

Muskegon Community College

REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2009

Muskegon Community College

TABLE OF CONTENTS

Management’s Discussion and Analysis.....i - x

Independent Auditors’ Report..... 1

Basic Financial Statements

 Government-wide Financial Statements

 Statement of Net Assets 3

 Statement of Revenues, Expenses and Changes in Net Assets 4

 Statement of Cash Flows 5

 Notes to Financial Statements 7

Supplemental Information

 Fund Financial Statements

 Consolidating Balance Sheet 16

 Consolidating Statement of Revenues, Expenses, Transfers
 and Changes in Net Assets 18



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, 2009. 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 financial statements along with supplemental information.

Financial Highlights

In the fiscal year ended June 30, 2009, the College's revenue and other support exceeded expenses by \$2,966,201, creating an increase in net assets.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole. The two statements report the College's net assets and changes in them. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets.

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. Revenues and expenses are separated into categories of operating and non-operating.

Muskegon Community College
Management's Discussion and Analysis

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2009 and 2008:

Net Assets				
As of June 30				
(in thousands)				
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 23,747	\$ 22,279	\$ 1,468	6.59%
Non-current assets				
Capital assets, net	22,821	28,117	(5,296)	-18.84%
Contract receivable	6,270	-	6,270	100.00%
Bond issuance costs, net	93	99	(6)	-6.06%
Other	<u>6</u>	<u>6</u>	<u>-</u>	0.00%
Total assets	52,937	50,501	2,436	4.82%
Liabilities				
Current liabilities	9,179	8,985	194	2.16%
Long-term liabilities				
Long-term debt obligations	14,805	15,604	(799)	-5.12%
Accrued sick leave	<u>2,216</u>	<u>2,141</u>	<u>75</u>	3.50%
Total liabilities	26,200	26,730	(530)	-1.98%
Net Assets				
Invested in capital assets, net of related debt	14,440	14,159	281	1.98%
Restricted	347	365	(18)	-4.93%
Unrestricted	<u>11,950</u>	<u>9,247</u>	<u>2,703</u>	29.23%
Total net assets	\$ <u>26,737</u>	\$ <u>23,771</u>	\$ <u>2,966</u>	12.48%

Muskegon Community College

Management's Discussion and Analysis

The increase in current assets is due to an increase in accounts receivable of \$1,385,000. Registration for the fall term began in April which created the receivable at June 30. Cash and cash equivalents and investments changed significantly between each other but not in total.

Capital assets decreased by \$5,296,000 net of accumulated depreciation. The sale of the Career Tech Center accounted for a \$6,973,000 net decrease offset by a net increase in capital assets of \$1,677,000 due largely to the completion of the Student One Stop Phase I.

Contract receivable is a new item on the books created by the sale of the Career Tech Center. Payments will be received each year through April 2013.

Current liabilities increased by \$194,000, caused by changes in several areas. Accounts payable decreased by \$872,000 due to a large payable of \$966,000 related to the construction of the Student One Stop that existed at the end of 2008 and not 2009. There was an increase of \$100,000 in accrued salaries and payroll related taxes. Deferred revenue increased by \$914,000 for the students that registered for fall 2009 classes prior to June 30.

Long-term liabilities decreased mostly by scheduled bonded debt payments.

Although unrestricted net assets are not subject to externally imposed restrictions, a majority of the College's unrestricted net assets are designated for purposes to fulfill its mission including designations for capital projects (plant fund - \$5,449,196); fund balance reserve (general fund - \$3,774,733); scholarships and grants (expendable restricted fund - \$70,666); and future health care cost increases (designated fund - \$410,000).

Muskegon Community College

Management's Discussion and Analysis

Summary Operating Results for the Year

(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 8,090	\$ 7,610	\$ 480	6.31%
Grants and contracts	8,714	6,649	2,065	31.06%
Auxiliary services	719	742	(23)	-3.10%
Other	831	872	(41)	-4.70%
Total operating revenues	<u>18,354</u>	<u>15,873</u>	<u>2,481</u>	<u>15.63%</u>
Total operating expenses	<u>35,768</u>	<u>34,395</u>	<u>1,373</u>	<u>3.99%</u>
Operating loss	(17,414)	(18,522)	1,108	-5.98%
Non-operating revenues (expenses)				
State appropriations	8,519	8,369	150	1.79%
Property taxes	9,963	9,697	266	2.74%
Gifts	142	274	(132)	-48.18%
Investment income	161	633	(472)	-74.57%
Interest on capital asset - related debt	(628)	(649)	21	-3.24%
Gain on sale of capital asset	331	-	331	100.00%
Total non-operating revenues (expenses)	<u>18,488</u>	<u>18,324</u>	<u>164</u>	<u>0.90%</u>
Income before other revenue:	1,074	(198)	1,272	-642.42%
State capital appropriations	<u>1,892</u>	<u>-</u>	<u>1,892</u>	<u>100.00%</u>
Change in net assets	2,966	(198)	3,164	-1597.98%
Net assets - beginning of year	<u>23,771</u>	<u>23,969</u>	<u>(198)</u>	<u>-0.83%</u>
Net assets - end of year	<u>\$ 26,737</u>	<u>\$ 23,771</u>	<u>\$ 2,966</u>	<u>12.48%</u>

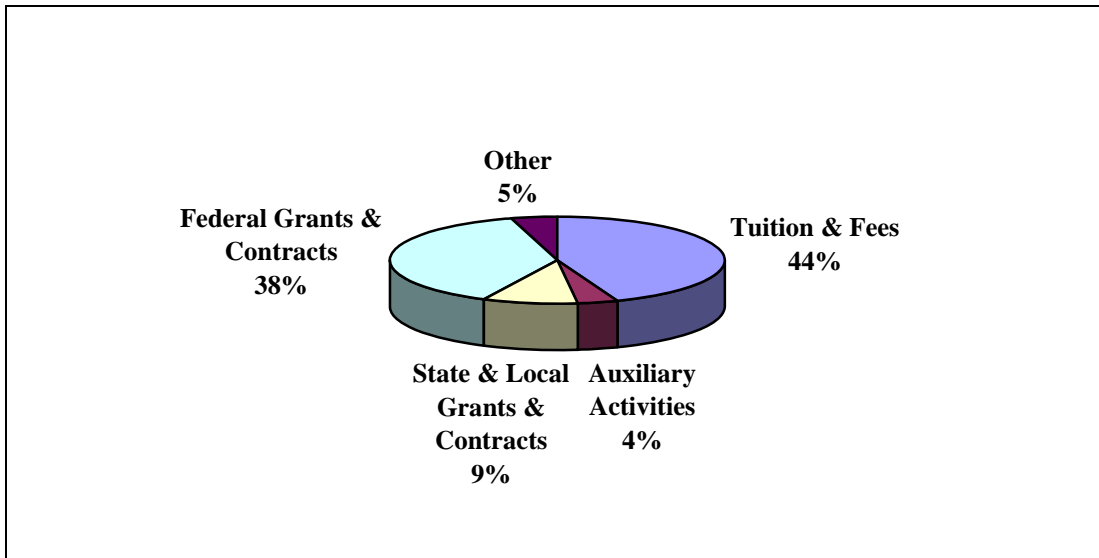
Muskegon Community College

Management's Discussion and Analysis

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

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



Most of our operating revenue comes from tuition and fees and federal and state grants. Tuition and fees increased in total by \$850,000. The College increased tuition rates per contact hour ranging from 3.0% for in-district to 6.2% for out-of-state residents. In addition, the College increased the registration fee from \$25 to \$35 per contact hour. However, the amount of scholarship allowances increased by \$370,000 which offsets the amount of tuition and fees reported.

Federal and state grants increased by almost \$2.1 million dollars. Most of this increase was federal grants and aid for students.

Muskegon Community College

Management's Discussion and Analysis

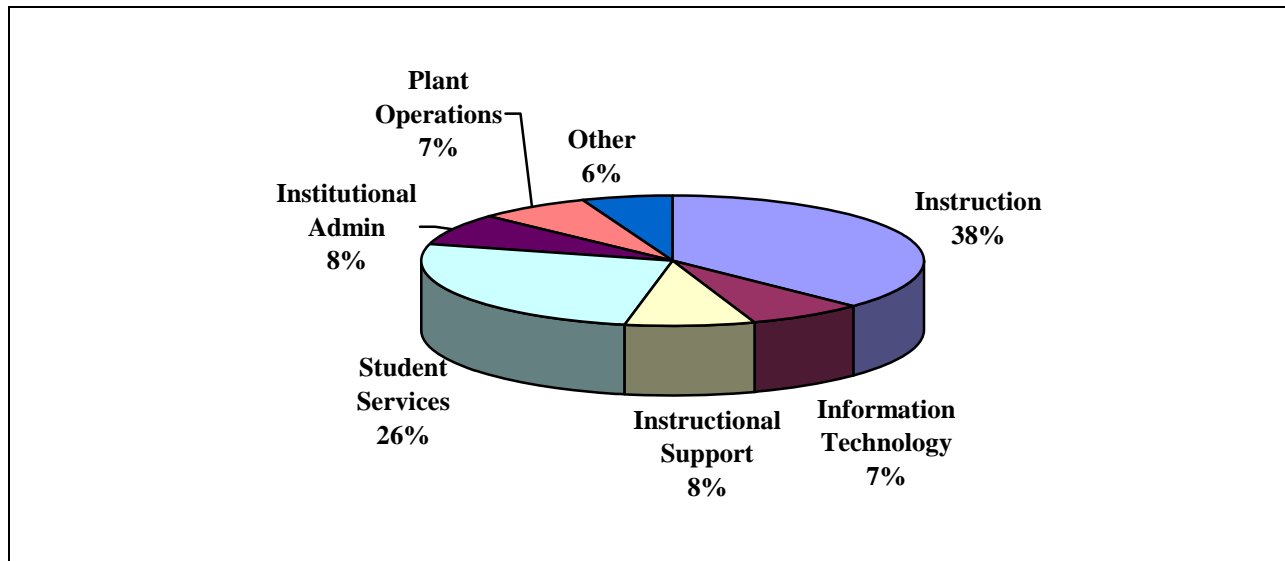
Operating Expenses

Operating expenses are 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, 2009 and 2008 consist of the following:

(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent Change</u>
Instruction	\$ 13,335	\$ 13,880	\$ (545)	-3.93%
Information technology	2,674	2,830	(156)	-5.51%
Public services	480	886	(406)	-45.82%
Instructional support	3,011	3,073	(62)	-2.02%
Student services	9,313	7,103	2,210	31.11%
Institutional administration	2,729	2,666	63	2.36%
Operation and maintenance of plant	2,635	2,613	22	0.84%
Unallocated depreciation and amortization	1,096	1,095	1	0.09%
Other expenses	495	249	246	98.80%
Total	\$ 35,768	\$ 34,395	\$ 1,373	3.99%

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



Muskegon Community College

Management's Discussion and Analysis

Operating expenses increased \$1.373 million. Instruction decreased in the general fund by \$250,000 due to the retirement of staff and a reduction in health care costs. The remaining decrease in instruction was in the expendable restricted fund for \$297,000 due to the completion of several jobs training grants. The decrease in information technology of \$156,000 was a reduction in professional services and reduced expenditures on computer hardware. Public services decreased by \$406,000 due to a reclassification of the commercial motor vehicle program from public services to instruction. Student Services increased by \$2,210 million. This increase was a combination of an increase in financial aid awarded to students and the MI Works grant which was new in fiscal year 2008-09. Other expenses increased by \$246,000 which was all related to maintenance and repair type expenditures incurred in the plant funds.

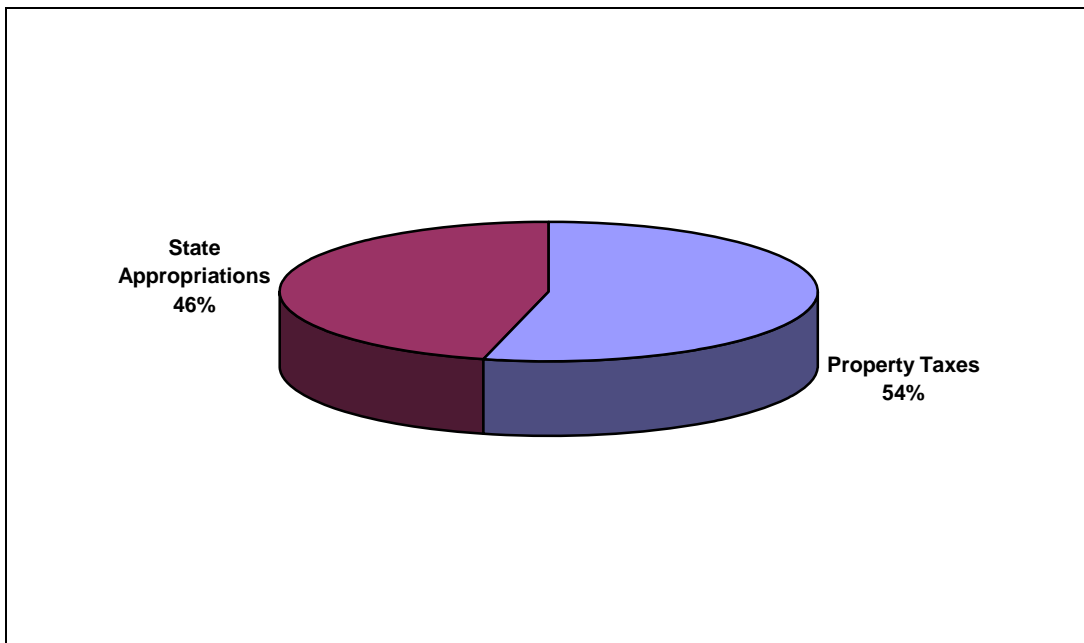
Non-operating Revenues (Expenses)

Non-operating revenues (expenses) are 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 revenues (expense) changes were the result of the following factors:

- State appropriations increased 1.79% or \$150,000.
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of \$266,000 or a 2.74% increase.
- Investment income decreased by \$472,000 or 74.57% due to a decrease in interest rates.
- Interest on capital asset – related debt decreased 3.24% or \$21,000.
- Gain on sale of capital asset of \$331,422 occurred as a result of the sale of the Career Tech Center.

The following is a graphic illustration of non-operating revenues (expenses) by source:



Muskegon Community College

Management's Discussion and Analysis

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 a state capital appropriation of \$1,891,725 for "Student One Stop" improvements.

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 its obligations as they come due
- Its needs for external financing

Overall the College's year end cash position increased by \$12,966,193. The most significant change was the increase in proceeds from sales and maturities of investments.

Cash Flows for the Year Ended June 30

(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent Change</u>
Cash provided by (used for)				
Operating activities	\$ (16,363)	\$ (17,132)	\$ 769	-4.49%
Noncapital financing activities	18,604	18,318	286	1.56%
Capital and related financing activities	(2,552)	(2,166)	(386)	17.82%
Investing activities	<u>13,277</u>	<u>640</u>	<u>12,637</u>	1974.53%
Net change in cash	12,966	(340)	13,306	-3913.53%
Cash - beginning of year	<u>1,262</u>	<u>1,602</u>	<u>(340)</u>	-21.22%
Cash - ending of year	<u>\$ 14,228</u>	<u>\$ 1,262</u>	<u>\$ 12,966</u>	1027.42%

Muskegon Community College

Management's Discussion and Analysis

Capital Assets

At June 30, 2009, the College had \$34.6 million invested in capital assets, with accumulated depreciation of \$11.8 million. Depreciation charges totaled \$1,089,606 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)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Land	\$ 231	\$ 462	\$ (231)
Construction in progress	445	1,388	(943)
Land improvements	721	784	(63)
Buildings and improvements	19,977	23,857	(3,880)
Equipment	1,447	1,626	(179)
Total	\$ <u>22,821</u>	\$ <u>28,117</u>	\$ <u>(5,296)</u>

Land decreased due to the sale of the Career Tech Center. Construction in progress decreased due to the completion of phase I of the Student One Stop. Land improvements decreased because of the current year depreciation charges. The decrease in buildings and improvements for the sale of the Career Tech Center (\$7,662,000) was offset by the addition of the Student One Stop (\$3,584,000), the new boiler in the gymnasium (\$186,860) and other miscellaneous equipment purchases. See Note C in the notes to the financial statements for more detail.

In the next year, the College has budgeted for equipment and building and improvements of approximately \$710,000 primarily for instructional equipment and minor facility renovations. Only those items with a cost of more than \$5,000 will be capitalized.

Muskegon Community College

Management's Discussion and Analysis

Debt

The College's long-term debt consists of \$15,605,156 in General Obligation – Limited Tax Bonds, issued in 2003 and 2005. This compares to \$16,367,562 as of June 30, 2008. The College's bond debt rating is AAA.

The 2003 bonds were issued for the purpose of constructing the Career Tech Center (CTC) and a new library addition to the College's main campus. The CTC is operated by the Muskegon Area Intermediate School District (MAISD) and is being sold to them on a land contract. The MAISD is obligated to make payments to the College which approximate debt service requirements on the portion of bonds used to construct that facility through 2012 after which time a balloon payment is due.

The 2005 bonds were issued for the purpose of completing the new library addition and renovating/remodeling vacated space. 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. Because of limited economic growth and increased demand for state resources, the current state funding for the College is projected to remain flat for fiscal year 2009-10. Growth in property taxes is expected to increase by less than one percent.

With the national and state economy still uncertain, and the continuing layoff of employees, community colleges are seeing an influx of students because of their affordability compared to four year institutions.

Overall, the College's current financial condition and future growth plans indicate that the College is positioned to maintain and grow its present level of services.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 1, 2009

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the accompanying financial statements of Muskegon Community College (College), as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the College's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muskegon Community College, as of June 30, 2009, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated December 1, 2009, on our consideration of Muskegon Community College's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BRICKLEY DELONG

Board of Trustees
December 1, 2009
Page 2

The management's discussion and analysis on pages i - x is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley De Long, P.C.

Muskegon Community College
STATEMENT OF NET ASSETS
Year ended June 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 14,227,807
Investments	1,295,045
Property taxes receivable	94,000
State appropriation receivable	1,548,836
Accounts receivable	5,975,186
Land contract receivable	335,000
Prepaid expenses and other assets	<u>271,133</u>

TOTAL CURRENT ASSETS 23,747,007

STUDENT LOANS RECEIVABLE 5,986

BOND ISSUANCE COSTS, net 92,532

LONG-TERM LAND CONTRACT RECEIVABLE 6,270,000

PROPERTY AND EQUIPMENT, net 22,821,635

TOTAL ASSETS 52,937,160

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of debt obligations	800,000
Accounts payable	863,707
Accrued interest payable	57,746
Accrued payroll and other compensation	3,575,005
Deposits	87,389
Deferred revenue	<u>3,795,244</u>

TOTAL CURRENT LIABILITIES 9,179,091

LONG-TERM DEBT OBLIGATIONS 14,805,156

ACCRUED SICK LEAVE 2,215,793

TOTAL LIABILITIES 26,200,040

NET ASSETS

Invested in capital assets, net of related debt	14,439,730
Restricted	
Expendable	
Scholarships	144,199
Instructional department uses	181,870
Loans	21,198
Unrestricted	<u>11,950,123</u>

TOTAL NET ASSETS \$ 26,737,120

The accompanying notes are an integral part of this statement.

Muskegon Community College
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**
Year ended June 30, 2009

REVENUES

Operating revenues

Tuition and fees (net of scholarship allowances of \$3,515,804)	\$ 8,089,501
Federal grants and contracts	7,036,131
State and local grants and contracts	1,627,694
Nongovernmental grants	50,826
Auxiliary activities	718,964
Miscellaneous	<u>830,944</u>
Total operating revenue	18,354,060

EXPENSES

Operating expenses

Instruction	13,335,094
Information technology	2,673,476
Public services	480,488
Instructional support	3,011,196
Student services	9,312,508
Institutional administration	2,728,833
Operation and maintenance of plant	2,635,383
Depreciation and amortization	1,095,729
Other expenses	<u>495,002</u>
Total operating expenses	<u>35,767,709</u>

Operating loss (17,413,649)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,518,600
Property tax levy	9,963,061
Gifts	142,404
Investment income	160,915
Interest on capital asset - related debt	(628,277)
Gain on sale of capital asset	<u>331,422</u>
Total nonoperating revenues (expenses)	<u>18,488,125</u>

Income before other revenues 1,074,476

State capital appropriations 1,891,725

Change in net assets 2,966,201

Net assets at July 1, 2008 23,770,919

Net assets at June 30, 2009 \$ 26,737,120

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 7,653,004
Grants and contracts	8,714,651
Payments to suppliers	(12,240,834)
Payment to employees	(22,039,935)
Loans collected from (issued to) students	583
Auxiliary enterprise charges	718,964
Other	<u>830,944</u>
Net cash used for operating activities	(16,362,623)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Local property taxes	9,970,086
Gifts and contributions for other than capital purposes	142,404
State appropriations	<u>8,491,400</u>
Net cash provided by noncapital financing activities	18,603,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(4,033,918)
Principal paid on capital debt	(787,059)
Interest paid on capital debt	(623,153)
Capital appropriations	1,891,725
Proceeds from sale of capital assets	<u>1,000,000</u>
Net cash used for capital and related financing activities	(2,552,405)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	13,116,416
Interest on investments	<u>160,915</u>
Net cash provided by investing activities	<u>13,277,331</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,966,193
CASH AND CASH EQUIVALENTS at July 1, 2008	<u>1,261,614</u>
CASH AND CASH EQUIVALENTS at June 30, 2009	<u><u>\$ 14,227,807</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS—CONTINUED
Year ended June 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES

Operating loss	\$ (17,413,649)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,095,729
Other noncash activity	
(Increases) decreases in assets	
Accounts receivables (net)	(1,385,404)
Prepaid expenses and other assets	122,699
Student loans receivable	583
Increases (decreases) in liabilities	
Accounts payable	94,277
Accrued payroll and other compensation	174,235
Deposits	34,825
Deferred revenue	<u>914,082</u>
Net cash used for operating activities	<u>\$ (16,362,623)</u>
Noncash financing activities	
Sale of fixed assets on land contract	6,605,000

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Muskegon Community College (College) is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles outlined in *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

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 have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has no component units.

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

Accrual Basis – The financial statements of the College have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

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.

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.

Depreciation is provided on the straight-line basis over the following useful lives:

Land improvements	20 years
Buildings and improvements	15-50 years
Equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Accrued Sick Leave – Accrued sick leave represents the accumulated liability to be paid under the College's current sick pay policy. Under the College's policy, employees earn sick time based on time of service and/or contract with the College. Employment contracts generally provide for the payment of one-half of unused sick leave to a maximum per individual at retirement, or for clerical and custodial staff, at termination.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2009

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Deferred Revenues – Revenues received prior to year end that are related to the next fiscal period are recorded as deferred revenues. These consist primarily of grants and entitlements received before the eligibility requirements are met and tuition payments received for the subsequent fall semester.

Gifts and Pledges – 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.

Internal Service Activities – Both revenue and expenses related to internal service activities including office equipment, maintenance, and copying have been eliminated.

Property Taxes – The College’s property tax is levied and becomes a lien on December 1, based on the assessed value listed as of the prior 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 College and are recorded as revenue when received.

The 2008 state taxable value for real/personal property of the College totaled approximately \$4,440,000,000. The ad valorem taxes levied consisted of 2.2037 mills for operating purposes.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B—DEPOSITS AND INVESTMENTS

As of June 30, 2009, the College had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's rating</u>	<u>Percent</u>
Commercial paper	\$ 1,497,180	79	A1+/P1	55.4 %
Money market mutual fund	<u>1,206,099</u>	50	AAA	<u>44.6</u>
Total fair value	<u><u>\$ 2,703,279</u></u>			<u><u>100 %</u></u>
Portfolio weighted average maturity		<u><u>66</u></u>		

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2009

NOTE B—DEPOSITS AND INVESTMENTS—Continued

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, 2009, the College's entire bank balance was fully insured and collateralized.

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.

NOTE C—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 462,234	\$ -	\$ 230,863	\$ 231,371
Construction in progress	1,387,814	444,700	1,387,814	444,700
Total capital assets, not being depreciated	1,850,048	444,700	1,618,677	676,071
Capital assets, being depreciated:				
Land improvements	1,785,400	-	-	1,785,400
Buildings and improvements	32,345,852	3,771,190	7,662,767	28,454,275
Equipment	3,917,580	240,035	466,693	3,690,922
Total capital assets, being depreciated	38,048,832	4,011,225	8,129,460	33,930,597

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2009

NOTE C—PROPERTY AND EQUIPMENT—Continued

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>
Less accumulated depreciation:				
Land improvements	\$ 1,001,194	\$ 62,535	\$ -	\$ 1,063,729
Buildings and improvements	8,488,927	678,174	689,649	8,477,452
Equipment	<u>2,292,051</u>	<u>348,897</u>	<u>397,096</u>	<u>2,243,852</u>
Total accumulated depreciation	<u>11,782,172</u>	<u>1,089,606</u>	<u>1,086,745</u>	<u>11,785,033</u>
Total capital assets, being depreciated, net	<u>26,266,660</u>	<u>2,921,619</u>	<u>7,042,715</u>	<u>22,145,564</u>
Capital assets, net	<u>\$ 28,116,708</u>	<u>\$ 3,366,319</u>	<u>\$ 8,661,392</u>	<u>\$ 22,821,635</u>

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE D—RETIREMENT PLANS

Employee Retirement System – Defined Benefit Plan

Plan Description – The College participates in the Michigan Public School Employees’ Retirement System (MPSERS), a statewide, cost-sharing, multiple employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental, and vision. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing, MI 48909
1-800-381-5111

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2009

NOTE D—RETIREMENT PLANS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding Policy—Continued

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2009 was 16.72 percent for the months July through September and 16.54 percent for the remainder of the fiscal year. The College contributions to MPSERS for the year ended June 30, 2009, 2008, and 2007 were approximately \$2,004,000, \$2,010,000, and \$2,039,000, respectively and were equal to the required contribution for those years. Employee contributions to the MIP were approximately \$318,300.

Defined Contribution Plan

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 \$384,500 and employee contributions were approximately \$110,000.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2009

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Bond issuance costs	\$ 122,442	\$ -	\$ -	\$ 122,442
Less accumulated amortization	<u>23,787</u>	<u>6,123</u>	<u>-</u>	<u>29,910</u>
Bond issuance costs, net	<u>\$ 98,655</u>	<u>\$ (6,123)</u>	<u>\$ -</u>	<u>\$ 92,532</u>

Amortization

Amortization expense has been charged as unallocated amortization.

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, 2009.

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Governmental activities:					
General obligation bonds	\$ 16,367,562	\$ -	\$ 762,406	\$ 15,605,156	\$ 800,000
Other obligations	<u>17,059</u>	<u>-</u>	<u>17,059</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,384,621</u>	<u>\$ -</u>	<u>\$ 779,465</u>	<u>\$ 15,605,156</u>	<u>\$ 800,000</u>

General obligation bonds:

\$9,985,000 Community College Building and Site
Bonds of 2003; payable in annual installments
of \$420,000 to \$780,000 through May
2023; plus interest from 3.0% to 4.4%

\$ 8,170,000

Less bond discount

(55,704)

\$9,000,000 College Facilities Bond of 2005;
payable in annual installments of
\$380,000 to \$580,000 through May
2025; plus interest from 3.5% to 4.125%

7,550,000

Less bond discount

(59,140)

\$ 15,605,156

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2009

NOTE F—LONG-TERM DEBT OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2009 follows:

Year ending June 30,	Principal	Interest	Total
2010	\$ 800,000	\$ 600,000	\$ 1,400,000
2011	830,000	574,000	1,404,000
2012	860,000	546,000	1,406,000
2013	895,000	516,000	1,411,000
2014	930,000	485,000	1,415,000
2015-2019	5,240,000	1,894,000	7,134,000
2020-2024	5,585,000	771,000	6,356,000
2025-2026	580,000	25,343	605,343
	<u>\$ 15,720,000</u>	<u>\$ 5,411,343</u>	<u>\$ 21,131,343</u>

\$8,070,000 of the Community College Building Site Bonds of 2003 were issued to construct, furnish, and equip a Career Technical Center that is being sold to the Muskegon Area Intermediate School District (MAISD) on a land contract. Land contract payments from the MAISD are approximately equal to the annual debt service requirements of this portion of the bonds through 2012 after which a balloon payment is due.

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 \$16,000 per occurrence or \$48,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2009

NOTE H—COMMITMENTS AND CONTINGENCIES

The College has contract agreements for student center renovations as of June 30, 2009 of approximately \$1,040,000.

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

NOTE 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 \$60,000 per covered individual per year, with an approximate aggregate liability of \$2,119,315 per year. Benefit payments in excess of \$60,000 per covered individual or \$2,119,315 in aggregate are payable by an insurance company subject to a \$1,000,000 lifetime maximum per employee and aggregate liability. Benefits in excess of \$1,000,000 in aggregate or \$1,000,000 per employee, if any, would be the liability of the covered individual.

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments to the third party administrator, which have been charged to expense, approximated \$2,585,000 for the year ended June 30, 2009.

NOTE J—MUSKEGON COMMUNITY COLLEGE FOUNDATION

The Muskegon Community College Foundation (Foundation) was established in 1971 for the purpose of:

- a. Securing gifts of loans of property, works of art, historical papers, etc.
- b. Fundraising by means of loans, gifts, grants and bequests for a broad variety of purposes, including instruction and research, establishment of endowments, scholarships, fellowships, professorships, academic chairs, and cultural events and for buildings, equipment, and other facilities of all kinds.
- c. To act in the capacity of a fiduciary or trustee in carrying out these purposes and objectives.

The College is the sole beneficiary of any donations to, or funds raised by, the Foundation. At June 30, 2009, the stated value of the net assets of the Foundation approximated \$1,070,000. These assets are not included in the financial statements of the College because the College is not fiscally dependent on the Foundation, is not involved in the management of the Foundation, the Foundation can direct resources at its discretion and all assets of the Foundation are held by the Community Foundation for Muskegon County. Contributions to and payments on behalf of the College by the Foundation approximated \$92,000 in the fiscal year ending June 30, 2009.

The College provides personnel support, supplies and equipment to the Foundation. The management of the College should be contacted for copies of the Foundation's financial statements.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
 June 30, 2009

	Combined total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund	Agency Fund
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ 14,227,807	\$ 14,226,001	\$ -	\$ -	\$ -	\$ 1,806	\$ -	\$ -	\$ -	\$ -
Investments	1,295,045	1,295,045	-	-	-	-	-	-	-	-
Property taxes receivable	94,000	94,000	-	-	-	-	-	-	-	-
State appropriation receivable	1,548,836	1,548,836	-	-	-	-	-	-	-	-
Accounts receivable	5,975,186	5,973,733	-	-	-	-	-	-	1,453	-
Land contract receivable	335,000	-	-	-	-	-	-	-	335,000	-
Prepaid expenses and other assets	271,133	271,133	-	-	-	-	-	-	-	-
Due from (due to) other funds	-	(9,186,744)	410,000	2,247,206	396,735	14,206	-	-	6,031,208	87,389
TOTAL CURRENT ASSETS	23,747,007	14,222,004	410,000	2,247,206	396,735	16,012	-	-	6,367,661	87,389
STUDENT LOANS RECEIVABLE	5,986	-	-	-	-	5,986	-	-	-	-
BOND ISSUANCE COSTS, NET OF AMORTIZATION	92,532	-	-	-	-	-	-	-	92,532	-
LONG-TERM LAND CONTRACT RECEIVABLE	6,270,000	-	-	-	-	-	-	-	6,270,000	-
PROPERTY AND EQUIPMENT										
Land and improvements	2,016,771	-	-	-	-	-	-	-	2,016,771	-
Buildings and improvements	28,454,275	-	-	-	-	-	-	-	28,454,275	-
Equipment	3,690,922	-	-	-	-	-	-	-	3,690,922	-
Construction in progress	444,700	-	-	-	-	-	-	-	444,700	-
Allowance for depreciation	(11,785,033)	-	-	-	-	-	-	-	(11,785,033)	-
TOTAL PROPERTY AND EQUIPMENT	22,821,635	-	-	-	-	-	-	-	22,821,635	-
TOTAL ASSETS	52,937,160	14,222,004	410,000	2,247,206	396,735	21,998	-	-	35,551,828	87,389

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
 June 30, 2009

	Combined total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund	Agency Fund
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Current portion of debt obligations	\$ 800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800,000	\$ -
Accounts payable	863,707	861,229	-	1,678	-	800	-	-	-	-
Accrued interest payable	57,746	-	-	-	-	-	-	-	57,746	-
Accrued payrolls and other compensation	3,575,005	3,575,005	-	-	-	-	-	-	-	-
Deposits	87,389	-	-	-	-	-	-	-	-	87,389
Deferred revenue	3,795,244	3,795,244	-	-	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	9,179,091	8,231,478	-	1,678	-	800	-	-	857,746	87,389
LONG-TERM DEBT OBLIGATIONS	14,805,156	-	-	-	-	-	-	-	14,805,156	-
ACCRUED SICK LEAVE	2,215,793	2,215,793	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	26,200,040	10,447,271	-	1,678	-	800	-	-	15,662,902	87,389
NET ASSETS										
Invested in capital assets, net or related debt	14,439,730	-	-	-	-	-	-	-	14,439,730	-
Restricted										
Expendable										
Scholarships	144,199	-	-	-	144,199	-	-	-	-	-
Instructional department uses	181,870	-	-	-	181,870	-	-	-	-	-
Loans	21,198	-	-	-	-	21,198	-	-	-	-
Unrestricted	11,950,123	3,774,733	410,000	2,245,528	70,666	-	-	-	5,449,196	-
TOTAL NET ASSETS	\$ 26,737,120	\$ 3,774,733	\$ 410,000	\$ 2,245,528	\$ 396,735	\$ 21,198	\$ -	\$ -	\$ 19,888,926	\$ -

Muskegon Community College
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,
TRANSFERS AND CHANGES IN NET ASSETS**
For the year ended June 30, 2009

	Combined total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund
REVENUES										
Operating revenues										
Tuition and fees (net of scholarship allowances of \$3,515,804)	\$ 8,089,501	\$ (3,515,804)	\$ 11,605,305	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	7,036,131	-	-	-	-	7,036,131	-	-	-	-
State and local grants and contracts	1,627,694	-	-	-	-	1,627,694	-	-	-	-
Nongovernmental grants	50,826	-	-	-	-	50,826	-	-	-	-
Auxiliary activities	718,964	-	-	-	718,964	-	-	-	-	-
Miscellaneous	830,944	-	177,585	-	-	-	65	586,855	-	66,439
Total operating revenue	18,354,060	(3,515,804)	11,782,890	-	718,964	8,714,651	65	586,855	-	66,439
EXPENSES										
Operating expenses										
Instruction	13,335,094	-	13,014,332	-	2,416	318,346	-	-	-	-
Information technology	2,673,476	-	2,673,476	-	-	-	-	-	-	-
Public services	480,488	-	436,625	-	43,811	52	-	-	-	-
Instructional support	3,011,196	-	2,991,590	-	-	19,606	-	-	-	-
Student services	9,312,508	(3,515,804)	3,929,994	-	322,711	8,575,607	-	-	-	-
Institutional administration	2,728,833	-	2,650,988	-	77,845	-	-	-	-	-
Operation and maintenance of plant	2,635,383	-	2,173,032	-	462,351	-	-	-	-	-
Depreciation and amortization	1,095,729	-	-	-	-	-	-	-	-	1,095,729
Other expenses	495,002	-	-	-	-	-	384	225	225	494,168
Total operating expenses	35,767,709	(3,515,804)	27,870,037	-	909,134	8,913,611	384	225	225	1,589,897
OPERATING INCOME (LOSS)	(17,413,649)	-	(16,087,147)	-	(190,170)	(198,960)	(319)	586,630	(225)	(1,523,458)

Muskegon Community College
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES,
TRANSFERS AND CHANGES IN NET ASSETS—CONTINUED**
For the year ended June 30, 2009

	Combined total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund
NONOPERATING REVENUES (EXPENSES)										
State appropriations	\$ 8,518,600	\$ -	\$ 8,518,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	9,963,061	-	9,963,061	-	-	-	-	-	-	-
Gifts	142,404	-	30,566	-	-	-	194	-	-	111,644
Investment income	160,915	-	146,922	-	-	-	234	-	-	13,759
Interest on capital asset - related debt	(628,277)	-	-	-	-	-	-	(323,845)	(299,308)	(5,124)
Gain on sale of capital asset	331,422	-	-	-	-	-	-	-	-	331,422
Total nonoperating revenues (expenses)	18,488,125	-	18,659,149	-	-	-	428	(323,845)	(299,308)	451,701
Income (loss) before other revenues	1,074,476	-	2,572,002	-	(190,170)	(198,960)	109	262,785	(299,533)	(1,071,757)
State capital appropriation	1,891,725	-	-	-	-	-	-	-	-	1,891,725
Change in net assets	2,966,201	-	2,572,002	-	(190,170)	(198,960)	109	262,785	(299,533)	819,968
Transfers in (out)	-	-	(1,288,306)	-	161,638	69,920	-	(262,785)	299,533	1,020,000
Net change in net assets	2,966,201	-	1,283,696	-	(28,532)	(129,040)	109	-	-	1,839,968
Net assets at July 1, 2008	23,770,919	-	2,491,037	410,000	2,274,060	525,775	21,089	-	-	18,048,958
Net assets at June 30, 2009	\$ 26,737,120	\$ -	\$ 3,774,733	\$ 410,000	\$ 2,245,528	\$ 396,735	\$ 21,198	\$ -	\$ -	\$ 19,888,926

Notes:

- Capital expenditures are eliminated from operating expenditures in the current funds.
- Student aid / scholarships are eliminated from expenditures to prevent double accounting of revenues.
- The revenue is already recorded in federal and state grant revenues.
- Internal service charges, such as duplicating, are eliminated.