



Years Ended
June 30,
2012 and 2011

Annual
Financial
Report

JACKSON COMMUNITY COLLEGE

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JACKSON COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Management's discussion and analysis (MD&A) of Jackson Community College's (the "College") financial statements provides an overview of the College's financial position as of June 30, 2012 and 2011 and its activities for the years then ended. The College's management has prepared and is responsible for the financial statements and the related footnote disclosures, along with the discussion and analysis.

Using the Annual Financial Report

This annual financial report includes this management's discussion and analysis, the report of independent auditors, the basic financial statements in the above referred format, and notes to financial statements. Following the basic financial statements and notes are supplementary schedules, including Combining Balance Sheets and Combining Statements of Revenues, Expenses, Transfers and Changes in Net Assets. These supplementary schedules are required by the State of Michigan. Though GASB does not require this information for a fair and complete presentation, supplemental schedules do provide additional information regarding the various funds and activities of the College that is not presented in the basic, entity-wide statements.

Financial Highlights

The audited financial statements for Jackson Community College include the complete presentation of net assets and changes therein. However, the traditional emphasis has been on the General Fund, or the portion of the institution primarily concerned with instruction and its support. It is this fund that the State of Michigan uses in its appropriation allocation each year. The following revenues and expenses sections of this analysis detail this portion of our operations, considering its importance to the overall health of the College.

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is Jackson Community College as a whole better or worse off from a financial standpoint as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that attempts to answer this question. 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 two statements report the College's net assets and changes in them during each fiscal year presented.

One way to think of the College's net assets (the difference between assets and liabilities) is as a way to measure the College's health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. Many other non-financial factors, such as the trend in College applicants, student retention, condition of the buildings, and strength of the faculty need to be considered to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private-sector institutions. All of the current and prior years' revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Balance Sheets

	June 30,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets	\$ 19,017,959	\$ 24,304,989
Capital assets	70,370,806	70,082,979
Noncurrent assets	<u>13,227,204</u>	<u>13,238,929</u>
Total assets	<u>\$ 102,615,969</u>	<u>\$ 107,626,897</u>
LIABILITIES		
Current liabilities	\$ 8,530,024	\$ 8,484,680
Noncurrent liabilities	<u>35,871,288</u>	<u>36,843,114</u>
Total liabilities	<u>\$ 44,401,312</u>	<u>\$ 45,327,794</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 33,523,771	\$ 31,124,865
Restricted:		
Nonexpendable	54,229	53,434
Expendable	528,244	398,791
Jackson Community College Foundation	13,186,575	13,383,611
Unrestricted	<u>10,921,838</u>	<u>17,338,402</u>
Total net assets	<u>58,214,657</u>	<u>62,299,103</u>
Total liabilities and net assets	<u>\$ 102,615,969</u>	<u>\$ 107,626,897</u>

During the fiscal year the College experienced a shift in enrollment that affected tuition and fee revenue. Coupling the change in enrollment with building and maintenance expenditures, you will see a decrease in current and noncurrent assets of the College. The decrease in the Jackson Community College Foundation funds is a result of increased scholarship giving and lower investment earnings.

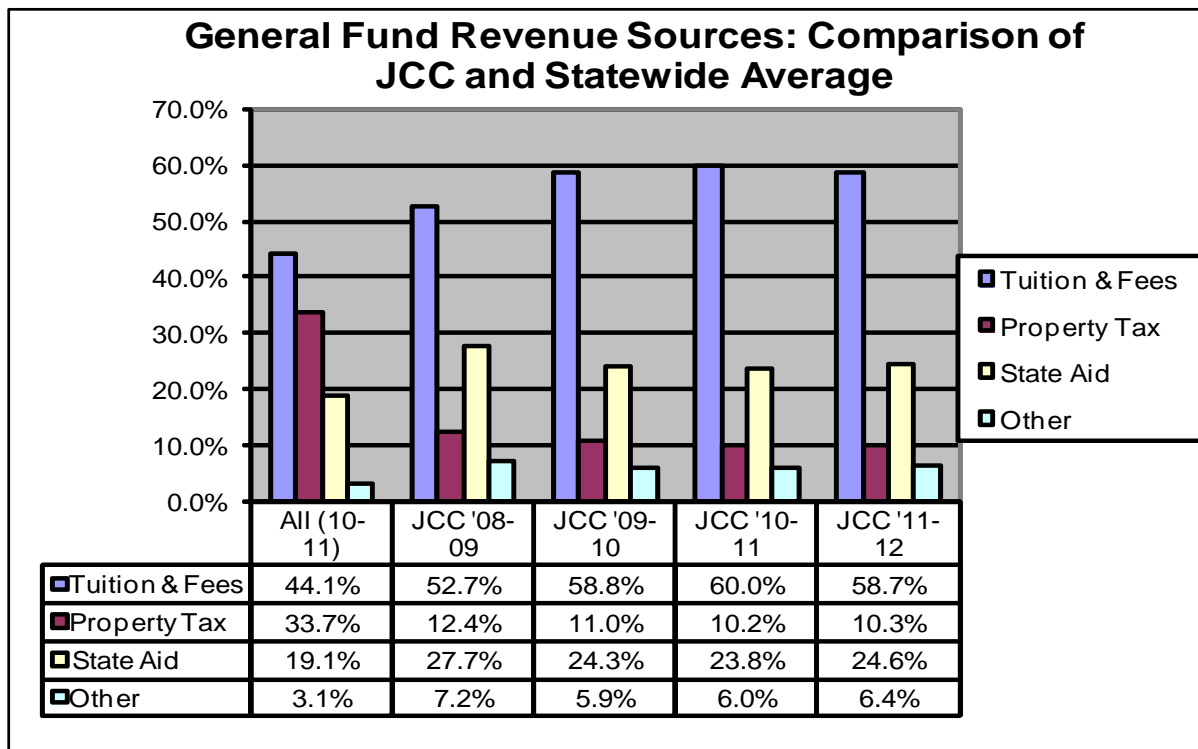
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Operating revenues		
Tuition and fees, net	\$11,927,597	\$12,710,882
Grants and contracts	7,334,547	8,508,696
Potter Center activities	402,756	356,622
Other operating revenues	<u>2,242,697</u>	<u>2,799,312</u>
Total operating revenues	<u>21,907,597</u>	<u>24,375,512</u>
Operating expenses		
Instruction	20,277,452	20,676,238
Public service	823,815	768,934
Academic support	4,285,760	4,869,640
Student services	10,453,682	11,619,021
Administration	8,045,129	6,199,868
Operation and maintenance of plant	7,165,860	5,424,593
Depreciation and amortization	<u>3,619,280</u>	<u>3,078,839</u>
Total operating expenses	<u>54,670,978</u>	<u>52,637,133</u>
Operating loss	<u>(32,763,381)</u>	<u>(28,261,621)</u>
Nonoperating and other revenues		
State appropriations	11,219,700	11,542,300
State capital appropriations	492,892	10,016,314
Local property taxes	4,690,925	4,965,858
Federal Pell grant revenue	12,576,972	14,611,122
Other	<u>(301,554)</u>	<u>1,000,761</u>
Total nonoperating and other revenues	<u>28,678,935</u>	<u>42,136,355</u>
(Decrease) increase in net assets	(4,084,446)	13,874,734
Net assets, beginning of year	<u>62,299,103</u>	<u>48,424,369</u>
Net assets, end of year	<u>\$58,214,657</u>	<u>\$62,299,103</u>

Revenues

GASB guidelines require State appropriations, property tax revenues and Federal Pell grant revenue to be reported as nonoperating revenues. Management views, and has always viewed, major revenues to the College such as State appropriations, local property taxes and Pell grants as operating revenues. These dollars would not be received by the College to fund operating expenses if educational classes were not offered. Therefore, management believes these revenues should be applied directly to the operating costs that are associated with them for internal analysis purposes.

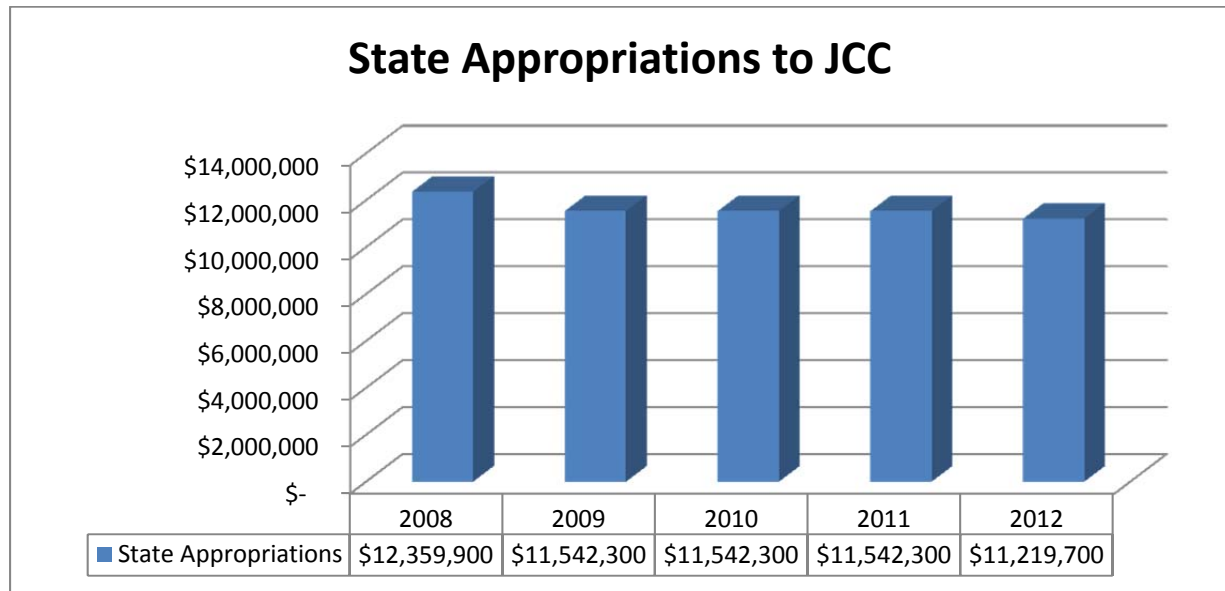
Each year the 28 Michigan public community colleges are required to submit data that is the basis of the Activities Classification Structure (ACS) Data Book. The Community College Appropriations Act assigns primary responsibility for data collection to the Michigan Department of Labor and Economic Growth. In addition to appropriations, the data in the ACS Data Book is used to derive comparisons among community colleges on a number of significant issues that relate to institutional concerns. The 2010-11 ACS Data Book reveals the following state averages for the year. Four years of Jackson Community College information is included for comparison. These are comparisons of general fund revenues, as these are the numbers used in the State reports. Capital Outlay is not included in the State ACS reports as these are recorded in Plant Funds and these operational reports only include the General and Designated Funds. The College generated General Fund revenues of \$45,628,295 and \$48,346,454 in 2012 and 2011, respectively.



General and Designated Funds Combining Statement from Audit	2012	2011	Difference	% of Total	% Change
Tuition & Fees	\$ 11,927,597	\$ 12,710,882	\$ (783,285)	26.1%	-6.2%
Discount	14,862,038	16,411,268	(1,549,230)	32.6%	-9.4%
Gross Tuition & Fees	26,789,635	29,122,150	(2,332,515)	58.7%	-8.0%
Federal Grants	44,400	18,324	26,076	0.1%	142.3%
Property Tax	4,690,925	4,965,858	(274,933)	10.3%	-5.5%
State Aid	11,219,700	11,542,300	(322,600)	24.6%	-2.8%

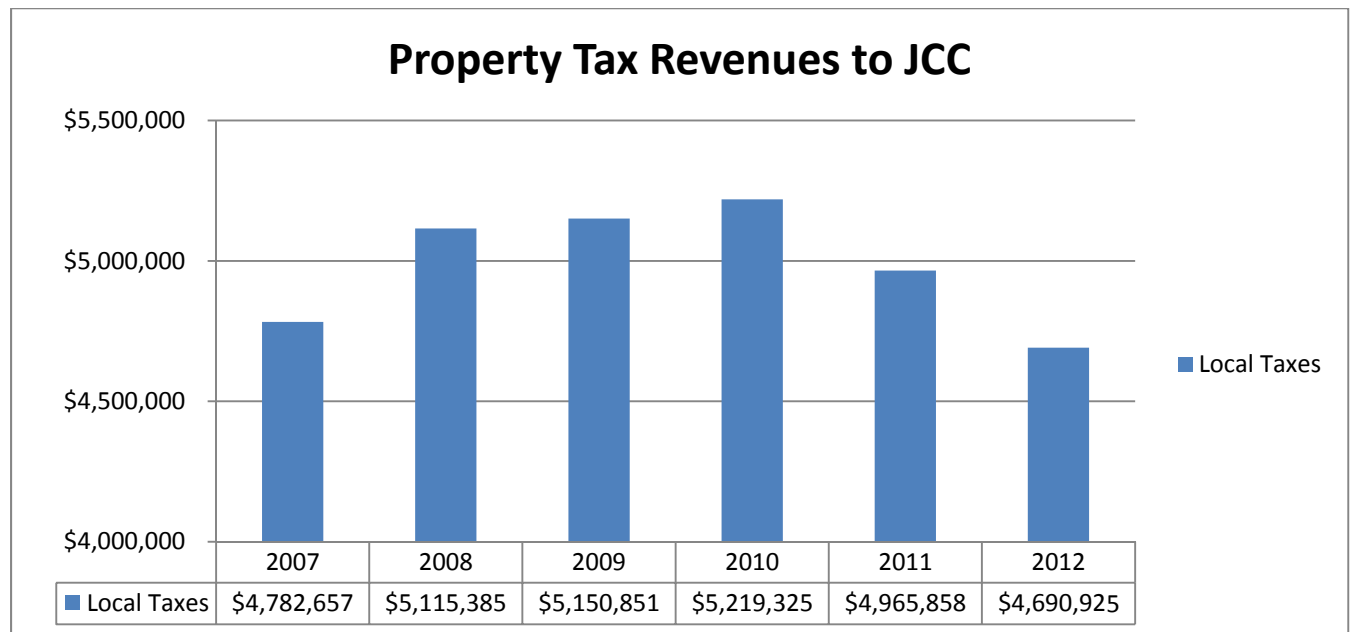
State Appropriations

Accounting guidelines issued by the GASB obligate the College to report State Appropriations as nonoperating income. Generally, the State of Michigan includes the Appropriation to Community Colleges Act in its annual budget, which is approved just prior to the beginning of the State's fiscal year, October 1. The College received \$11,219,700 in fiscal year 2012, which is a slight decrease from fiscal 2011 after remaining unchanged for three years.



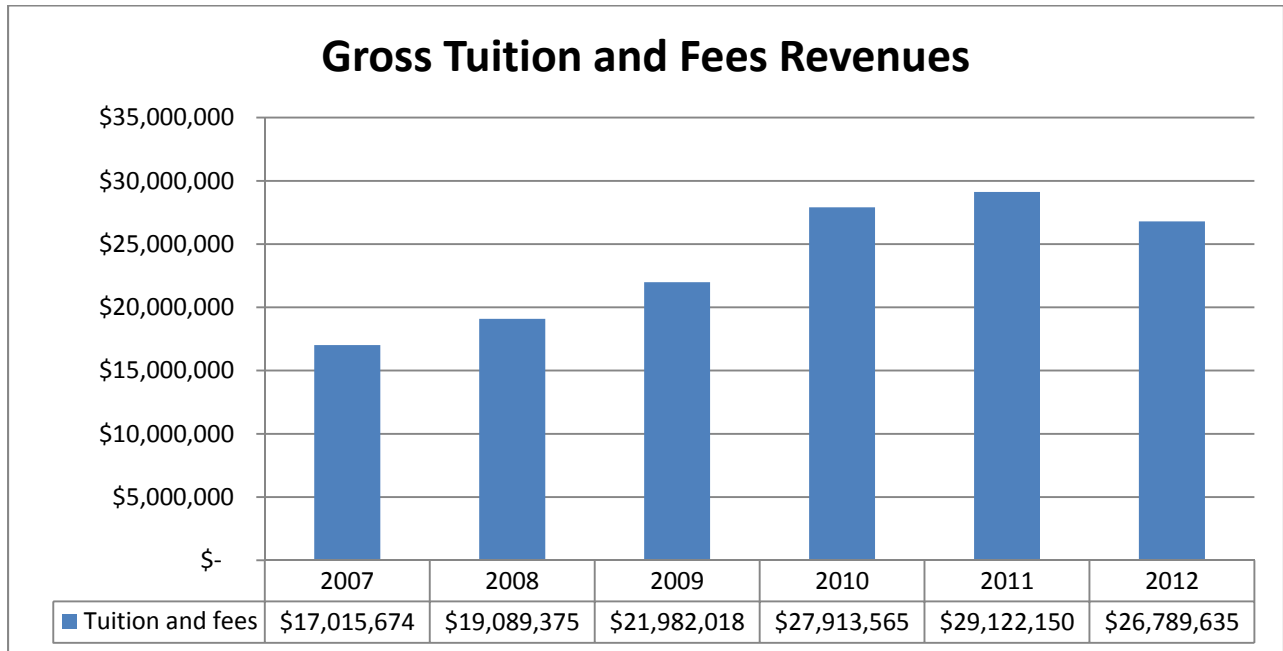
Property Taxes

Only 10.3% of ACS revenues come from property taxes from Jackson County. The other community colleges like JCC that depend heavily on State Appropriations also have in common a low percentage of their General Fund revenue being derived from property taxes. The State average is 33.7%. No new attempt to adjust the voted millage rate was made during the current fiscal year. No millage increase has been approved by the voters of Jackson County since the charter millage in 1964. The current millage rate of 1.1446 (December 2008) is the lowest in the State. However, the College will be asking voters to consider a millage in November 2012 to support a portion of the Bert Walker Hall Renovation and expansion. The decrease in revenue in fiscal 2012 is due to the decline in property market values in Jackson County.

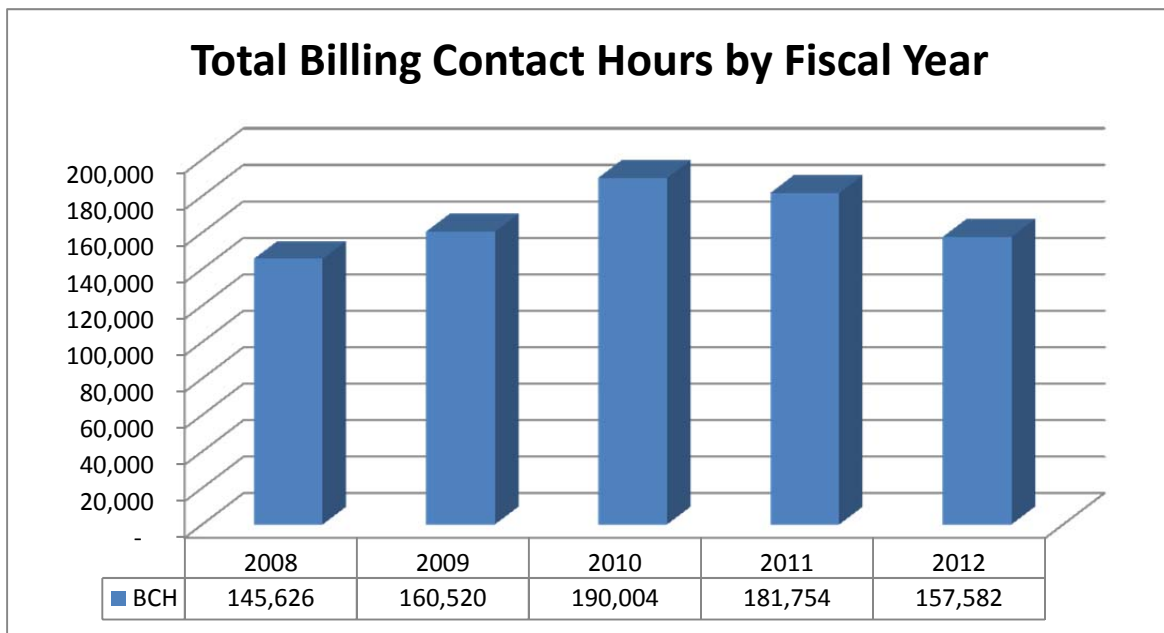


Tuition and Fees

\$14,862,038 and \$16,411,268 of scholarship allowances against tuition and fees representing amounts paid by grants, resulting in a "discount rate" of 55.5% and 56.4% for fiscal 2012 and 2011, respectively. The bulk of the scholarship allowance is Federal Pell awards which were \$12,576,972 and \$14,611,122 for fiscal 2012 and 2011, respectively. It is expected that the number of students receiving federal funds will continue to decline as long as enrollment declines. For purposes of this analysis, to show trends over time, the following chart presents gross tuition and fees. The College experienced a decrease of 8% from this source of revenue in the current year as compared to fiscal 2011. The scholarship allowances also decreased by \$1,549,230 or 9.4%.



There was a 13.3% decrease in the amount of billing contact hours generated in 2012. While higher than anticipated, the College will be implementing additional strategic initiatives to help recruit and retain new students. These initiatives include launching an International Student Institute, and a Diversity Development Office. Both will focus on attracting and retaining new students to the College. The decline in enrollment is due in part to declining funding of government sponsored education programs and the elimination of third semester Pell Grants.



Jackson Community College
Enrollment by Semester and Fiscal Year

	Billing Hours			
	<u>Fall</u>	<u>Winter</u>	<u>Spring</u>	<u>Total</u>
Year ending 2012	70,988	64,965	21,629	157,582
Year ending 2011	80,125	73,859	27,770	181,754
Year ending 2010	80,043	79,584	30,377	190,004
Year ending 2009	69,352	66,925	24,243	160,520
Year ending 2008	63,335	61,685	20,606	145,626

Tuition rates continued to rise, offsetting the small millage rate the local tax payers pay. Increases are detailed below.

	Hourly Tuition Rates		
	<u>In-district</u>	<u>Out-of-district</u>	<u>Out-of -State</u>
Fiscal Year 2011-2012	\$100.50	\$141.50	\$200.00
Fiscal Year 2010-2011	\$95.00	\$134.00	\$191.00
Fiscal Year 2009-2010	\$90.50	\$127.00	\$182.00

Other Operating Revenues

The College continues to connect with companies to offer contract training. The limited number of new companies starting up in the district is restricting the ability to increase these revenues. Seminars and Workshops experienced a small increase in revenue during the year. State capital appropriations decreased significantly in fiscal 2012 as the related construction project was completed in early fiscal 2012.

Expenses

Compared to statewide averages, JCC is very close to the state averages. Please note that the State of Michigan does not include depreciation as an "operating cost". The College continues to increase its attention to the instructional efforts; however increased fixed costs in student services, administration and operation and maintenance of plant cause the percentage of instruction to decline.

The expenses under public service are higher than the statewide average due to the cultural affairs program that includes the music hall events.

As a % of Total Operating Expenses

	<u>Jackson Community College</u>			
	<u>ACS 2010-11</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
Instructional	46.4%	46.6%	49.5%	50.4%
Information Tech	0.0%	0%	0%	0%
Public Service	1.3%	1.9%	1.9%	2.0%
Inst. Support	12.8%	7.6%	8.3%	7.8%
Std Services	12.7%	13.3%	13.7%	14.3%
Admin	14.7%	18.2%	14.2%	13.2%
Plant	<u>12.1%</u>	<u>12.4%</u>	<u>12.4%</u>	<u>12.3%</u>
Total	100.0%	100.0%	100.0%	100.0%

Statements of Cash Flows

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide information about the College's cash receipts and cash payments during a fiscal year.

Major sources of cash were tuition and fees (\$12,152,853 in 2012 and \$13,789,827 in 2011), grants and contracts (\$7,328,659 in 2012 and \$5,658,219 in 2011), State appropriations (\$11,278,354 in 2012 and \$11,542,300 in 2011), local property taxes (\$4,690,925 in 2012 and \$4,965,858 in 2011), and Pell grant receipts (\$12,576,972 in 2012 and \$14,611,122 in 2011). The single, largest type of disbursement was compensation payments to or on behalf of the College's employees (\$35,552,918 in 2012 and \$31,396,760 in 2011).

Capital Assets

The components of the College's capital assets are as follows as of June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,313,765	\$ 1,337,265
Infrastructure and land improvements	3,318,719	2,011,846
Buildings and improvements	86,883,070	86,883,070
Artwork	5,253,400	5,253,400
Equipment	11,448,854	10,735,948
Construction in progress	<u>1,469,597</u>	<u>-</u>
Total capital assets	109,687,405	106,221,529
Less accumulated depreciation	<u>39,316,599</u>	<u>36,138,550</u>
Capital assets, net	<u>\$ 70,370,806</u>	<u>\$ 70,082,979</u>

Additional information regarding the College's capital assets can be found in the notes to the financial statements.

Factors That Will Affect Our Future

The State of Michigan continues to explore new and different ways to allocate annual appropriations. This is of great concern to the College as the final impact to the College is unknown. It is expected that legislation signed into law affecting retirement contributions and health care premiums paid by the College, should bring some relief from rising costs of labor. These changes are expected to be at the expense of future increases in State appropriations for years to come.

The College will continue to face fiscal challenges brought forth by declining enrollment and rising operating costs. Management believes that investments made in the infrastructure of the campus, addition of a campus on the North side of Jackson and improvements to program offerings, the College will be able to stabilize enrollment.

In August 2012 Public Act 192 was passed and signed by the governor. This authorized the College to start construction and renovation efforts for Bert Walker Hall. The \$19.5 million effort will be paid equally by the State and the College. The College will be requesting support from the tax payers in November to raise the College's share of the project.

INDEPENDENT AUDITORS' REPORT

November 2, 2012

Board of Trustees
Jackson Community College
Jackson, Michigan

We have audited the accompanying balance sheets of *Jackson Community College* as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. The financial statements of Jackson Community College Foundation, a blended component unit of the College, were not audited in accordance with *Government Auditing Standards*. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Jackson Community College* as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years 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 under separate cover our report dated November 2, 2012 on our consideration of Jackson Community College's internal control over financial reporting and on 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

A handwritten signature in cursive script that reads "Lehmann Lobson". The signature is written in black ink and is positioned to the right of the main text block.

JACKSON COMMUNITY COLLEGE

BALANCE SHEETS

	June 30,	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,917,131	\$ 17,225,003
Short term investments	3,501,740	-
Tuition and other receivables, net	593,789	717,545
State appropriations receivable	2,039,946	2,098,600
State capital appropriations receivable	-	2,311,909
Federal and state grants receivable	1,271,577	1,265,689
Inventories	46,556	46,035
Prepaid expenses and other assets	647,220	640,208
Total current assets	19,017,959	24,304,989
Other receivables, net	308,975	-
Investments	12,918,229	13,238,929
Campus property, plant and equipment, net	70,370,806	70,082,979
Total assets	\$ 102,615,969	\$ 107,626,897
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,740,566	\$ 1,696,485
Accrued compensation and benefits	2,956,966	2,642,934
Current portion of long-term liabilities	2,189,137	2,115,000
Accrued interest	245,405	257,827
Unearned revenue	1,397,950	1,772,434
Total current liabilities	8,530,024	8,484,680
Long-term liabilities, net of current portion	35,871,288	36,843,114
Total liabilities	44,401,312	45,327,794
Net assets		
Invested in capital assets, net of related debt	33,523,771	31,124,865
Restricted:		
Nonexpendable	54,229	53,434
Expendable	528,244	398,791
Jackson Community College Foundation	13,186,575	13,383,611
Unrestricted	10,921,838	17,338,402
Total net assets	58,214,657	62,299,103
Total liabilities and net assets	\$ 102,615,969	\$ 107,626,897

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2012	2011
Operating revenues		
Tuition and fees (net of scholarship allowances of \$14,862,038 and \$16,411,268)	\$ 11,927,597	\$ 12,710,882
Federal grants and contracts	6,762,270	7,705,494
State grants and contracts	572,277	803,202
Housing revenue	1,017,852	1,014,293
Potter Center activities	402,756	356,622
Contract training	158,515	161,519
Seminars, workshops, and other	1,066,330	1,623,500
Total operating revenues	21,907,597	24,375,512
Operating expenses		
Instruction	20,277,452	20,676,238
Public service	823,815	768,934
Academic support	4,285,760	4,869,640
Student services	10,453,682	11,619,021
Administration	8,045,129	6,199,868
Operation and maintenance of plant	7,165,860	5,424,593
Depreciation and amortization	3,619,280	3,078,839
Total operating expenses	54,670,978	52,637,133
Operating loss	(32,763,381)	(28,261,621)
Nonoperating revenues (expenses)		
State appropriations	11,219,700	11,542,300
Local property taxes	4,690,925	4,965,858
Federal Pell grant revenue	12,576,972	14,611,122
Private gifts and grants	1,051,846	662,135
Investment gain	144,919	2,136,093
Loss on disposal of property and equipment	(28,682)	(502,591)
Interest expense	(1,541,578)	(1,664,848)
Net nonoperating revenues	28,114,102	31,750,069
Other revenues		
Additions to permanent endowment funds	8,736	194,972
State capital appropriations	492,892	10,016,314
Capital gifts and grants	63,205	175,000
Total other revenues	564,833	10,386,286
(Decrease) increase in net assets	(4,084,446)	13,874,734
Net assets, beginning of year	62,299,103	48,424,369
Net assets, end of year	\$ 58,214,657	\$ 62,299,103

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2012	2011
Cash flows from operating activities		
Tuition and fees	\$ 12,152,853	\$ 13,789,827
Housing	1,017,852	1,014,293
Grants and contracts	7,328,659	5,658,219
Contract training	160,921	191,655
Payments to vendors	(10,600,457)	(16,116,014)
Payments to or on behalf of employees	(35,552,918)	(31,396,760)
Payments to students	(3,853,246)	(4,984,863)
Potter Center activities	453,179	216,180
Seminars, workshops and other	1,157,910	1,922,657
Net cash used in operating activities	(27,735,247)	(29,704,806)
Cash flows from noncapital financing activities		
State appropriations	11,278,354	11,542,300
Local property taxes	4,690,925	4,965,858
Pell grant receipts	12,576,972	14,611,122
Private gifts for endowment purposes	8,736	1,164,010
Gifts and contributions for other than capital purposes	509,144	274,167
Direct loan program receipts	17,354,177	17,713,576
Direct loan program disbursements	(17,354,177)	(17,713,576)
State scholarship and grant receipts	135,200	57,236
State scholarship and grant disbursements	(135,200)	(57,236)
Net cash provided by noncapital financing activities	29,064,131	32,557,457
Cash flows from capital and related financing activities		
State capital appropriations	2,804,801	7,704,405
Capital gift and grant proceeds	63,205	175,000
Purchases and construction of campus property, plant and equipment	(3,959,289)	(8,464,889)
Proceeds from sale of property and equipment	23,500	43,099
Principal paid on capital debt	(2,115,000)	(1,825,000)
Interest paid on capital debt	(1,550,079)	(1,698,267)
Net cash used in capital and related financing activities	(4,732,862)	(4,065,652)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	18,927,422	7,401,181
Purchases of investments	(21,851,070)	(5,167,894)
Interest and dividends on investments	19,754	216,386
Net cash (used in) provided by investing activities	(2,903,894)	2,449,673
Net (decrease) increase in cash and cash equivalents	(6,307,872)	1,236,672
Cash and cash equivalents, beginning of year	17,225,003	15,988,331
Cash and cash equivalents, end of year	\$ 10,917,131	\$ 17,225,003

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS (Concluded)

	Year Ended June 30,	
	2012	2011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (32,763,381)	\$ (28,261,621)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	3,619,280	3,078,839
Change in operating assets and liabilities that provided (used) cash:		
Tuition and other receivables, net	225,256	773,929
Federal and state grants receivable	(5,888)	(2,850,477)
Inventories	(521)	521
Prepaid expenses and other assets	(7,012)	(450,727)
Accounts payable	44,081	(1,869,376)
Accrued compensation and benefits	1,527,422	(77,354)
Unearned revenue	(374,484)	(48,540)
Net cash used in operating activities	<u>\$ (27,735,247)</u>	<u>\$ (29,704,806)</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. MISSION

Jackson Community College (the "College") is a Michigan Community College whose mission is to assist learners in identifying and achieving their educational goals. The College offers four associate degrees, numerous certificate programs, and other educational programs while being accredited by the North Central Association of Colleges and Secondary Schools. The primary education centers for the College are its 500-acre main campus situated six miles south of Jackson, and extension centers located in Hillsdale and Adrian (Lenawee Center).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The College is governed by an elected seven member board of trustees. In evaluating how to define the College for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the Jackson Community College Foundation (the "Foundation"), described in Note 8, is included in the College's reporting entity as a blended component unit.

Separate financial statements are issued for the Foundation that are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board. Those separate financial statements may be obtained from the College's Business Office.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

The College prepares its annual financial statements in accordance with GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment of GASB Statement No. 34*, as described below, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments (GASB 34 Edition)*. The financial statements also consider the provisions of the Michigan Department of Career Development's *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

Under the provisions of GASB Statement No. 35, the College is permitted to report as a special purpose government engaged only in business type activities ("BTA"). Business type activities are those that are financed in whole or in part by fees charged to external users in exchange for goods and services. BTA reporting requires the College to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis (MD&A), a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. Fund financial information is not required for BTA reporting.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance whether entities associated with a primary government, although for which a primary government is not financially accountable, should be reported as component units, and presented in the primary government's financial statements based on the nature and significance of the relationship. Generally, Statement No. 39 requires inclusion of an organization that raises and holds economic resources for the direct benefit of the primary governmental unit. As a result, the College includes in its financial statements using a blended presentation the Jackson Community College Foundation (see Note 8).

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, money market accounts, and any certificates of deposit with an original maturity of three months or less, except that such investments purchased with endowment assets are classified as investments.

Investments

Investments are carried at fair value determined using quoted market prices. Real estate held for investment by the Foundation is carried at the lower of cost or market. Management annually reviews these cost method investments to determine whether carrying values have been impaired.

The College endowment investment income spending policy is 100% of the realized earnings of each College endowment. The annual spending income allocation cannot reduce the original gift principal. There is no net appreciation on investments of donor-restricted College endowments included in net assets at June 30, 2012 or 2011. According to the law of the State of Michigan, the Board of Trustees may appropriate for expenditure for the uses and purposes for which an endowment is established an allocation of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

Investment gains accumulated by Foundation endowment funds may be used to support operations of the College at the discretion of the Foundation's Board of Directors.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Campus Property, Plant and Equipment

Campus property, plant and equipment, consisting of institutional physical properties used in College operations, are recorded at cost or, if acquired by gift, at fair market value at the date of acquisition. Building additions and improvements with a cost in excess of \$30,000 are capitalized if the life of the building is extended or square footage is added. Collections, such as works of art, are capitalized if such items are held for public exhibition, education, or research in furtherance of public service. Equipment with a cost in excess of \$1,000 with a useful life of more than one year is capitalized. Expenses for routine maintenance and ordinary repairs are expensed as incurred. Library books are expensed the year of purchase. Certain maintenance and replacement reserves have been established to provide for significant repair and maintenance costs to facilities.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Depreciation is provided for campus property, plant and equipment on a straight-line basis over the estimated useful life of the assets as follows:

Classification	Estimated Useful Lives
Buildings	40 years
Infrastructure and land improvements	15 years
Building improvements	10 years
Artwork	10 years
Furniture and fixtures	5 years
Computer equipment	3 years

Revenue Recognition

Revenue from state appropriations are recognized in accordance with the accounting method described in the *Manual for Uniform Financial Reporting -- Michigan Public Community Colleges, 2001*, which provides that state appropriations are recorded as revenue in the period for which such amounts are appropriated. Student tuition and related revenues and expenses of an academic semester are reported in the fiscal year in which the program is conducted. Property taxes are recorded as revenue when received, which approximates the amounts when levied.

Operating revenues of the College consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, property taxes, and Federal Pell grant revenue are components of nonoperating and other revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy an expense.

Sabbatical Leaves

In accordance with the Master Agreement with the Faculty Association, the College grants sabbatical leaves to various full-time instructors. The leaves are granted to enhance the personal and professional competence of the instructors who are required to return to the College for a period of two years. Compensation is accounted for as an expense in the fiscal year the leave is taken.

Other Compensated Absences

Other compensated absences represent the accumulated liability to be paid under the College's current vacation and terminated leave pay policies. As the amounts are due on demand at the time of employee termination, the liability is classified as current (accrued payroll, vacation and other compensation and benefits) in the accompanying balance sheets.

Reclassifications

Certain amounts as reported in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS

State of Michigan statutes authorize the College to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in this state rated prime by at least one of the standard rating services. The College is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The College's investment policy allows for all of these types of investments. The Foundation invests contributions primarily in debt and equity securities, as well as real estate held for investment.

The College's deposits and investments are included on the balance sheets under the following classifications as of June 30:

2012	College	Foundation	Total
Cash and cash equivalents	\$ 10,891,695	\$ 25,436	\$ 10,917,131
Short term investments	3,501,740	-	3,501,740
Investments	<u>10,475</u>	<u>12,907,754</u>	<u>12,918,229</u>
	<u>\$ 14,403,910</u>	<u>\$ 12,933,190</u>	<u>\$ 27,337,100</u>

2011	College	Foundation	Total
Cash and cash equivalents	\$ 17,012,753	\$ 212,250	\$ 17,225,003
Investments	<u>9,927</u>	<u>13,229,002</u>	<u>13,238,929</u>
	<u>\$ 17,022,680</u>	<u>\$ 13,441,252</u>	<u>\$ 30,463,932</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The above amounts are categorized as follows at June 30:

2012	College	Foundation	Total
Bank deposits (checking, savings, cash sweep accounts, and certificates of deposit)	\$ 14,391,415	\$ 25,436	\$ 14,416,851
Petty cash	<u>2,020</u>	<u>-</u>	<u>2,020</u>
Total deposits	<u>14,393,435</u>	<u>25,436</u>	<u>14,418,871</u>
Investments in government obligations	-	1,477,588	1,477,588
Investments in short-term funds	-	294,968	294,968
Investments in fixed income securities	-	574,783	574,783
Investments in equity securities	10,475	6,059,272	6,069,747
Investments in trusts and life insurance	-	282,734	282,734
Investments in mutual funds	-	2,004,285	2,004,285
Real estate held for investment	-	<u>2,214,124</u>	<u>2,214,124</u>
Total investments	<u>10,475</u>	<u>12,907,754</u>	<u>12,918,229</u>
Total deposits and investments	<u>\$ 14,403,910</u>	<u>\$ 12,933,190</u>	<u>\$ 27,337,100</u>

2011	College	Foundation	Total
Bank deposits (checking, savings, cash sweep accounts, and certificates of deposit)	\$ 17,010,633	\$ 212,250	\$ 17,222,883
Petty cash	<u>2,120</u>	<u>-</u>	<u>2,120</u>
Total deposits	<u>17,012,753</u>	<u>212,250</u>	<u>17,225,003</u>
Investments in government obligations	-	1,905,848	1,905,848
Investments in short-term funds	-	498,270	498,270
Investments in fixed income securities	-	976,615	976,615
Investments in equity securities	9,927	7,525,644	7,535,571
Investments in trusts and life insurance	-	305,025	305,025
Investments in mutual funds	-	<u>2,017,600</u>	<u>2,017,600</u>
Total investments	<u>9,927</u>	<u>13,229,002</u>	<u>13,328,929</u>
Total deposits and investments	<u>\$ 17,022,680</u>	<u>\$ 13,441,252</u>	<u>\$ 30,463,932</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk. Neither the College nor the Foundation have investment policies with specific limits on maturities of debt securities. As a means of managing exposure to losses arising from increases in interest rates, the Foundation's investment policy statement provides a long-term benchmark of "Total Return greater than Consumer Price Index + 5%" and all holdings are part of investment funds and depend on the investment manager to allocate in appropriate fixed income investments in accordance with the Foundation IPS.

The College and Foundation had the following debt securities and maturities as of June 30:

	Fair Value	Investment Maturities (In Years)			Credit Rating Range	
		Less than 1	1-5	6-10	Standard & Poors	Moody's Investor's Services
2012						
U. S. treasuries	\$539,854	\$ -	\$430,248	\$109,606	NR to AA+	NR to AAA
U. S. agencies	153,939	31,715	33,732	88,492	NR to AA+	NR to AAA
Municipal bonds	783,795	52,214	53,122	678,460	AA- to AA+	AA1 to AAA
Money market funds	294,968	294,968	-	-	N/A	N/A
Corporate bonds	574,783	26,151	218,549	330,082	BBB+ to AA+	BAA1 to AA3
Total debt securities	\$2,347,339	\$405,048	\$735,651	\$1,206,640		
2011						
U. S. treasuries	\$445,353	\$136,732	\$151,063	\$157,558	N/A	N/A
U. S. agencies	250,751	80,130	112,110	58,511	N/A	N/A
Municipal bonds	1,209,744	-	104,842	1,104,902	A- to AAA	A3 to AAA
Money market funds	498,270	498,270	-	-	N/A	N/A
Corporate bonds	976,615	177,012	361,108	438,495	A- to AAA	A3 to AAA
Total debt securities	\$3,380,733	\$892,144	\$729,123	\$1,759,466		

Credit Risk. Neither the College nor the Foundation have investment policies with specific limits in excess of state law on credit risk for allowable debt securities as identified above. The credit rating for each investment type is identified in the above table for debt securities held at June 30, 2012 and 2011.

Concentration of Credit Risk. The College's investment policy does not have specific limits on concentration of credit risk. The Foundation's investment policy limits the cost basis of individual equity securities to 4% of its total investment portfolio.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned. State law does not require and the College does not have a policy for deposit custodial credit risk, as neither does the Foundation. As of June 30, 2012, all bank deposits were covered for any custodial risk. As of June 30, 2011, \$17,147,403 of the College's bank deposits balance of \$17,547,423, was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk 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 that are in the possession of an outside party. State law does not require and the College does not have a policy for investment custodial credit risk, as neither does the Foundation. However, all investments are in the name of the College or Foundation, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased.

4. TUITION AND OTHER RECEIVABLES

Tuition and other receivables result from various revenue sources including student tuition and fee billings, auxiliary enterprise sales and contract training revenues.

Tuition and other receivables consist of the following amounts at June 30:

	2012	2011
Tuition and fees	\$ 746,070	\$ 812,518
Private grants	759	48,199
Reimbursements	79,133	48,528
Bookstore	7,136	64,013
Employees	9,191	12,255
Contributions receivable (Foundation)	<u>415,475</u>	<u>107,032</u>
Total	1,257,764	1,092,545
Less allowances	<u>355,000</u>	<u>375,000</u>
Total tuition and other receivables, net	902,764	717,545
Less: noncurrent portion	<u>308,975</u>	<u>-</u>
Current portion, tuition and other receivables, net	<u>\$ 593,789</u>	<u>\$ 717,545</u>

The Foundation's contributions receivable are scheduled to be collected within four years.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

5. CAMPUS PROPERTY, PLANT AND EQUIPMENT, NET

The following table presents in summary fashion the changes in the components of campus property, plant and equipment for the years ended June 30:

<u>2012</u>	<u>Balance, July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2012</u>
Capital Assets:					
Land	\$ 1,337,265	\$ -	\$ 23,500	\$ -	\$ 1,313,765
Infrastructure and land improvements	2,011,846	1,306,873	-	-	3,318,719
Buildings and improvements	86,883,070	-	-	-	86,883,070
Artwork	5,253,400	-	-	-	5,253,400
Furniture, fixtures and equipment	10,735,948	1,182,819	469,913	-	11,448,854
Construction in progress	-	1,469,597	-	-	1,469,597
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total property and equipment	106,221,529	3,959,289	493,413	-	109,687,405
Less accumulated depreciation	36,138,550	3,619,280	441,231	-	39,316,599
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Campus property, plant and equipment, net	<u>\$ 70,082,979</u>	<u>\$ 340,009</u>	<u>\$ 52,182</u>	<u>\$ -</u>	<u>\$ 70,370,806</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>2011</u>	<u>Balance, July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2011</u>
Capital Assets:					
Land	\$ 1,337,265	\$ -	\$ -	\$ -	\$ 1,337,265
Infrastructure and land improvements	2,011,846	-	-	-	2,011,846
Buildings and improvements	67,500,099	-	1,000,000	20,382,971	86,883,070
Artwork	5,253,400	-	-	-	5,253,400
Furniture, fixtures and equipment	10,032,798	1,314,506	611,356	-	10,735,948
Construction in progress	13,232,588	7,150,383	-	(20,382,971)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total property and equipment	99,367,996	8,464,889	1,611,356	-	106,221,529
Less accumulated depreciation	34,162,318	3,078,839	1,102,607	-	36,138,550
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Campus property, plant and equipment, net	<u>\$ 65,205,678</u>	<u>\$ 5,386,050</u>	<u>\$ 508,749</u>	<u>\$ -</u>	<u>\$ 70,082,979</u>
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JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

Long-term liability activity for year end June 30, 2012 was as follows:

2012	Balance			Change	Balance	Current
Bonds payable:	July 1, 2011	Additions	Reductions	Premium/Discount	June 30, 2012	Portion
General Bonds, Series 2001	\$ 245,000	\$ -	\$ 245,000	\$ -	\$ -	\$ -
General Bonds, Series 2005	705,864	-	690,000	(15,864)	-	-
General Bonds, Series 2006	13,452,750	-	375,000	9,150	13,086,900	675,000
General Bonds, Series 2007	5,082,617	-	325,000	2,034	4,759,651	340,000
General Bonds, Series 2008	7,534,583	-	280,000	5,301	7,259,884	290,000
General Bonds, Series 2010	11,937,300	-	200,000	3,300	11,740,600	500,000
Total bonds payable	\$ 38,958,114	-	2,115,000	3,921	36,847,035	1,805,000
Accrued Employee Severance	-	1,213,390	-	-	1,213,390	384,137
	\$ 38,958,114	\$ -	\$ 2,115,000	\$ 3,921	38,060,425	\$ 2,189,137
Less Current Portion					2,189,137	
Long-term Liabilities, net of current portion					\$ 35,871,288	

2011	Balance			Change	Balance	Current
	July 1, 2010	Additions	Reductions	Premium/Discount	June 30, 2011	Portion
General Bonds, Series 2001	\$ 485,000	\$ -	\$ 240,000	\$ -	\$ 245,000	\$ 245,000
General Bonds, Series 2005	1,381,724	-	660,000	(15,860)	705,864	690,000
General Bonds, Series 2006	13,793,600	-	350,000	9,150	13,452,750	375,000
General Bonds, Series 2007	5,390,583	-	310,000	2,034	5,082,617	325,000
General Bonds, Series 2008	7,794,282	-	265,000	5,301	7,534,583	280,000
General Bonds, Series 2010	11,934,000	-	-	3,300	11,937,300	200,000
	\$ 40,779,189	\$ -	\$ 1,825,000	\$ 3,925	38,958,114	\$ 2,115,000
Less Current Portion					2,115,000	
Long-term Liabilities, net of current portion					\$ 36,843,114	

Bonded Debt

\$2,000,000 General Bonds, Series 2001

Total debt was retired May 2012.

\$4,300,000 General Bonds, Series 2005

Total debt was retired May 2012.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

\$14,640,000 General Bonds, Series 2006

Unsecured bonds mature serially in annual amounts ranging from \$325,000 to \$1,240,000 through 2026, with interest charges at rates ranging from 4.00% to 4.50% per annum.

\$6,000,000 General Bonds, Series 2007

Unsecured bonds mature in annual amounts ranging from \$340,000 to \$545,000 through 2023 with interest charges at rates ranging from 4.00% to 4.15% per annum.

\$8,150,000 General Bonds, Series 2008

Unsecured bonds mature in annual amounts ranging from \$280,000 to \$605,000 through 2029 with interest charges at rates ranging from 3.25% to 4.40% per annum.

\$12,000,000 General Bonds, Series 2010

Unsecured bonds mature in annual amounts ranging from \$500,000 to \$1,000,000 through 2030 with interest charges at rates ranging from 2.45% to 6.27% per annum. The bonds are designated as "Build America Bonds" under Section 54AA of Internal Revenue Code. A credit of \$110,080 and \$261,136 was received during fiscal 2012 and 2011, respectively, from the U.S. Treasury equal to 35% of the stated interest paid, which was recorded as a direct reduction to the College's interest expense.

All borrowings are being repaid out of operating funds.

Scheduled principal and interest requirements of bonds payable for years succeeding June 30, 2012, are summarized below:

Year Ending June 30	Principal	Interest	Total
2013	\$ 1,805,000	\$ 1,473,906	\$ 3,278,906
2014	1,865,215	1,415,919	3,281,134
2015	1,925,215	1,352,569	3,277,784
2016	1,980,215	1,285,468	3,265,683
2017	2,065,215	1,212,881	3,278,096
2018-2022	11,656,067	4,769,062	16,425,129
2023-2027	11,455,395	2,231,883	13,687,278
2028-2030	4,094,713	320,629	4,415,342
Totals	<u>\$ 36,847,035</u>	<u>\$ 14,062,317</u>	<u>\$ 50,909,352</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

During fiscal 2004, the College entered into a lease agreement with the State of Michigan as part of the Capital Outlay program offered by the State Building Authority. The State appropriated approximately \$1,500,000 toward the construction of the College's Lenawee Center. During fiscal 2008, the College entered into a similar lease as part of the construction of the new Atkinson Hall building and the renovation of a section of Whiting Hall. The net State contribution amounted to \$7,318,398. Again, in fiscal year 2011, the College entered into another lease with the State of Michigan in connection with the renovation of Whiting Hall and the building of the Health Laboratory Center. The reimbursement recorded from the State was \$492,892 and \$10,016,314 for fiscal 2012 and 2011, respectively. The appropriations were funded by the issuance of bonds by the State Building Authority. In return, the College has deeded the buildings to the State Building Authority as collateral for the bondholders. The College and the State of Michigan are leasing the buildings from the State Building Authority for the period that the bonds for the buildings are being repaid by the State Building Authority. These lease payments are made out of the State of Michigan general operating budget. The College includes the buildings as part of its total investment in physical plant as capital leases as the College will obtain title to the buildings at the end of the leases. No corresponding obligations have been recorded since there are no payments due by the College under these lease agreements.

Employee Severance Plan

The College entered into an employee severance plan to reduce the percentage of top of scale employees and increase the percentage of lower salary employees, while avoiding layoffs and program cuts. The "Employee Severance Plan" was a onetime offer to full-time faculty, administrators, technical, and classified employees who would have twelve (12) or more years of service with Jackson Community College or will be eligible to retire with full or reduced benefits with the Michigan Public School Employee Retirement System as of June 30, 2012. The College selected Educators Preferred Corporation (EPC) to implement and administer the five (5) year buyout plan. The severance plan was selected by four (4) administrators, nine (9) faculty, and seven (7) technical and classified employees. The College is liable for paying the full cost of the plan over a three (3) year period beginning in 2013. The College has required payments of \$384,137 in 2013, \$414,627 in 2014, and \$414,625 in 2015.

7. PENSION PLANS

Defined Benefit Plan

Plan Description

Jackson Community College contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. Substantially all College employees are eligible to participate in the MPSERS, which provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. State of Michigan statute assigns the authority to establish and amend benefit provisions to the State legislature. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. 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% of the first \$5,000, 3.6% of \$5,001 through \$15,000, and 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ended 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% of gross wages begin at enrollment. Actuarial 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.

As of July 1, 2010, active members began contributing an additional 3% of gross wages toward retiree healthcare. Employees who earned less than \$18,000 in the 2009-2010 school year contributed 1.5% for the 2010-2011 school year and will contribute 3% thereafter.

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. The total rate for the year ended June 30, 2012 (for employees who worked before July 1, 2010) was 20.66% through September 30, 2011, and increased to 24.46% October 2011. For employees who first worked on or after July 1, 2010, the total rate through September 30, 2011 was 19.16% and increased to 23.23% in October 2011. The contribution requirements of plan members and the College are established and may be amended by the MPSERS Board of Trustees. The contribution rates in effect for 2012, 2011 and 2010 are listed below.

MPSERS - Employer Contribution Rates

	First Worked Before 7/1/10	First Worked on or After 7/1/10
10/1/09 - 9/30/10 (Rvsd)	16.94%	15.44%
10/1/10 - 9/30/11 (Rvsd)	20.66%	19.16%
10/1/11 - 09/30/12	24.46%	23.23%

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College also contributes to the MPSERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPSERS. This plan provides medical benefits to retired employees of participating community colleges. Participating community colleges are contractually required to make monthly contributions to the plan at amounts assessed each year by MPSERS (current rate of 8.5% of annual covered payroll, which is included in the total of MPSERS rate disclosed above). The MPSERS board of trustees sets the employer contributions based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The College's contributions to the MPSERS healthcare plan for the years ended June 30, 2012, 2011 and 2010 equaled the required contributions each year. Thus, the College did not book a liability for this postemployment healthcare.

The College's total contributions to MPSERS for the years ended June 30, 2012, 2011 and 2010, were approximately \$3,740,000, \$3,060,000 and \$2,683,000.

Defined Contribution Plan

Effective July 1, 1996, the College established the Jackson Community College Optional Retirement Program ("JCCORP"), a defined contribution pension plan qualified under Section 414(d) of the Internal Revenue Code. Under this plan, eligible employees as of July 1, 1996 and who are members of MPSERS, may continue their membership in MPSERS or may elect to participate in the plan and retain limited membership in the retirement system. An employee becoming eligible after July 1, 1996 may elect to become a member of MPSERS or to participate in JCCORP. Benefit provisions and contribution requirements are established and may be amended by the College. Required contributions are made by the College and the participants at a rate of 14% and 4% of eligible compensation, respectively. For the years ended June 30, 2012 and 2011, the cost of this plan to the College was approximately \$915,000 and \$867,000 and participant contributions in the form of payroll deductions were approximately \$290,000 and \$248,000, respectively.

8. RELATED PARTIES

Jackson Community College Foundation

The Jackson Community College Foundation (the "Foundation") is a separate, legal nonprofit corporation formed for the purpose of receiving private funds for the sole benefit of the College. The net assets and financial activities of the Foundation are included in the financial statements of the College as a blended component unit.

The net assets of the Foundation consist of the following amounts as of June 30:

	2012	2011
Unrestricted	\$ 1,676,389	\$ 2,053,986
Temporarily restricted	3,368,061	3,196,236
Permanently restricted	<u>8,142,125</u>	<u>8,133,389</u>
Total	<u>\$ 13,186,575</u>	<u>\$ 13,383,611</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College provides personnel support, facilities and equipment to the Foundation. Beginning in April 2012, the College informally leases its North Campus building from the Foundation. A formal lease agreement will be executed in fiscal 2013.

Dahlem Environmental Center

In August 2005, the College spun off its Dahlem Environmental Center (the "Center") operations by entering into an agreement with The Dahlem Conservancy (the "Conservancy"), an independent, nonprofit organization, and the private donor of the Center's property. Under this agreement, the College leases the Center's property to the Conservancy for a term of 30 years at an annual amount of \$1. The agreement also states that any endowment gifts received for the benefit of the Center will be restricted support of the Foundation, and the Foundation annually distribute 5% of the total endowment funds held for the benefit of the Center to the Conservancy in quarterly installments.

9. UNRESTRICTED NET ASSETS

The College, through Board of Trustees action via the budget process, has designated the use of unrestricted net assets for the following purposes at June 30:

	2012	2011
Major maintenance and equipment replacement	\$ 3,164,888	\$ 8,248,876
Future operations	<u>7,058,967</u>	<u>8,391,867</u>
Total unrestricted and designated	10,223,855	16,640,743
Unrestricted and undesignated	<u>697,983</u>	<u>697,659</u>
Total unrestricted net assets	<u>\$ 10,921,838</u>	<u>\$ 17,338,402</u>

10. 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; injuries to employees; and natural disasters. During the years ended June 30, 2012 and 2011, the College carried commercial insurance to cover all risks of losses. The College has had no settled claims resulting from these risks that exceeded its commercial coverage limits in any of the past three fiscal years.

11. COMMITMENTS, UNCERTAINTIES AND OTHER MATTERS

Capital Projects

The College continues its commitment to upgrading and maintaining the campus facilities and infrastructure. At year end, the College has two construction projects in progress: a \$250,000 patio addition to the George E. Potter Center, and the renovation of leased property at the newly created North Campus. The North Campus project when completed is expected to cost \$5.0 million. As of June 30, 2012, the College has expensed \$1,469,097 of the planned project costs.

JACKSON COMMUNITY COLLEGE

■ NOTES TO FINANCIAL STATEMENTS

Government Programs

The College conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these governmental agencies. Any liabilities for reimbursements which may arise as the result of these audits is not believed to be material.

Employment Contract

The College is obligated pursuant to the terms of the College President's employment contract to provide housing in which the President is required to reside, reimburse certain expenses, establish a deferred compensation plan on the President's behalf, and provide nonqualified retention compensation in which \$10,000 per year will be accrued as a liability to the College. If the President does not remain employed at the College through January 2013, all such amounts will be forfeited. The employment agreement also states that the College will maintain the buildings and grounds and pay all utilities furnished for the President's residential housing, annually reimburse certain expenses connected with the Office of the President and annually provide an agreed upon amount of deferred compensation payable upon termination of the President's tenure. The President's employment agreement is currently scheduled to expire on June 30, 2013.

Other Matters

The College may be subject to various legal proceedings and claims which arise in the ordinary course of its business. The College believes that the amount, if any, of ultimate liability with respect to legal actions will be immaterial.



**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

November 2, 2012

Board of Trustees
Jackson Community College
Jackson, Michigan

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the 2012 and 2011 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



SUPPLEMENTARY INFORMATION

JACKSON COMMUNITY COLLEGE

COMBINING BALANCE SHEET
JUNE 30, 2012

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	College Total	Foundation	Combined Total
ASSETS								
Current assets								
Cash and cash equivalents	\$ 3,492,183	\$ 3,561,878	\$ (466,165)	\$ 43,754	\$ 4,260,045	\$ 10,891,695	\$ 25,436	\$ 10,917,131
Short term investments	-	3,501,740	-	-	-	3,501,740	-	3,501,740
Tuition and other receivables, net	491,530	-	759	-	-	492,289	101,500	593,789
State appropriations receivable	2,039,946	-	-	-	-	2,039,946	-	2,039,946
Federal and state grants receivable	6,400	-	1,265,177	-	-	1,271,577	-	1,271,577
Inventories	46,556	-	-	-	-	46,556	-	46,556
Prepaid expenses and other assets	647,220	-	-	-	-	647,220	-	647,220
Total current assets	6,723,835	7,063,618	799,771	43,754	4,260,045	18,891,023	126,936	19,017,959
Other receivables	-	-	-	-	-	-	308,975	308,975
Investments	-	-	-	10,475	-	10,475	12,907,754	12,918,229
Campus property, plant and equipment, net	-	-	-	-	70,370,806	70,370,806	-	70,370,806
Total assets	\$ 6,723,835	\$ 7,063,618	\$ 799,771	\$ 54,229	\$ 74,630,851	\$ 89,272,304	\$ 13,343,665	\$ 102,615,969
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	\$ 713,883	\$ 244	\$ 19,596	\$ -	\$ 849,753	\$ 1,583,476	\$ 157,090	\$ 1,740,566
Accrued compensation and benefits	2,751,599	4,407	200,960	-	-	2,956,966	-	2,956,966
Current portion of long-term liabilities	384,137	-	-	-	1,805,000	2,189,137	-	2,189,137
Accrued interest	-	-	-	-	245,405	245,405	-	245,405
Unearned revenue	1,346,979	-	50,971	-	-	1,397,950	-	1,397,950
Total current liabilities	5,196,598	4,651	271,527	-	2,900,158	8,372,934	157,090	8,530,024
Long-term liabilities, net of current portion	829,253	-	-	-	35,042,035	35,871,288	-	35,871,288
Total liabilities	6,025,851	4,651	271,527	-	37,942,193	44,244,222	157,090	44,401,312
Net assets								
Invested in capital assets, net of related debt	-	-	-	-	33,523,771	33,523,771	-	33,523,771
Restricted:								
Nonexpendable	-	-	-	54,229	-	54,229	-	54,229
Expendable	-	-	528,244	-	-	528,244	-	528,244
Jackson Community College Foundation	-	-	-	-	-	-	13,186,575	13,186,575
Unrestricted	697,984	7,058,967	-	-	3,164,887	10,921,838	-	10,921,838
Total net assets	697,984	7,058,967	528,244	54,229	36,688,658	45,028,082	13,186,575	58,214,657
Total liabilities and net assets	\$ 6,723,835	\$ 7,063,618	\$ 799,771	\$ 54,229	\$ 74,630,851	\$ 89,272,304	\$ 13,343,665	\$ 102,615,969

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE

COMBINING BALANCE SHEET
JUNE 30, 2011

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	College Total	Foundation	Combined Total
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,940,890	\$ 8,394,677	\$ (655,400)	\$ 43,507	\$ 7,289,079	\$ 17,012,753	\$ 212,250	\$ 17,225,003
Tuition and other receivables, net	595,216	-	38,942	-	1,355	635,513	82,032	717,545
State appropriations receivable	2,098,600	-	-	-	-	2,098,600	-	2,098,600
State capital appropriations receivable	-	-	-	-	2,311,909	2,311,909	-	2,311,909
Federal and state grants receivable	4,324	-	1,261,365	-	-	1,265,689	-	1,265,689
Inventories	46,035	-	-	-	-	46,035	-	46,035
Prepaid expenses and other assets	640,208	-	-	-	-	640,208	-	640,208
Total current assets	5,325,273	8,394,677	644,907	43,507	9,602,343	24,010,707	294,282	24,304,989
Investments	-	-	-	9,927	-	9,927	13,229,002	13,238,929
Campus property, plant and equipment, net	-	-	-	-	70,082,979	70,082,979	-	70,082,979
Total assets	\$ 5,325,273	\$ 8,394,677	\$ 644,907	\$ 53,434	\$ 79,685,322	\$ 94,103,613	\$ 13,523,284	\$ 107,626,897
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	\$ 406,077	\$ 2,810	\$ 52,285	\$ -	\$ 1,095,640	\$ 1,556,812	\$ 139,673	\$ 1,696,485
Accrued compensation and benefits	2,519,686	-	123,248	-	-	2,642,934	-	2,642,934
Current portion of long-term liabilities	-	-	-	-	2,115,000	2,115,000	-	2,115,000
Accrued interest	-	-	-	-	257,827	257,827	-	257,827
Unearned revenue	1,701,851	-	70,583	-	-	1,772,434	-	1,772,434
Total current liabilities	4,627,614	2,810	246,116	-	3,468,467	8,345,007	139,673	8,484,680
Long-term liabilities, net of current portion	-	-	-	-	36,843,114	36,843,114	-	36,843,114
Total liabilities	4,627,614	2,810	246,116	-	40,311,581	45,188,121	139,673	45,327,794
Net assets								
Invested in capital assets, net of related debt	-	-	-	-	31,124,865	31,124,865	-	31,124,865
Restricted:								
Nonexpendable	-	-	-	53,434	-	53,434	-	53,434
Expendable	-	-	398,791	-	-	398,791	-	398,791
Jackson Community College Foundation	-	-	-	-	-	-	13,383,611	13,383,611
Unrestricted	697,659	8,391,867	-	-	8,248,876	17,338,402	-	17,338,402
Total net assets	697,659	8,391,867	398,791	53,434	39,373,741	48,915,492	13,383,611	62,299,103
Total liabilities and net assets	\$ 5,325,273	\$ 8,394,677	\$ 644,907	\$ 53,434	\$ 79,685,322	\$ 94,103,613	\$ 13,523,284	\$ 107,626,897

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	Elimination Entries	College Total	Foundation	Elimination Entries	Combined Total
Operating revenues										
Tuition and fees (net of scholarship allowance of \$14,862,038)	\$ 26,789,635	\$ -	\$ -	\$ -	\$ -	\$ (14,862,038)	\$ 11,927,597	\$ -	\$ -	\$ 11,927,597
Federal grants and contracts	44,400	-	6,717,870	-	-	-	6,762,270	-	-	6,762,270
State grants and contracts	-	-	572,277	-	-	-	572,277	-	-	572,277
Housing revenue	1,017,852	-	-	-	-	-	1,017,852	-	-	1,017,852
Potter Center activities	402,756	-	-	-	-	-	402,756	-	-	402,756
Contract training	158,515	-	-	-	-	-	158,515	-	-	158,515
Seminars, workshops and other	1,297,804	149,654	693,913	-	-	-	2,141,371	7,764	(1,082,805)	1,066,330
Current funds expenditures for capital equipment and improvements	-	-	-	-	3,935,789	(3,935,789)	-	-	-	-
Total operating revenues	29,710,962	149,654	7,984,060	-	3,935,789	(18,797,827)	22,982,638	7,764	(1,082,805)	21,907,597
Operating expenses										
Instruction	19,993,587	-	283,865	-	-	-	20,277,452	-	-	20,277,452
Public service	823,815	-	-	-	-	-	823,815	-	-	823,815
Academic support	3,243,183	-	1,042,577	-	-	-	4,285,760	-	-	4,285,760
Student services	5,704,442	157,703	19,453,575	-	-	(14,862,038)	10,453,682	-	-	10,453,682
Administration	7,797,640	76,541	-	-	-	-	7,874,181	1,253,753	(1,082,805)	8,045,129
Operation and maintenance of plant	5,324,792	-	-	-	5,776,857	(3,935,789)	7,165,860	-	-	7,165,860
Depreciation and amortization	-	-	-	-	3,619,280	-	3,619,280	-	-	3,619,280
Total operating expenses	42,887,459	234,244	20,780,017	-	9,396,137	(18,797,827)	54,500,030	1,253,753	(1,082,805)	54,670,978
Operating loss	(13,176,497)	(84,590)	(12,795,957)	-	(5,460,348)	-	(31,517,392)	(1,245,989)	-	(32,763,381)
Nonoperating revenues (expenses)										
State appropriations	11,219,700	-	-	-	-	-	11,219,700	-	-	11,219,700
Local property taxes	4,690,925	-	-	-	-	-	4,690,925	-	-	4,690,925
Federal Pell grant revenue	-	-	12,576,972	-	-	-	12,576,972	-	-	12,576,972
Private gifts and grants	4,628	26,758	100,000	-	-	-	131,386	920,460	-	1,051,846
Investment income	2,080	6,859	-	795	15,428	-	25,162	119,757	-	144,919
Loss on disposal of campus property, plant, and equipment	-	-	-	-	(28,682)	-	(28,682)	-	-	(28,682)
Interest expense	-	-	-	-	(1,541,578)	-	(1,541,578)	-	-	(1,541,578)
Net nonoperating revenues (expenses)	15,917,333	33,617	12,676,972	795	(1,554,832)	-	27,073,885	1,040,217	-	28,114,102
Other revenues										
Additions to permanent endowment funds	-	-	-	-	-	-	-	8,736	-	8,736
State capital appropriations	-	-	-	-	492,892	-	492,892	-	-	492,892
Capital gifts and grants	-	-	-	-	63,205	-	63,205	-	-	63,205
Total other revenues	-	-	-	-	556,097	-	556,097	8,736	-	564,833
(Decrease) increase in net assets	2,740,836	(50,973)	(118,985)	795	(6,459,083)	-	(3,887,410)	(197,036)	-	(4,084,446)
Transfers in (out)	# (2,740,511)	(1,281,927)	248,438	-	3,774,000	-	-	-	-	-
Net (decrease) increase in net assets	325	(1,332,900)	129,453	795	(2,685,083)	-	(3,887,410)	(197,036)	-	(4,084,446)
Net assets, beginning of year	697,659	8,391,867	398,791	53,434	39,373,741	-	48,915,492	13,383,611	-	62,299,103
Net assets, end of year	\$ 697,984	\$ 7,058,967	\$ 528,244	\$ 54,229	\$ 36,688,658	\$ -	\$ 45,028,082	\$ 13,186,575	\$ -	\$ 58,214,657

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	Elimination Entries	College Total	Foundation	Elimination Entries	Combined Total
Operating revenues										
Tuition and fees (net of scholarship allowance of \$16,411,268)	\$ 29,122,150	\$ -	\$ -	\$ -	\$ -	\$ (16,411,268)	\$ 12,710,882	\$ -	\$ -	\$ 12,710,882
Federal grants and contracts	18,324	-	7,687,170	-	-	-	7,705,494	-	-	7,705,494
State grants and contracts	-	-	803,202	-	-	-	803,202	-	-	803,202
Housing revenue	1,014,293	-	-	-	-	-	1,014,293	-	-	1,014,293
Potter Center activities	356,622	-	-	-	-	-	356,622	-	-	356,622
Contract training	161,519	-	-	-	-	-	161,519	-	-	161,519
Seminars, workshops and other	1,151,561	163,815	469,239	-	7,585	-	1,792,200	4,290	(172,990)	1,623,500
Current funds expenditures for capital equipment and improvements	-	-	-	-	8,464,889	(8,464,889)	-	-	-	-
Total operating revenues	31,824,469	163,815	8,959,611	-	8,472,474	(24,876,157)	24,544,212	4,290	(172,990)	24,375,512
Operating expenses										
Instruction	20,552,426	-	123,812	-	-	-	20,676,238	-	-	20,676,238
Public service	768,934	-	-	-	-	-	768,934	-	-	768,934
Academic support	3,425,591	-	1,444,049	-	-	-	4,869,640	-	-	4,869,640
Student services	5,690,830	159,362	22,180,097	-	-	(16,411,268)	11,619,021	-	-	11,619,021
Administration	5,912,794	15,548	9,749	-	-	-	5,938,091	434,767	(172,990)	6,199,868
Operation and maintenance of plant	5,168,524	-	20,000	-	8,700,958	(8,464,889)	5,424,593	-	-	5,424,593
Depreciation and amortization	-	-	-	-	3,078,839	-	3,078,839	-	-	3,078,839
Total operating expenses	41,519,099	174,910	23,777,707	-	11,779,797	(24,876,157)	52,375,356	434,767	(172,990)	52,637,133
Operating loss	(9,694,630)	(11,095)	(14,818,096)	-	(3,307,323)	-	(27,831,144)	(430,477)	-	(28,261,621)
Nonoperating revenues (expenses)										
State appropriations	11,542,300	-	-	-	-	-	11,542,300	-	-	11,542,300
Local property taxes	4,965,858	-	-	-	-	-	4,965,858	-	-	4,965,858
Federal Pell grant revenue	-	-	14,611,122	-	-	-	14,611,122	-	-	14,611,122
Private gifts and grants	125	22,112	100,000	-	-	-	122,237	539,898	-	662,135
Investment income	13,702	35	960	2,479	26,936	-	44,112	2,091,981	-	2,136,093
Loss on disposal of campus property, plant, and equipment	-	-	-	-	(502,591)	-	(502,591)	-	-	(502,591)
Interest expense	-	-	-	-	(1,664,848)	-	(1,664,848)	-	-	(1,664,848)
Net nonoperating revenues (expenses)	16,521,985	22,147	14,712,082	2,479	(2,140,503)	-	29,118,190	2,631,879	-	31,750,069
Other revenues										
Additions to permanent endowment funds	-	-	-	-	-	-	-	194,972	-	194,972
State capital appropriations	-	-	-	-	10,016,314	-	10,016,314	-	-	10,016,314
Capital gifts and grants	-	-	-	-	175,000	-	175,000	-	-	175,000
Total other revenues	-	-	-	-	10,191,314	-	10,191,314	194,972	-	10,386,286
Increase (decrease) in net assets	6,827,355	11,052	(106,014)	2,479	4,743,488	-	11,478,360	2,396,374	-	13,874,734
Transfers in (out)	# (6,827,000)	2,144,500	-	-	4,682,500	-	-	-	-	-
Net increase (decrease) in net assets	355	2,155,552	(106,014)	2,479	9,425,988	-	11,478,360	2,396,374	-	13,874,734
Net assets, beginning of year	697,304	6,236,315	504,805	50,955	29,947,753	-	37,437,132	10,987,237	-	48,424,369
Net assets, end of year	\$ 697,659	\$ 8,391,867	\$ 398,791	\$ 53,434	\$ 39,373,741	\$ -	\$ 48,915,492	\$ 13,383,611	\$ -	\$ 62,299,103

See independent auditors' report on supplementary information.