valve Repl	75,000
	EC RPLC Campus Cooling Twr	1,340,000
	ML Renovation	500,500
	GM Fire Alarm Upgrade	85,000
	BE Store Front Entry	125,000
*	GM Library Lighting Replacement	90,000
	Campus Lighting Upgrades	90,000
*	Campus Wide Parking Lot Repairs	180,000
*	Campus Wide Concrete Repairs	90,000
	Men' Hot Tub Replacement	175,000
	HFC Pool Resurfacing	100,000
	HFC Shower Vale Replacement	75,000
*	HFC Natatorium Lighting Replacement	75,000
*	FE West Brick & Tuck Pointing Rprs	90,000
	ML Retention Pond Dredging	185,000
	EC Chiller Maintenance Overhaul	182,646
	Total of other projects < \$50,000 each	205,000
Total in Process		<u>3,663,146</u>

* Scheduled; no financial activity as of report date

**WCC Long-Term Investment Portfolio
Portfolio Summary &
Performance Review
For Year Ended June 30, 2020**

Washtenaw Community College
4800 East Huron River Drive
Ann Arbor, MI 48105
(734)973-3300

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term (Years)	Years to Maturity	YTM/C 360 Equiv.
Federal Agency Coupon Securities	3,000,000	3,125,198	3,005,941	11.37%	4.34	1.92	1.558
Federal Agency Disc. -Amortizing	500,000	499,925	499,954	1.89%	0.18	0.10	0.091
Treasury Discounts -Amortizing	6,000,000	5,998,251	5,994,809	22.69%	0.37	0.21	0.580
State of Michigan Coupon Securities	5,000,000	5,117,480	5,011,475	18.97%	6.02	2.90	2.322
Municipal Bonds	11,840,000	12,467,947	11,912,509	45.08%	7.27	4.35	2.507
	26,340,000	27,208,801	26,424,688	100.00%	5.00	2.78	1.881
Comparative Data For Fiscal Year Ended June 30, 2019	26,000,000	26,289,463	26,066,140	100.00%	5.82	3.13	2.460

Investment Yield Summary	Fiscal Year 2019 - 2020	Fiscal Year 2018 - 2019
Long- Term Portfolio Return	603,885	607,404
Effective Rate of Return	2.29%	2.33%

Historical Treasury Yield Curve	3 Month	6 Month	1 Year	5 Year	10 Year	20 Year
As of June 30, 2020	0.16%	0.18%	0.16%	0.29%	0.66%	1.18%
As of June 30, 2019	2.12%	2.09%	1.92%	1.76%	2.00%	2.31%
As of June 30, 2018	1.93%	2.11%	2.33%	2.73%	2.85%	2.91%

Investment Allocation Board Policy

Investment Type	Target Range	Target	Current Portfolio Mix
Bonds, bills, or notes of the United States	25-65%	30%	35.95%
Bonds, bills, or notes of the State of Michigan	10-45%	25%	18.97%
Bonds of political subdivisions of State of Michigan	15-65%	45%	45.08%
Cash, cash equivalents, and short-term investments	0-30%	0%	0.00%

Credit Rating Allocation for Bonds of Political Subdivisions of State of Michigan	Target Range	Target	Current Portfolio Mix
Rated AAA to AA	40-80%	50%	100%
Rated AA-/Aa3 to A	10-50%	30%	0%
Rated A3/A- to Baa3/BBB-	0-30%	20%	0%

Working Capital Reserve Policy - Five percent of annual operating budget

Fiscal year 2020 annual operating budget (as adjusted)	\$	112,715,839
Five percent working capital requirement	\$	5,635,792
Lowest working capital cash position during FY20 - April 3, 2020 (including < 90 day maturity investments)	\$	12,681,322
Excess/(deficit) working capital in accordance with policy	\$	7,045,530

Reporting period 7/01/2019-6/30/2020