

Muskegon Community College

REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2008

Muskegon Community College

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Management's Discussion and Analysis

The discussion and analysis of Muskegon Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2008. 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, 2008, the College's expenses exceeded revenues and other support by \$198,439, creating a decrease 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 revenues 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, 2008 and 2007:

Net Assets				
As of June 30				
(in thousands)				
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 22,279	\$ 19,160	\$ 3,119	16.28%
Non-current assets				
Capital assets, net	28,117	27,490	627	2.28%
Bond issuance costs, net	99	235	(136)	-57.87%
Other	<u>6</u>	<u>8</u>	<u>(2)</u>	<u>-25.00%</u>
Total assets	50,501	46,893	3,608	7.69%
Liabilities				
Current liabilities	8,985	4,362	4,623	105.98%
Long-term liabilities				
Long-term debt obligations	15,604	16,506	(902)	-5.46%
Accrued sick leave	<u>2,141</u>	<u>2,056</u>	<u>85</u>	<u>4.13%</u>
Total liabilities	26,730	22,924	3,806	16.60%
Net Assets				
Invested in capital assets, net of related debt	14,159	13,858	301	2.17%
Restricted	365	308	57	18.51%
Unrestricted	<u>9,247</u>	<u>9,803</u>	<u>(556)</u>	<u>-5.67%</u>
Total net assets	<u>\$ 23,771</u>	<u>\$ 23,969</u>	<u>\$ (198)</u>	<u>-0.83%</u>

The large increase in current assets is due to an increase in accounts receivable of \$3,364,000. During fiscal year 2007-08, the College started registration in April for fall 2008 which created the receivable at June 30. Cash and cash equivalents decreased by \$341,000.

Capital assets increased by \$627,000 net of accumulated depreciation. The increase was in the area of construction in progress for the Student One Stop, nursing area and new administrative offices.

Current liabilities increased over \$4.6 million dollars. \$1.3 million of this increase was an increase in accounts payable of which \$966,000 was payables related to the construction of the Student One Stop. There was an increase of \$479,000 in accrued salaries, vacation and payroll related taxes. Deferred revenue increased by just over \$2.8 million dollars for the students that registered for fall 2008 classes prior to June 30.

Muskegon Community College

Management's Discussion and Analysis

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

Although unrestricted net assets are not subject to externally imposed restrictions, virtually all of the College's unrestricted net assets are designated for purposes to fulfill its mission including designations for capital projects (plant fund - \$3,890,348); fund balance reserve (general fund - \$2,491,037); scholarships and grants (restricted fund \$181,482); and future health care cost increases (designated fund - \$410,000).

Summary Operating Results for the Year

(in thousands)

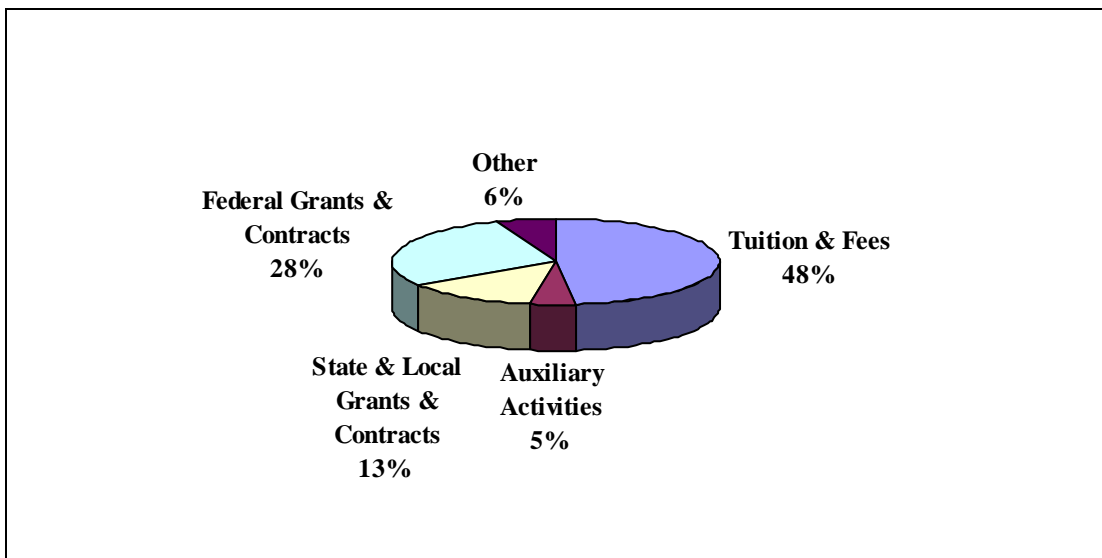
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 7,610	\$ 7,917	\$ (307)	-3.88%
Grants and contracts	6,649	5,367	1,282	23.89%
Auxiliary services	742	798	(56)	-7.02%
Other	872	867	5	0.58%
	<u>15,873</u>	<u>14,949</u>	<u>924</u>	
Total operating revenues	15,873	14,949	924	6.18%
Total operating expenses	<u>34,395</u>	<u>32,915</u>	<u>1,480</u>	4.50%
Total operating loss	(18,522)	(17,966)	(556)	3.09%
Non-operating revenues (expenses)				
State appropriations	8,369	8,292	77	0.93%
Property taxes	9,697	9,277	420	4.53%
Gifts	274	155	119	76.77%
Investment income	633	846	(213)	-25.18%
Interest on capital asset - related debt	<u>(649)</u>	<u>-</u>	<u>(649)</u>	100.00%
Net non-operating revenues (expenses)	<u>18,324</u>	<u>18,570</u>	<u>(246)</u>	-1.32%
Change in net assets	(198)	604	(802)	-132.78%
Net assets - beginning of year	<u>23,969</u>	<u>23,365</u>	<u>604</u>	2.59%
Net assets - end of year	<u>\$ 23,771</u>	<u>\$ 23,969</u>	<u>\$ (198)</u>	-0.83%

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 actually increased by almost \$900,000. The College increased tuition rates per contact hour ranging from 6.35% for in-district to 9.64% for out-of-state residents. In addition, the College increased the technology fee from \$6 to \$7 per contact hour. However, the amount of scholarship allowances increased by \$1.2 million which offsets the amount of tuition and fees reported.

Federal and state grants increased by almost \$1.3 million dollars. Most of this increase was federal grants and aid for students.

Muskegon Community College

Management's Discussion and Analysis

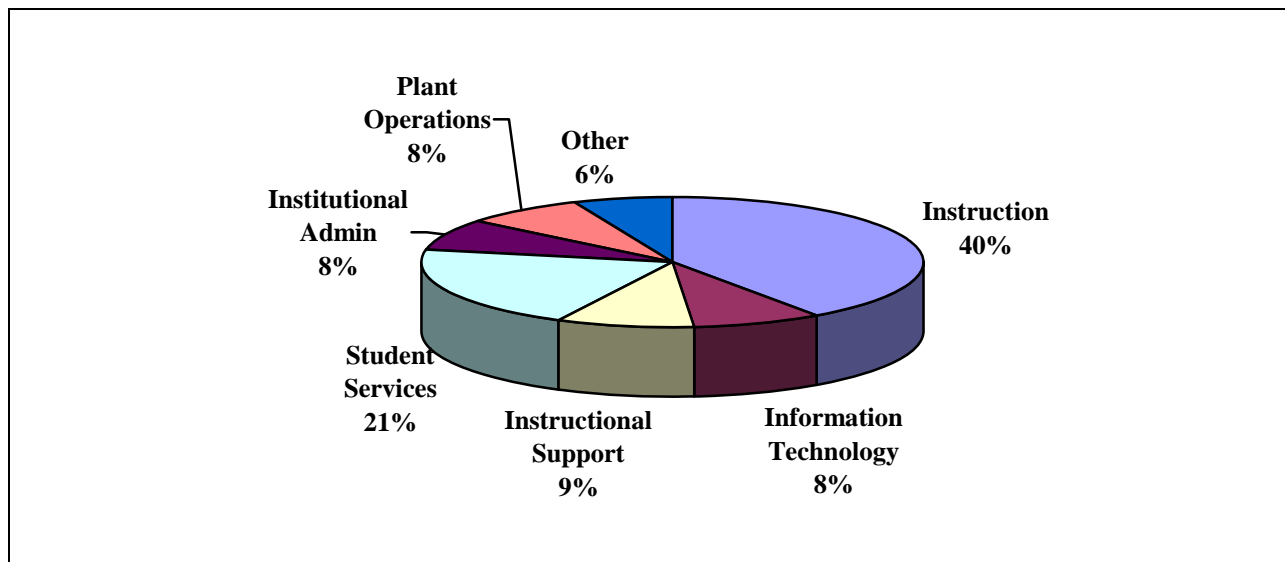
Operating Expenses

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, 2008 and 2007 consist of the following:

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Instruction	\$ 13,880	\$ 12,540	\$ 1,340	10.69%
Information technology	2,830	2,433	397	16.32%
Public services	886	721	165	22.88%
Instructional support	3,073	3,094	(21)	-0.68%
Student services	7,103	6,651	452	6.80%
Institutional administration	2,666	2,760	(94)	-3.41%
Operation and maintenance of plant	2,613	2,659	(46)	-1.73%
Unallocated depreciation and amortization	1,095	996	99	9.94%
Interest on debt	-	661	(661)	-100.00%
Other expenses	249	400	(151)	-37.75%
Total	\$ 34,395	\$ 32,915	\$ 1,480	4.50%

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



Muskegon Community College

Management's Discussion and Analysis

Operating expenses increased \$1.48 million. The general fund increased by \$2,164,000. Of this increase, \$1.6 million was in the area of salaries and fringes. Just over \$400,000 was for professional services which includes the contract for our information technology services. Beginning with the fiscal year June 30, 2008, interest on debt is now recorded as a non-operating expense, thus a decrease in operating expenses.

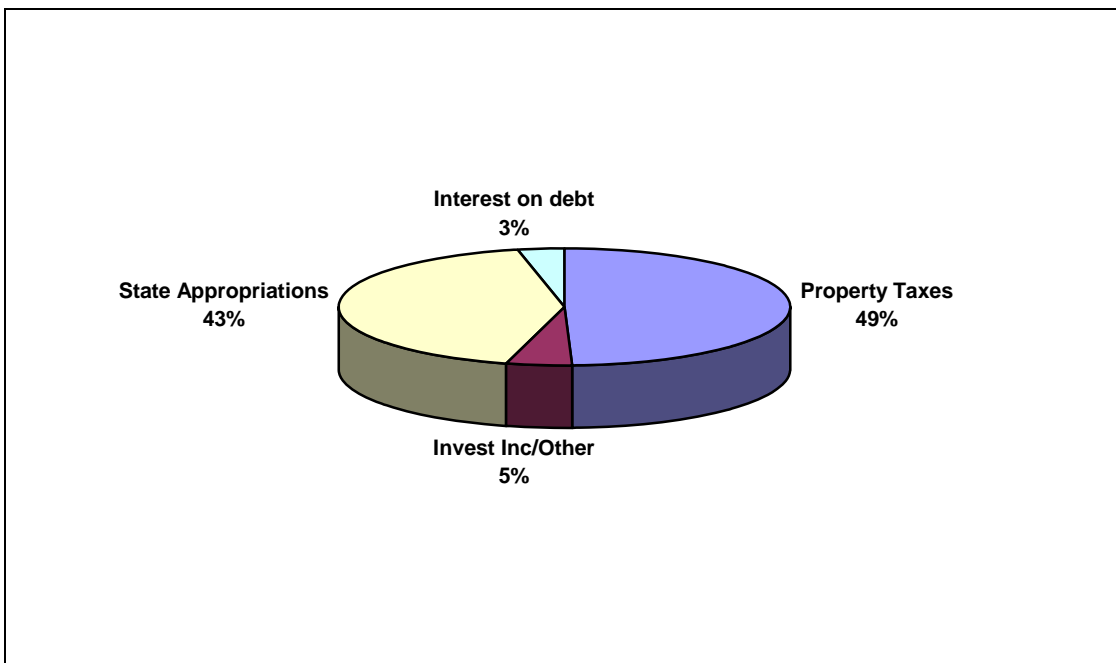
Non-operating Revenues (Expenses)

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 and interest expense on bond issues.

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

- State appropriations increased less than 1% or \$76,600.
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of \$419,575 or a 4.53% increase.
- Investment income decreased by \$213,000 or 25.2%, largely due to a decrease in interest rates and spending down some of the investments for the construction.
- Interest on capital asset – related debt was reported as an operating expense in prior years.

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 no "other" revenue during the year.

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 decreased by \$340,520. The most significant decrease was in maturities of investments.

Cash Flows for the Year Ended June 30

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Cash provided by (used for)				
Operating activities	\$ (17,132)	\$ (17,925)	\$ 793	-4.42%
Noncapital financing activities	18,318	17,700	618	3.49%
Capital and related financing activities	(2,166)	(1,635)	(531)	32.48%
Investing activities	<u>640</u>	<u>2,937</u>	<u>(2,297)</u>	-78.21%
Net change in cash	(340)	1,077	(1,417)	-131.57%
Cash - beginning of year	<u>1,602</u>	<u>525</u>	<u>1,077</u>	205.14%
Cash - ending of year	<u>\$ 1,262</u>	<u>\$ 1,602</u>	<u>\$ (340)</u>	-21.22%

Muskegon Community College

Management's Discussion and Analysis

Capital Assets

At June 30, 2008, the College had \$39.9 million invested in capital assets, with accumulated depreciation of \$11.8 million. Depreciation charges totaled \$1,088,969 for the current fiscal year. Details of these assets at June 30 are shown in the following table.

Fixed Assets for the Year Ended June 30

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Land	\$ 462	\$ 462	\$ -
Construction in progress	1,388	2	1,386
Land improvements	784	847	(63)
Buildings and improvements	23,857	24,307	(450)
Equipment	1,626	1,872	(246)
Total	\$ <u>28,117</u>	\$ <u>27,490</u>	\$ <u>627</u>

The major change in fixed assets was the construction in progress for the new Student One Stop. Buildings and improvements and equipment decreased because the depreciation charges were greater than the additions. 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 \$900,000, 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 \$17,059 in notes payable, related to equipment installment obligations, and \$16,367,562 in General Obligation – Limited Tax Bonds, issued in 2003 and 2005, for a total of \$16,384,621. This compares to \$17,140,583 as of June 30, 2007. 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 the MAISD is obligated to make rental payments to the College which approximate debt service requirements on the portion of bonds used to construct that facility.

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 increase only slightly for fiscal year 2009-10. Growth in property taxes is also expected to increase slightly.

Overall, the College's current financial and capital plans along with additional operating cost savings indicate that the College is positioned to maintain its present level of services.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 1, 2008

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, 2008 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, 2008, 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, 2008, 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, 2008
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The management's discussion and analysis on pages i - ix 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.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive style with a large, looped initial "B".

Muskegon Community College
STATEMENT OF NET ASSETS
Year ended June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,261,614
Investments	14,411,461
Property taxes receivable	101,025
State appropriation receivable	1,521,636
Accounts receivable	4,589,782
Prepaid expenses and other assets	<u>393,832</u>

TOTAL CURRENT ASSETS 22,279,350

STUDENT LOANS RECEIVABLE 6,569

BOND ISSUANCE COSTS, net 98,655

PROPERTY AND EQUIPMENT, net 28,116,708

TOTAL ASSETS 50,501,282

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of debt obligations	781,000
Accounts payable	1,735,237
Accrued interest payable	60,216
Accrued payroll and other compensation	3,475,136
Deposits	52,564
Deferred revenue	<u>2,881,162</u>

TOTAL CURRENT LIABILITIES 8,985,315

LONG-TERM DEBT OBLIGATIONS 15,603,621

ACCRUED SICK LEAVE 2,141,427

TOTAL LIABILITIES 26,730,363

NET ASSETS

Invested in capital assets, net of related debt	14,158,610
Restricted	
Expendable	
Scholarships	159,591
Instructional department uses	184,702
Loans	21,089
Unrestricted	<u>9,246,927</u>

TOTAL NET ASSETS \$ 23,770,919

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, 2008

REVENUES

Operating revenues

Tuition and fees (net of scholarship allowances of \$3,144,972)	\$ 7,610,178
Federal grants and contracts	4,499,594
State and local grants and contracts	2,095,388
Nongovernmental grants	53,871
Auxiliary activities	741,930
Miscellaneous	871,691
Total operating revenue	15,872,652

EXPENSES

Operating expenses

Instruction	13,880,269
Information technology	2,830,077
Public services	886,080
Instructional support	3,072,578
Student services	7,102,749
Institutional administration	2,665,872
Operation and maintenance of plant	2,612,878
Depreciation and amortization	1,095,091
Other expenses	249,593
Total operating expenses	34,395,187

Operating loss (18,522,535)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,369,000
Property tax levy	9,696,789
Gifts	274,465
Investment income	632,901
Interest on capital asset - related debt	(649,059)
Total nonoperating revenues (expenses)	18,324,096

Change in net assets (198,439)

Net assets at July 1, 2007	23,969,358
Net assets at June 30, 2008	\$ 23,770,919

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 7,110,383
Grants and contracts	6,648,853
Payments to suppliers	(10,527,083)
Payment to employees	(21,989,236)
Loans collected from (issued to) students	1,883
Auxiliary enterprise charges	741,930
Other	<u>880,696</u>
Net cash used for operating activities	(17,132,574)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Local property taxes	9,714,089
Gifts and contributions for other than capital purposes	274,465
State appropriations	<u>8,329,879</u>
Net cash provided by noncapital financing activities	18,318,433
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(759,163)
Principal paid on capital debt	(763,556)
Interest paid on capital debt	<u>(643,628)</u>
Net cash used for capital and related financing activities	(2,166,347)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	7,067
Interest on investments	<u>632,901</u>
Net cash provided by investing activities	<u>639,968</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(340,520)
CASH AND CASH EQUIVALENTS at July 1, 2007	<u>1,602,134</u>
CASH AND CASH EQUIVALENTS at June 30, 2008	<u><u>\$ 1,261,614</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS—CONTINUED
Year ended June 30, 2008

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES

Operating loss	\$ (18,522,535)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,095,091
(Increases) decreases in assets	
Accounts receivables (net)	(3,364,104)
Prepaid expenses and other assets	(80,571)
Student loans receivable	1,883
Increases (decreases) in liabilities	
Accounts payable	299,759
Accrued payroll and other compensation	564,589
Deposits	46,082
Deferred revenue	<u>2,827,232</u>
Net cash used for operating activities	<u><u>\$ (17,132,574)</u></u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 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, 2008

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 2007 state taxable value for real/personal property of the College totaled approximately \$4,314,000,000. 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, 2008, 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	\$ 995,518	102	A1/P1	7.2 %
Commercial paper	5,992,779	73	A1+/P1	43.5
U.S. agency obligations	3,993,995	90	AAA	28.9
Money market mutual fund	<u>2,818,018</u>	55	AAA	<u>20.4</u>
Total fair value	<u><u>\$ 13,800,310</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, 2008

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. More than 5 percent of the College's investments are in obligations issued by the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments are 21.71 percent and 7.23 percent, respectively, of the College's investments.

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, 2008, \$1,359,737 of the College's bank balance of \$2,162,096 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, in the College's name.

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, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 462,234	\$ -	\$ -	\$ 462,234
Construction in progress	2,286	1,385,528	-	1,387,814
Total capital assets, not being depreciated	464,520	1,385,528	-	1,850,048
Capital assets, being depreciated:				
Land improvements	1,785,400	-	-	1,785,400
Buildings and improvements	32,144,189	201,663	-	32,345,852
Equipment	3,936,252	137,779	156,451	3,917,580
Total capital assets, being depreciated	37,865,841	339,442	156,451	38,048,832

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2008

NOTE C—PROPERTY AND EQUIPMENT—Continued

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Less accumulated depreciation:				
Land improvements	\$ 938,659	\$ 62,535	\$ -	\$ 1,001,194
Buildings and improvements	7,837,572	651,355	-	8,488,927
Equipment	<u>2,064,418</u>	<u>375,079</u>	<u>147,446</u>	<u>2,292,051</u>
Total accumulated depreciation	<u>10,840,649</u>	<u>1,088,969</u>	<u>147,446</u>	<u>11,782,172</u>
Total capital assets, being depreciated, net	<u>27,025,192</u>	<u>(749,527)</u>	<u>9,005</u>	<u>26,266,660</u>
Capital assets, net	<u>\$ 27,489,712</u>	<u>\$ 636,001</u>	<u>\$ 9,005</u>	<u>\$ 28,116,708</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, 2008

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, 2008 was 17.74 percent for the months July through September and 16.72 percent for the remainder of the fiscal year. The College contributions to MPSERS for the year ended June 30, 2008, 2007, and 2006 were approximately \$2,010,000, \$2,039,000, and \$1,872,000, respectively and were equal to the required contribution for those years. Employee contributions to the MIP were approximately \$302,500.

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 \$377,000 and employee contributions were approximately \$108,000.

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

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 122,442	\$ -	\$ -	\$ 122,442
Less accumulated amortization	17,665	6,122	-	23,787
Bond issuance costs, net	\$ 104,777	\$ (6,122)	\$ -	\$ 98,655

Amortization

Amortization expense has been charged as unallocated amortization.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

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, 2008.

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
General obligation bonds	\$ 17,104,968	\$ -	\$ 737,406	\$ 16,367,562	\$ 770,000
Other obligations	<u>35,615</u>	<u>-</u>	<u>18,556</u>	<u>17,059</u>	<u>11,000</u>
	<u>\$ 17,140,583</u>	<u>\$ -</u>	<u>\$ 755,962</u>	<u>\$ 16,384,621</u>	<u>\$ 781,000</u>

General obligation bonds:

\$9,985,000 Community College Building and Site Bonds of 2003; payable in annual installments of \$400,000 to \$780,000 through May 2023; plus interest from 2.5% to 4.4%

\$ 8,570,000

Less bond discount (59,602)

\$9,000,000 College Facilities Bond of 2005; payable in annual installments of \$370,000 to \$580,000 through May 2025; plus interest from 3.5% to 4.125%

7,920,000

Less bond discount (62,836)

Other obligations:

Capital lease, payable in monthly installments of \$1,028 through October 2009; including interest at 8.67%

4,039

Capital lease, payable in monthly installments of \$722 through June 2010; including interest at 9.5%

13,020

\$ 16,384,621

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2008

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, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 781,000	\$ 624,000	\$ 1,405,000
2010	806,000	601,000	1,407,000
2011	830,000	574,000	1,404,000
2012	860,000	546,000	1,406,000
2013	895,000	516,000	1,411,000
2014-2018	5,035,000	2,079,000	7,114,000
2019-2023	6,155,000	1,024,000	7,179,000
2024-2026	1,145,059	71,797	1,216,856
	<u>\$ 16,507,059</u>	<u>\$ 6,035,797</u>	<u>\$ 22,542,856</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 leased to the Muskegon Area Intermediate School District (MAISD). Lease payments from the MAISD are approximately equal to the annual debt service requirements of this portion of the bonds.

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 \$18,000 per occurrence or \$54,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

NOTE H—CONTINGENCIES

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.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

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 \$2,015,202 per year. Benefit payments in excess of \$60,000 per covered individual or \$2,015,202 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 \$3,009,000 for the year ended June 30, 2008.

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, 2008, the stated value of the net assets of the Foundation approximated \$1,324,000. These assets are not included in the financial statements of the College because the College does not appoint a voting majority of the Foundation's Board of Directors, is not fiscally dependent on the Foundation, is not involved in the management of the Foundation and the Foundation can direct resources at its discretion. Contributions to and payments on behalf of the College by the Foundation approximated \$111,000 in the fiscal year ending June 30, 2008.

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, 2008

	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	\$ 1,261,614	\$ 1,141,559	\$ -	\$ -	\$ -	\$ 2,008	\$ -	\$ -	\$ 118,047	\$ -
Investments	14,411,461	11,668,893	-	-	-	-	-	-	2,742,568	-
Property taxes receivable	101,025	101,025	-	-	-	-	-	-	-	-
State appropriation receivable	1,521,636	1,521,636	-	-	-	-	-	-	-	-
Accounts receivable	4,589,782	4,588,718	-	-	-	-	-	-	1,064	-
Prepaid expenses and other assets	393,832	393,832	-	-	-	-	-	-	-	-
Due from (due to) other funds	-	(7,785,563)	410,000	2,401,352	525,775	13,312	-	-	4,382,560	52,564
TOTAL CURRENT ASSETS	22,279,350	11,630,100	410,000	2,401,352	525,775	15,320	-	-	7,244,239	52,564
STUDENT LOANS RECEIVABLE	6,569	-	-	-	-	6,569	-	-	-	-
BOND ISSUANCE COSTS, NET OF AMORTIZATION	98,655	-	-	-	-	-	-	-	98,655	-
PROPERTY AND EQUIPMENT										
Land and improvements	2,247,634	-	-	-	-	-	-	-	2,247,634	-
Buildings and improvements	32,345,852	-	-	-	-	-	-	-	32,345,852	-
Equipment	3,917,580	-	-	-	-	-	-	-	3,917,580	-
Construction in progress	1,387,814	-	-	-	-	-	-	-	1,387,814	-
Allowance for depreciation	(11,782,172)	-	-	-	-	-	-	-	(11,782,172)	-
TOTAL PROPERTY AND EQUIPMENT	28,116,708	-	-	-	-	-	-	-	28,116,708	-
TOTAL ASSETS	50,501,282	11,630,100	410,000	2,401,352	525,775	21,889	-	-	35,459,602	52,564

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
 June 30, 2008

	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	\$ 781,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 781,000	\$ -
Accounts payable	1,735,237	641,338	-	127,292	-	800	-	-	965,807	-
Accrued interest payable	60,216	-	-	-	-	-	-	-	60,216	-
Accrued payrolls and other compensation	3,475,136	3,475,136	-	-	-	-	-	-	-	-
Deposits	52,564	-	-	-	-	-	-	-	-	52,564
Deferred revenue	2,881,162	2,881,162	-	-	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	8,985,315	6,997,636	-	127,292	-	800	-	-	1,807,023	52,564
LONG-TERM DEBT OBLIGATIONS	15,603,621	-	-	-	-	-	-	-	15,603,621	-
ACCRUED SICK LEAVE	2,141,427	2,141,427	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	26,730,363	9,139,063	-	127,292	-	800	-	-	17,410,644	52,564
NET ASSETS										
Invested in capital assets, net or related debt	14,158,610	-	-	-	-	-	-	-	14,158,610	-
Restricted										
Expendable										
Scholarships	159,591	-	-	-	159,591	-	-	-	-	-
Instructional department uses	184,702	-	-	-	184,702	-	-	-	-	-
Loans	21,089	-	-	-	-	21,089	-	-	-	-
Unrestricted	9,246,927	2,491,037	410,000	2,274,060	181,482	-	-	-	3,890,348	-
TOTAL NET ASSETS	\$ 23,770,919	\$ 2,491,037	\$ 410,000	\$ 2,274,060	\$ 525,775	\$ 21,089	\$ -	\$ -	\$ 18,048,958	\$ -

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
For the year ended June 30, 2008

	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 \$3,144,972)	\$ 7,610,178	\$ (3,144,972)	\$ 10,755,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	4,499,594	-	-	-	-	4,499,594	-	-	-	-
State and local grants and contracts	2,095,388	-	-	-	-	2,095,388	-	-	-	-
Nongovernmental grants	53,871	-	-	-	-	53,871	-	-	-	-
Auxiliary activities	741,930	-	-	-	741,930	-	-	-	-	-
Miscellaneous	871,691	-	252,506	-	-	-	40	569,384	-	49,761
Total operating revenue	15,872,652	(3,144,972)	11,007,656	-	741,930	6,648,853	40	569,384	-	49,761
EXPENSES										
Operating expenses										
Instruction	13,880,269	-	13,264,403	-	766	615,100	-	-	-	-
Information technology	2,830,077	-	2,830,077	-	-	-	-	-	-	-
Public services	886,080	-	857,818	-	25,988	2,274	-	-	-	-
Instructional support	3,072,578	-	3,054,178	-	-	18,400	-	-	-	-
Student services	7,102,749	(3,144,972)	3,972,582	-	298,658	5,976,481	-	-	-	-
Institutional administration	2,665,872	-	2,662,726	-	3,146	-	-	-	-	-
Operation and maintenance of plant	2,612,878	-	2,120,528	-	492,350	-	-	-	-	-
Depreciation and amortization	1,095,091	-	-	-	-	-	-	-	-	1,095,091
Other expenses	249,593	-	-	-	-	-	351	225	225	248,792
Total operating expenses	34,395,187	(3,144,972)	28,762,312	-	820,908	6,612,255	351	225	225	1,343,883
OPERATING INCOME (LOSS)	(18,522,535)	-	(17,754,656)	-	(78,978)	36,598	(311)	569,159	(225)	(1,294,122)

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS—CONTINUED
For the year ended June 30, 2008

	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	\$ 8,369,000	\$ -	\$ 8,369,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	9,696,789	-	9,696,789	-	-	-	-	-	-	-
Gifts	274,465	-	1,000	-	-	-	-	-	-	273,465
Investment income	632,901	-	499,704	-	-	-	433	-	-	132,764
Interest on capital asset - related debt	(649,059)	-	-	-	-	-	-	(333,220)	(310,408)	(5,431)
Total nonoperating revenues (expenses)	<u>18,324,096</u>	<u>-</u>	<u>18,566,493</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>433</u>	<u>(333,220)</u>	<u>(310,408)</u>	<u>400,798</u>
Change in net assets	(198,439)	-	811,837	-	(78,978)	36,598	122	235,939	(310,633)	(893,324)
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(1,769,539)</u>	<u>-</u>	<u>61,789</u>	<u>52,014</u>	<u>-</u>	<u>(235,939)</u>	<u>310,633</u>	<u>1,581,042</u>
Net change in net assets	(198,439)	-	(957,702)	-	(17,189)	88,612	122	-	-	687,718
Net assets at July 1, 2007	<u>23,969,358</u>	<u>-</u>	<u>3,448,739</u>	<u>410,000</u>	<u>2,291,249</u>	<u>437,163</u>	<u>20,967</u>	<u>-</u>	<u>-</u>	<u>17,361,240</u>
Net assets at June 30, 2008	<u>\$ 23,770,919</u>	<u>\$ -</u>	<u>\$ 2,491,037</u>	<u>\$ 410,000</u>	<u>\$ 2,274,060</u>	<u>\$ 525,775</u>	<u>\$ 21,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,048,958</u>

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.