

Jackson
COLLEGE



Years Ended
June 30,
2013 and 2012

Annual
Financial
Report

JACKSON COLLEGE

■ TABLE OF CONTENTS	PAGE
Management's Discussion and Analysis	1-9
Independent Auditors' Report	10-11
Audited Financial Statements for the Years Ended June 30, 2013 and 2012	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14-15
Jackson College Foundation Statements of Financial Position	16
Jackson College Foundation Statements of Activities	17
Notes to Financial Statements	18-30
Independent Auditors' Report on Supplementary Information	31
Supplementary Information for the Years Ended June 30, 2013 and 2012	
Combining Statement of Net Position	32-33
Combining Statement of Revenues, Expenses, Transfers and Changes in Net Position	34-35

JACKSON COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2013

Management's discussion and analysis (MD&A) of Jackson College's (the "College") financial statements provides an overview of the College's financial position as of June 30, 2013 and 2012 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 Statements of Net Position and Combining Statements of Revenues, Expenses, Transfers and Changes in Net Position. 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 College include the complete presentation of net position 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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the College's finances is, "Is Jackson College as a whole better or worse off from a financial standpoint as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position 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 position. When the reverse occurs, the result is a decrease in net position. These two statements report the College's net position and changes in them during each fiscal year presented.

One way to think of the College's net position (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 position 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 Statements of Net Position

	June 30,	
	2013	2012
ASSETS		
Current assets	\$ 18,254,106	\$ 18,891,023
Capital assets	66,749,957	70,370,806
Other noncurrent assets	135,397	10,475
Total assets	85,139,460	89,272,304
LIABILITIES		
Current liabilities	7,366,260	8,372,934
Noncurrent liabilities	33,621,723	35,871,288
Total liabilities	40,987,983	44,244,222
NET POSITION		
Net investment in capital assets	31,688,137	33,523,771
Restricted:		
Nonexpendable	19,262	54,229
Expendable	299,955	528,244
Unrestricted	12,144,123	10,921,838
Total net position	\$ 44,151,477	\$ 45,028,082

During fiscal year 2013 the College experienced a shift in enrollment that affected tuition and fee revenue. Coupling the change in enrollment with building and maintenance expenses resulted in a decrease in current and noncurrent assets of the College. Management limited expenses to those which were necessary to operate the College which prevented the change in current and noncurrent assets from decreasing further.

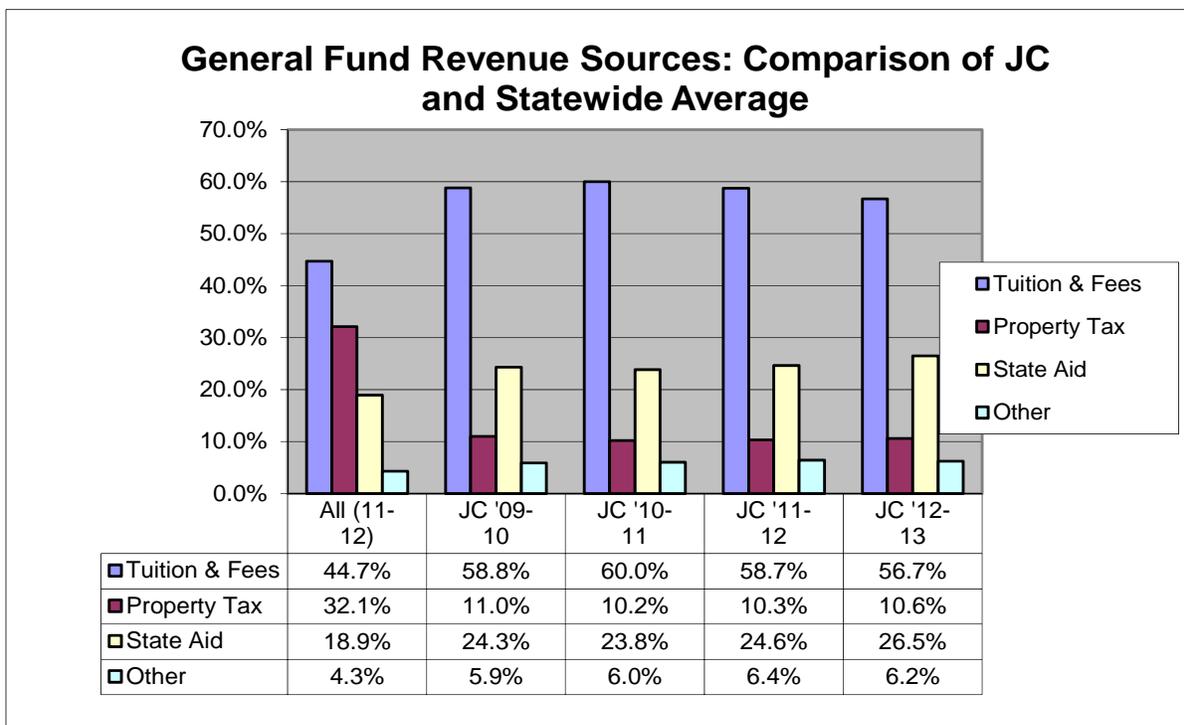
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Operating revenues		
Tuition and fees, net	\$11,527,733	\$11,927,597
Grants and contracts	4,669,533	7,334,547
Potter Center activities	438,148	402,756
Other operating revenues	<u>2,357,030</u>	<u>2,680,847</u>
Total operating revenues	<u>18,992,444</u>	<u>22,345,747</u>
Operating expenses		
Instruction	20,166,170	20,277,452
Public service	863,157	823,815
Academic support	3,141,703	4,285,760
Student services	7,506,594	10,453,682
Administration	6,187,525	7,874,181
Operation and maintenance of plant	4,916,521	7,583,755
Depreciation and amortization	<u>5,179,943</u>	<u>3,619,280</u>
Total operating expenses	<u>47,961,613</u>	<u>54,917,925</u>
Operating loss	<u>(28,969,169)</u>	<u>(32,572,178)</u>
Nonoperating and other revenues		
State appropriations	11,928,365	11,219,700
State capital appropriations	-	492,892
Local property taxes	4,641,703	4,690,925
Federal Pell grant revenue	10,835,404	12,576,972
Private gifts and grants	1,765,238	1,249,377
Other	<u>(1,078,146)</u>	<u>(1,545,098)</u>
Total nonoperating and other revenues	<u>28,092,564</u>	<u>28,684,768</u>
Decrease in net position	(876,605)	(3,887,410)
Net position, beginning of year	<u>45,028,082</u>	<u>48,915,492</u>
Net position, end of year	<u>\$44,151,477</u>	<u>\$45,028,082</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 2011-12 ACS Data Book reveals the following state averages for the year. Four years of Jackson 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 \$43,743,402 and \$45,628,295 in 2013 and 2012, respectively.

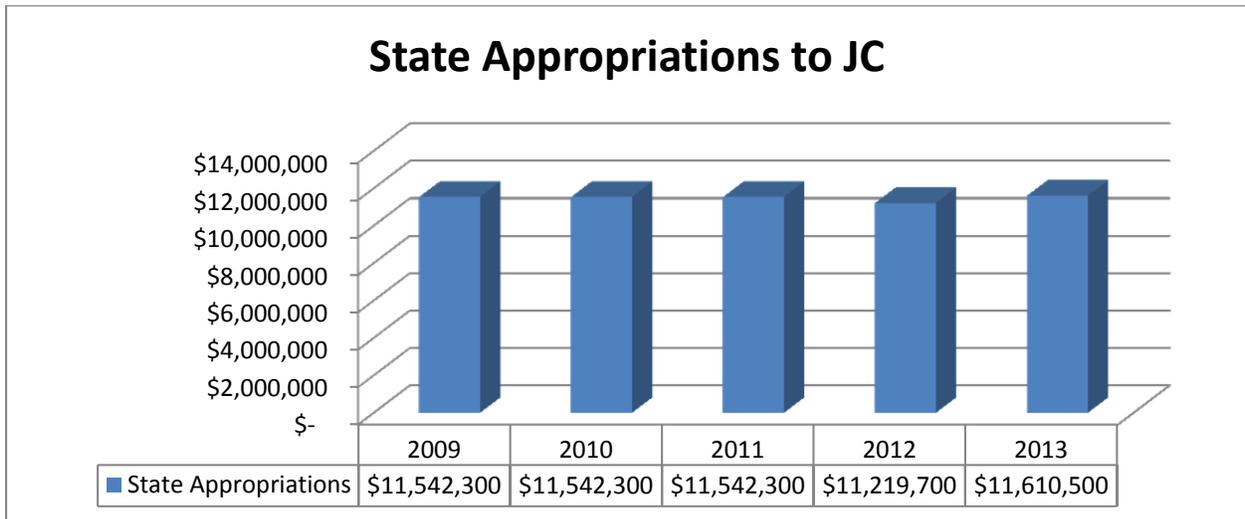


General and Designated Funds

Combining Statement from Audit	2013	2012	Difference	% of Total	% Change
Tuition & Fees	\$ 11,527,733	\$ 11,927,597	\$ (399,864)	26.4%	-3.4%
Discount	13,261,071	14,862,038	(1,600,967)	30.3%	-10.8%
Gross Tuition & Fees	24,788,804	26,789,635	(2,000,831)	56.7%	-7.5%
Federal Grants	17,860	44,400	(26,540)	0.0%	-59.8%
Property Tax	4,641,703	4,690,925	(49,222)	10.6%	-1.0%
State Aid	11,610,500	11,219,700	390,800	26.5%	3.5%

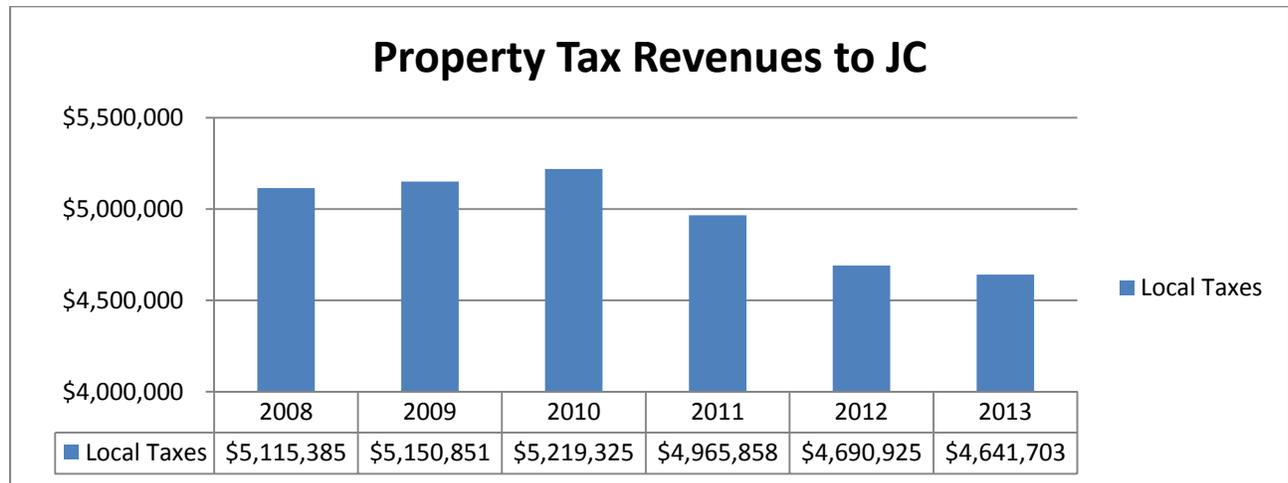
State Appropriations

Accounting guidelines issued by the GASB obligate the College to report State Appropriations source 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 \$11,610,500 in fiscal year 2013, along with \$317,865 of restricted State Appropriations that were paid to the State of Michigan towards the unfunded actuarial accrued liability of the Michigan Public School Employees Retirement System. The graph below reflects the amount of State Appropriations received by the College that were reported as revenue in the general fund.



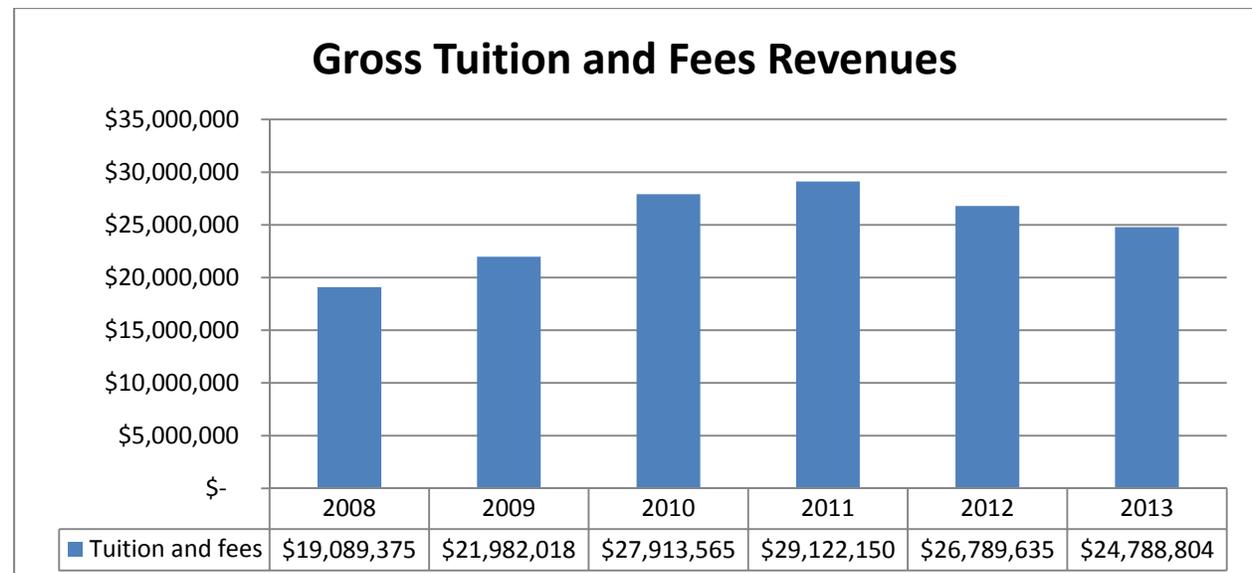
Property Taxes

Only 10.6% of ACS revenues come from property taxes from Jackson County. The other community colleges like JC 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 32.1%. 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. Property tax revenues have showed signs of stabilizing as property values begin to slowly increase and past due tax bills get paid.

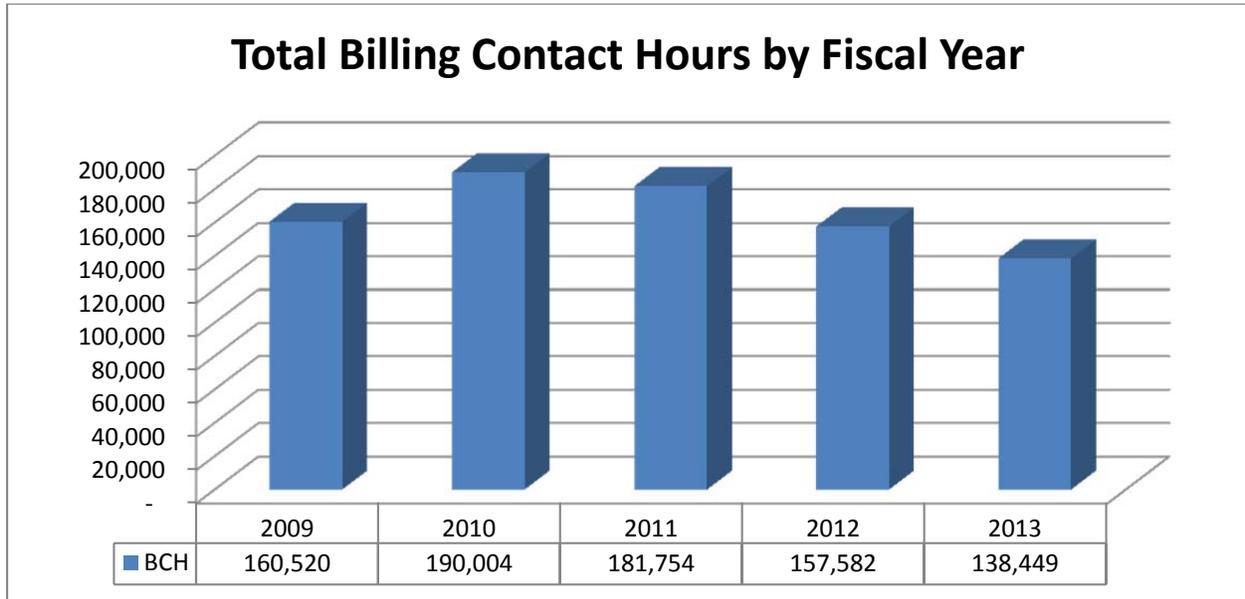


Tuition and Fees

\$13,261,071 and \$14,862,038 of scholarship allowances against tuition and fees represent amounts paid by grants, resulting in a "discount rate" of 53.5% and 55.5% for fiscal 2013 and 2012, respectively. The bulk of the scholarship allowance is Federal Pell awards which were \$10,835,404 and \$12,576,972 for fiscal 2013 and 2012, 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 7.5% from this source of revenue in the current year as compared to fiscal 2012. The scholarship allowances also decreased by \$1,600,967 or 10.8%.



There was a 12% decrease in the amount of billing contact hours generated in 2013. While higher than anticipated, the College will be implementing additional strategic initiatives to help recruit and retain new students. The College continues to focus on recruiting students of color, international students and graduating high school seniors. The decline in enrollment is due in part to declining high school graduating classes, and the improved local economy.



Jackson College Enrollment by Semester and Fiscal Year

	Billing Hours			
	Fall	Winter	Spring	Total
Year ending 2013	63,010	57,396	18,043	138,449
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

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

	Hourly Tuition Rates		
	In-district	Out-district	Out-Of -State
Fiscal Year 2012-2013	\$106.00	\$161.00	\$212.00
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. However, this department went without leadership for several months in 2013. The limited number of new companies starting up in the district is restricting the ability to increase these revenues. The Potter Center activities, revenue and expenses increased at a disproportionate pace due to the rising cost of hiring performers. Seminars and Workshops experienced a decline because the College had some grants expire that provided another revenue source.

Expenses

Compared to statewide averages, JC is relatively 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, the decline in enrollment has forced the College to make cuts to all areas of expenses. The College continues to make instruction and instructional support a priority as we try to initiate strategies that will lead to student success.

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

	<u>As a % of Total Operating Expenses</u>			
	<u>Jackson College</u>			
	<u>ACS 2011-12</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>
Instructional	47.10%	50.80%	46.80%	49.50%
Information Tech	0.00%	0%	0%	0%
Public Service	1.50%	2.20%	1.90%	1.90%
Inst. Support	13.30%	6.60%	7.60%	8.30%
Std Services	12.90%	12.70%	13.00%	13.70%
Admin	13.20%	15.60%	18.20%	14.20%
Plant	<u>11.90%</u>	<u>12.10%</u>	<u>12.50%</u>	<u>12.40%</u>
Total	100.00%	100.00%	100.00%	100.00%

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 (\$11,448,059 in 2013 and \$12,070,821 in 2012), grants and contracts (\$4,836,744 in 2013 and \$7,328,659 in 2012), State appropriations (\$11,561,070 in 2013 and 11,278,354 in 2012), local property taxes (\$4,641,703 in 2013 and \$4,690,925 in 2012), and Pell grant receipts (\$10,835,404 in 2013 and \$12,576,972 in 2012). The single, largest type of disbursement was compensation payments to or on behalf of the College's employees (\$32,739,186 in 2013 and \$35,552,918 in 2012).

Capital Assets

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

	<u>2013</u>	<u>2012</u>
Land	\$ 1,313,765	\$ 1,313,765
Infrastructure and land Improvements	3,481,103	3,318,719
Buildings and improvements	86,883,070	86,883,070
Artwork	5,253,400	5,253,400
Leasehold improvements	2,247,106	-
Equipment	11,596,676	11,448,854
Construction in progress	<u>-</u>	<u>1,469,597</u>
Total capital assets	110,775,120	109,687,405
Less accumulated depreciation	<u>44,025,163</u>	<u>39,316,599</u>
Capital assets, net	<u>\$ 66,749,957</u>	<u>\$ 70,370,806</u>

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

Information on the College's long-term debt can also be found in the notes to the financial statements.

Factors That Will Affect Our Future

The economic position of the College is closely tied to that of the State. Because of economic growth and changes to the funding formula for community colleges, the State budget only projects a small increase of 1.25% in State appropriations for the 2013-14 year, along with a Board of Trustees approved tuition increase of 4.7% for the upcoming fiscal year.

The College will make cuts to expenditures that will increase operating efficiencies and have the smallest impact on service to students and the community at large. The College will continue to make investments in the international market, along with increased efforts in recruiting students of color and high school graduates.

The State of Michigan has approved a capital outlay project for \$19.5 million to renovate Bert Walker Hall. The College is in the planning phase, but would have to issue tax exempt bonds for the College's 50% match if the Board of Trustees approves the project.

The College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing action, along with budget reductions, will enable it to maintain its present level of service.

INDEPENDENT AUDITORS' REPORT

October 22, 2013

Board of Trustees
Jackson College
Jackson, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of *Jackson College* (the "College") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions 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 College Foundation, the College's discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of *Jackson College* as of June 30, 2013 and 2012, and the respective results of their operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 9 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 any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated October 22, 2013 on our consideration of *Jackson 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Jackson College's* internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.

JACKSON COLLEGE

STATEMENTS OF NET POSITION

	June 30,	
	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 13,367,450	\$ 10,891,695
Short term investments	-	3,501,740
Tuition and other receivables, net	571,963	492,289
State appropriations receivable	2,407,241	2,039,946
Federal and state grants receivable	1,104,366	1,271,577
Current portion of note receivable	20,333	-
Inventories	39,775	46,556
Prepaid expenses and other assets	742,978	647,220
Total current assets	18,254,106	18,891,023
Investments	11,230	10,475
Note receivable, net of current portion	124,167	-
Campus property, plant and equipment, net	66,749,957	70,370,806
Total assets	85,139,460	89,272,304
Liabilities		
Current liabilities		
Accounts payable	858,011	1,583,476
Accrued compensation and benefits	2,686,683	2,956,966
Current portion of long-term liabilities	2,269,351	2,189,137
Accrued interest	235,750	245,405
Unearned revenue	1,316,465	1,397,950
Total current liabilities	7,366,260	8,372,934
Long-term liabilities, net of current portion	33,621,723	35,871,288
Total liabilities	40,987,983	44,244,222
Net position		
Net investment in capital assets	31,688,137	33,523,771
Restricted:		
Nonexpendable	19,262	54,229
Expendable	299,955	528,244
Unrestricted	12,144,123	10,921,838
Total net position	\$ 44,151,477	\$ 45,028,082

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

JACKSON COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30,	
	2013	2012
Operating revenues		
Tuition and fees (net of scholarship allowances of \$13,261,071 and \$14,862,038)	\$ 11,527,733	\$ 11,927,597
Federal grants and contracts	4,589,807	6,762,270
State grants and contracts	79,726	572,277
Housing revenue	1,031,674	1,017,852
Potter Center activities	438,148	402,756
Contract training	14,096	158,515
Seminars, workshops, and other	1,311,260	1,504,480
Total operating revenues	18,992,444	22,345,747
Operating expenses		
Instruction	20,166,170	20,277,452
Public service	863,157	823,815
Academic support	3,141,703	4,285,760
Student services	7,506,594	10,453,682
Administration	6,187,525	7,874,181
Operation and maintenance of plant	4,916,521	7,583,755
Depreciation and amortization	5,179,943	3,619,280
Total operating expenses	47,961,613	54,917,925
Operating loss	(28,969,169)	(32,572,178)
Nonoperating revenues (expenses)		
State appropriations	11,928,365	11,219,700
Local property taxes	4,641,703	4,690,925
Federal Pell grant revenue	10,835,404	12,576,972
Private gifts and grants	738,317	768,277
Interest income	17,629	25,162
Gain (loss) on disposal of property and equipment	388,561	(28,682)
Interest expense	(1,484,336)	(1,541,578)
Transfer of funds to Jackson College Foundation	(44,000)	-
Net nonoperating revenues	27,021,643	27,710,776
Other revenues		
State capital appropriations	-	492,892
Capital gifts and grants	1,070,921	481,100
Total other revenues	1,070,921	973,992
Decrease in net position	(876,605)	(3,887,410)
Net position, beginning of year	45,028,082	48,915,492
Net position, end of year	\$ 44,151,477	\$ 45,028,082

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

JACKSON COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2013	2012
Cash flows from operating activities		
Tuition and fees	\$ 11,448,059	\$ 12,070,821
Housing	1,031,674	1,017,852
Grants and contracts	4,836,744	7,328,659
Contract training	13,211	160,921
Payments to vendors	(8,690,938)	(10,864,821)
Payments to or on behalf of employees	(32,739,186)	(35,552,918)
Payments to students	(3,038,905)	(3,853,246)
Potter Center activities	490,289	453,179
Seminars, workshops and other	1,353,017	1,596,060
Net cash used in operating activities	(25,296,035)	(27,643,493)
Cash flows from noncapital financing activities		
State appropriations	11,561,070	11,278,354
Local property taxes	4,641,703	4,690,925
Pell grant receipts	10,835,404	12,576,972
Gifts and contributions for other than capital purposes	738,317	768,277
Direct loan program receipts	15,870,681	17,354,177
Direct loan program disbursements	(15,870,681)	(17,354,177)
State scholarship and grant receipts	135,200	135,200
State scholarship and grant disbursements	(135,200)	(135,200)
Net cash provided by noncapital financing activities	27,776,494	29,314,528
Cash flows from capital and related financing activities		
State capital appropriations	-	2,804,801
Capital gift and grant proceeds	1,070,921	481,100
Purchases and construction of campus property, plant and equipment	(1,559,094)	(3,959,289)
Proceeds from sale of property and equipment	244,061	23,500
Principal paid on capital debt	(1,805,000)	(2,115,000)
Interest paid on capital debt	(1,474,206)	(1,550,079)
Net cash used in capital and related financing activities	(3,523,318)	(4,314,967)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	3,501,740	10,001,961
Purchases of investments	(755)	(13,504,249)
Interest and dividends on investments	17,629	25,162
Net cash (provided by) used in investing activities	3,518,614	(3,477,126)
Net (increase) decrease in cash and cash equivalents	2,475,755	(6,121,058)
Cash and cash equivalents, beginning of year	10,891,695	17,012,753
Cash and cash equivalents, end of year	\$ 13,367,450	\$ 10,891,695

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

JACKSON COLLEGE

STATEMENTS OF CASH FLOWS (Concluded)

	Year Ended June 30,	
	2013	2012
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (28,969,169)	\$ (32,572,178)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	5,179,943	3,619,280
Change in operating assets and liabilities that provided (used) cash:		
Tuition and other receivables, net	(79,674)	143,224
Federal and state grants receivable	167,211	(5,888)
Inventories	6,781	(521)
Prepaid expenses and other assets	(95,758)	(7,012)
Accounts payable	(769,465)	26,664
Accrued compensation and benefits	(270,283)	1,527,422
Long-term liabilities	(384,136)	-
Unearned revenue	(81,485)	(374,484)
Net cash used in operating activities	<u>\$ (25,296,035)</u>	<u>\$ (27,643,493)</u>

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

JACKSON COLLEGE

FOUNDATION STATEMENTS OF FINANCIAL POSITION

	June 30	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 5,416	\$ 25,436
Investments	12,183,569	12,625,020
Related party receivable	44,100	-
Contributions receivable, net of allowance of \$5,000 (\$5,000 as of June 30, 2012)	410,475	410,475
Beneficial interests in remainder trusts	214,582	205,734
Cash surrender value of life insurance	81,000	77,000
Total assets	<u>\$ 12,939,142</u>	<u>\$ 13,343,665</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 34,899	\$ 19,516
Related party payable	66,560	3,788
Annuities payable	131,015	133,786
Total liabilities	<u>232,474</u>	<u>157,090</u>
Net assets		
Unrestricted	1,360,951	1,676,389
Temporarily restricted	2,039,123	3,368,061
Permanently restricted	9,306,594	8,142,125
Total net assets	<u>12,706,668</u>	<u>13,186,575</u>
Total liabilities and net assets	<u>\$ 12,939,142</u>	<u>\$ 13,343,665</u>

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

JACKSON COLLEGE

FOUNDATION STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2013	2012
Support and revenue		
Gifts	\$ 534,508	\$ 939,030
Investment income and gains	1,181,591	119,757
Other revenue	32,038	7,764
Total support and revenue	<u>1,748,137</u>	<u>1,066,551</u>
Grants and expenses		
Grant payments to Jackson College	1,767,127	851,265
Grant payments to the Dahlem Conservancy	58,729	55,535
Management and general expenses	445,727	346,953
Total grants and expenses	<u>2,271,583</u>	<u>1,253,753</u>
Support and revenue less than grants and expenses	(523,446)	(187,202)
Changes in values of interests in remainder trusts and actuarial adjustment of annuities	(461)	(9,834)
Transfers from Jackson College	44,000	-
Decrease in net assets	(479,907)	(197,036)
Net assets, beginning of year	<u>13,186,575</u>	<u>13,383,611</u>
Net assets, end of year	<u><u>\$ 12,706,668</u></u>	<u><u>\$ 13,186,575</u></u>

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

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. MISSION

Jackson 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. The College has one affiliated organization that was evaluated in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which the College adopted retroactively to July 1, 2011. This organization is described below as well as the impact that it has on the College's financial statements:

Jackson College Foundation (the "Foundation") is a legally separate, tax-exempt not-for-profit organization that was formed to solicit, collect, and invest donations made for the promotion of educational activities at and to augment the facilities of the College. The Foundation acts primarily as a fundraising organization to supplement the resources of the College in support of its programs and facilities. As the restricted resources held by the Foundation can be used only by, or for the benefit of, the College, the Foundation is considered a component unit of the College.

The adoption of GASB Statement No. 61 resulted in the College presenting the Foundation as a discretely presented component unit of the College, rather than as a blended component unit as in previous years before the clarification pronouncement was issued. The adoption of this pronouncement had no net impact on the net position of the College-wide financial statements.

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*.

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, notes to the financial statements, and other applicable RSI. Fund financial information is not required for BTA reporting.

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.

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 position at June 30, 2013 or 2012. 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.

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 COLLEGE

NOTES TO FINANCIAL STATEMENTS

Depreciation, which includes amortization of leasehold improvements, is provided for campus property, plant and equipment on a straight-line basis over the estimated useful life or the term of the lease, if shorter, of the assets as follows:

Classification	Estimated Useful Lives
Buildings	40 years
Infrastructure and land improvements	15 years
Building and leasehold 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) in the accompanying statements of net position.

Reclassifications

Certain amounts as reported in the 2012 financial statements have been reclassified to conform with the 2013 presentation.

JACKSON 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 College's deposits and investments are included on the statements of net position under the following classifications as of June 30:

	2013	2012
Cash and cash equivalents	\$ 13,367,451	\$ 10,891,695
Short term investments	-	3,501,740
Investments	<u>11,230</u>	<u>10,475</u>
	<u>\$ 13,378,681</u>	<u>\$ 14,403,910</u>

The above amounts are categorized as follows at June 30:

	2013	2012
Bank deposits (checking, savings, cash sweep accounts, and certificates of deposit)	\$ 13,366,651	\$ 14,391,415
Petty cash	<u>800</u>	<u>2,020</u>
Total deposits	13,367,451	14,393,435
Investments in equity securities	<u>11,230</u>	<u>10,475</u>
Total	<u>\$ 13,378,681</u>	<u>\$ 14,403,910</u>

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 of June 30, 2013, \$3,815,851 of the College's bank deposits balance of \$13,947,306 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2012, all bank deposits were covered for any custodial credit risk.

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

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. However, all investments are in the name of the College, 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:

	2013	2012
Tuition and fees	\$ 819,843	\$ 746,070
Private grants	914	759
Reimbursements	95,416	79,133
Bookstore	1,869	7,136
Employees	<u>3,921</u>	<u>9,191</u>
Total	921,963	842,289
Less allowances	<u>350,000</u>	<u>350,000</u>
Tuition and other receivables, net	<u>\$ 571,963</u>	<u>\$ 492,289</u>

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

5. CAMPUS PROPERTY, PLANT AND EQUIPMENT, NET

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

<u>2013</u>	<u>Balance, July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2013</u>
Capital Assets:					
Land	\$ 1,313,765	\$ -	\$ -	\$ -	\$ 1,313,765
Infrastructure and land improvements	3,318,719	17,111	-	145,273	3,481,103
Buildings and improvements	86,883,070	-	-	-	86,883,070
Leasehold improvements	-	922,782	-	1,324,324	2,247,106
Artwork	5,253,400	-	-	-	5,253,400
Furniture, fixtures and equipment	11,448,854	1,271,351	1,123,529	-	11,596,676
Construction in progress	1,469,597	-	-	(1,469,597)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total property and equipment	109,687,405	2,211,244	1,123,529	-	110,775,120
Less accumulated depreciation	39,316,599	5,832,093	1,123,529	-	44,025,163
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Campus property, plant and equipment, net	\$ 70,370,806	\$ (3,620,849)	\$ -	\$ -	\$ 66,749,957
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<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	\$ 70,082,979	\$ 340,009	\$ 52,182	\$ -	\$ 70,370,806
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

Long-term liability activity for years ended June 30 was as follows:

2013	Balance			Change	Balance	Current
<u>Bonds Payable:</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Premium/Discount</u>	<u>June 30, 2013</u>	<u>Portion</u>
General Bonds, Series 2006	\$ 13,086,900	\$ -	\$ 675,000	\$ 9,150	\$ 12,421,050	\$ 715,850
General Bonds, Series 2007	4,759,651	-	340,000	2,034	4,421,685	352,966
General Bonds, Series 2008	7,259,884	-	290,000	5,301	6,975,185	299,699
General Bonds, Series 2010	11,740,600	-	500,000	3,300	11,243,900	496,700
Total bonds payable	36,847,035	-	1,805,000	19,785	35,061,820	1,865,215
Accrued Employee Severance	1,213,390	-	384,136	-	829,254	404,136
	\$ 38,060,425	\$ -	\$ 2,189,136	\$ 19,785	35,891,074	\$ 2,269,351
Less Current Portion					2,269,351	
Long-term Liabilities, net of current portion					\$ 33,621,723	

2012	Balance			Change	Balance	Current
<u>Bonds Payable:</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Premium/Discount</u>	<u>June 30, 2012</u>	<u>Portion</u>
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	

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 COLLEGE

NOTES TO FINANCIAL STATEMENTS

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

Unsecured bonds mature serially in annual amounts ranging from \$675,000 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 \$290,000 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 1.70% to 6.27% per annum. The bonds are designated as "Build America Bonds" under Section 54AA of Internal Revenue Code. A credit of \$218,971 and \$110,080 was received during fiscal 2013 and 2012, 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 long-term debt for years succeeding June 30, 2013, are summarized below:

Year Ending June 30	Principal	Interest	Total
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	2,150,215	1,133,182	3,283,397
2019-2023	12,123,101	4,294,507	16,417,608
2024-2028	10,384,545	1,745,731	12,130,276
2029-2030	2,568,099	148,154	2,716,253
Totals	<u>\$ 35,061,820</u>	<u>\$ 12,588,411</u>	<u>\$ 47,650,231</u>

JACKSON 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 net state contribution amounted to \$10,016,314. 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 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 remaining required payments of \$404,136 in 2014 and \$425,118 in 2015.

7. PENSION PLANS

Defined Benefit Plan

Plan Description

The College contributes to the Michigan Public School Employees Retirement System (MPERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. *Member Investment Plan ("MIP")* members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 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. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000.

Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. *Basic 4%* and *MIP 7%* members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the years ended June 30, 2013 and 2012 as a percentage of payroll ranged from 20.96 to 25.36 percent and from 19.16 to 24.46 percent, respectively.

The contribution requirements of plan members and the College are established by Michigan State statute and may be amended only by action of the State Legislature. The College's contributions to MPSERS under all plans for the years ended June 30, 2013, 2012, and 2011 were \$3,704,000, \$3,740,000, and \$3,060,000, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution.

Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The College's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

Other

Per MPSERS' comprehensive annual financial report as of September 30, 2012, the unfunded actuarial accrued liability ("UAAL") for pensions and other postemployment benefits ("OPEB/Healthcare") for MPSERS is \$22.4 billion and \$29.5 billion, respectively, and the ratio of the UAAL to covered payroll is 244.5% and 282.8%, respectively.

For fiscal year ended June 30, 2013, Jackson College had approximately \$13.8 million of covered payroll. Applying the MPSERS ratio of the UAAL to Jackson College's covered payroll results in an estimated share of the UAAL for pension and OPEB/Healthcare of \$33.7 million and \$39.0 million, respectively.

Defined Contribution Plan

Effective July 1, 1996, the College established the Jackson 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, 2013 and 2012, the cost of this plan to the College was approximately \$905,000 and \$915,000 and participant contributions in the form of payroll deductions were approximately \$291,000 and \$290,000, respectively.

8. RELATED PARTIES

Jackson College Foundation

The College provides personnel support, facilities and equipment to the Foundation at no charge. In addition, the College received payments from the Foundation for student scholarships and other support, including capital gifts, totaling approximately \$1,767,000 and \$851,000 for the years ended June 30, 2013 and 2012, respectively.

JACKSON COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College entered a lease agreement with the Foundation on July 1, 2012 related to its W. J. Maher Campus building. The Foundation has waived any rental expense for the College for 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 POSITION

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

	2013	2012
Major maintenance and equipment replacement	\$ 5,948,293	\$ 3,164,887
Future operations	<u>5,497,492</u>	<u>7,058,967</u>
Total unrestricted and designated	11,445,785	10,223,854
Unrestricted and undesignated	<u>698,338</u>	<u>697,984</u>
Total unrestricted net position	<u>\$ 12,144,123</u>	<u>\$ 10,921,838</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, 2013 and 2012, 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

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.

JACKSON COLLEGE

■ NOTES TO FINANCIAL STATEMENTS

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, 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 August 31, 2017.

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**

October 22, 2013

Board of Trustees
Jackson College
Jackson, Michigan

We have audited the financial statements of *Jackson College* (the "College") as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 22, 2013, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented hereinafter, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Rehmann Robson LLC". The signature is written in a cursive, flowing style.

SUPPLEMENTARY INFORMATION

JACKSON COLLEGE

COMBINING STATEMENT OF NET POSITION JUNE 30, 2013

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	Combined Total
Assets						
Current assets						
Cash and cash equivalents	\$ 2,369,751	\$ 5,517,835	\$ (638,334)	\$ 44,032	\$ 6,074,166	\$ 13,367,450
Tuition and other receivables, net	503,706	(3,142)	67,474	-	3,925	571,963
State appropriations receivable	2,089,376	-	317,865	-	-	2,407,241
Federal and state grants receivable	6,317	-	1,098,049	-	-	1,104,366
Current portion of notes receivable	-	-	-	-	20,333	20,333
Inventories	39,775	-	-	-	-	39,775
Prepaid expenses and other assets	742,978	-	-	-	-	742,978
Total current assets	5,751,903	5,514,693	845,054	44,032	6,098,424	18,254,106
Investments	-	-	-	11,230	-	11,230
Note receivable, net of current portion	-	-	-	-	124,167	124,167
Campus property, plant and equipment, net	-	-	-	-	66,749,957	66,749,957
Total assets	5,751,903	5,514,693	845,054	55,262	72,972,548	85,139,460
Liabilities						
Current liabilities						
Accounts payable	439,025	15,677	328,761	36,000	38,548	858,011
Accrued compensation and benefits	2,603,570	1,524	81,589	-	-	2,686,683
Current portion of long-term liabilities	404,136	-	-	-	1,865,215	2,269,351
Accrued interest	-	-	-	-	235,750	235,750
Unearned revenue	1,181,716	-	134,749	-	-	1,316,465
Total current liabilities	4,628,447	17,201	545,099	36,000	2,139,513	7,366,260
Long-term liabilities, net of current portion	425,118	-	-	-	33,196,605	33,621,723
Total liabilities	5,053,565	17,201	545,099	36,000	35,336,118	40,987,983
Net position						
Net investment in capital assets	-	-	-	-	31,688,137	31,688,137
Restricted:						
Nonexpendable	-	-	-	19,262	-	19,262
Expendable	-	-	299,955	-	-	299,955
Unrestricted	698,338	5,497,492	-	-	5,948,293	12,144,123
Total net position	\$ 698,338	\$ 5,497,492	\$ 299,955	\$ 19,262	\$ 37,636,430	\$ 44,151,477

See independent auditors' report on supplementary information.

JACKSON COLLEGE

COMBINING STATEMENT OF NET POSITION JUNE 30, 2012

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	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
Short term investments	-	3,501,740	-	-	-	3,501,740
Tuition and other receivables, net	491,530	-	759	-	-	492,289
State appropriations receivable	2,039,946	-	-	-	-	2,039,946
Federal and state grants receivable	6,400	-	1,265,177	-	-	1,271,577
Inventories	46,556	-	-	-	-	46,556
Prepaid expenses and other assets	647,220	-	-	-	-	647,220
Total current assets	6,723,835	7,063,618	799,771	43,754	4,260,045	18,891,023
Investments	-	-	-	10,475	-	10,475
Campus property, plant and equipment, net	-	-	-	-	70,370,806	70,370,806
Total assets	6,723,835	7,063,618	799,771	54,229	74,630,851	89,272,304
Liabilities						
Current liabilities						
Accounts payable	713,883	244	19,596	-	849,753	1,583,476
Accrued compensation and benefits	2,751,599	4,407	200,960	-	-	2,956,966
Current portion of long-term liabilities	384,137	-	-	-	1,805,000	2,189,137
Accrued interest	-	-	-	-	245,405	245,405
Unearned revenue	1,346,979	-	50,971	-	-	1,397,950
Total current liabilities	5,196,598	4,651	271,527	-	2,900,158	8,372,934
Long-term liabilities, net of current portion	829,253	-	-	-	35,042,035	35,871,288
Total liabilities	6,025,851	4,651	271,527	-	37,942,193	44,244,222
Net position						
Net investment in capital assets	-	-	-	-	33,523,771	33,523,771
Restricted:						
Nonexpendable	-	-	-	54,229	-	54,229
Expendable	-	-	528,244	-	-	528,244
Jackson Community College Foundation	-	-	-	-	-	-
Unrestricted	697,984	7,058,967	-	-	3,164,887	10,921,838
Total net position	\$ 697,984	\$ 7,058,967	\$ 528,244	\$ 54,229	\$ 36,688,658	\$ 45,028,082

See independent auditors' report on supplementary information.

JACKSON COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	Elimination Entries	Combined Total
Operating revenues							
Tuition and fees (net of scholarship allowance of \$13,261,071)	\$ 24,788,804	\$ -	\$ -	\$ -	\$ -	\$ (13,261,071)	\$ 11,527,733
Federal grants and contracts	17,860	-	4,571,947	-	-	-	4,589,807
State grants and contracts	-	-	79,726	-	-	-	79,726
Housing revenue	1,031,674	-	-	-	-	-	1,031,674
Potter Center activities	438,148	-	-	-	-	-	438,148
Contract training	14,096	-	-	-	-	-	14,096
Seminars, workshops and other	787,681	91,573	397,451	-	34,555	-	1,311,260
Current funds expenditures for capital equipment and improvements	-	-	-	-	1,559,094	(1,559,094)	-
Total operating revenues	27,078,263	91,573	5,049,124	-	1,593,649	(14,820,165)	18,992,444
Operating expenses							
Instruction	19,766,351	-	399,819	-	-	-	20,166,170
Public service	863,157	-	-	-	-	-	863,157
Academic support	2,568,992	-	572,711	-	-	-	3,141,703
Student services	4,959,325	423,446	15,384,894	-	-	(13,261,071)	7,506,594
Administration	6,077,317	14,035	96,173	-	-	-	6,187,525
Operation and maintenance of plant	4,702,793	-	35,893	-	1,736,929	(1,559,094)	4,916,521
Depreciation and amortization	-	-	-	-	5,179,943	-	5,179,943
Total operating expenses	38,937,935	437,481	16,489,490	-	6,916,872	(14,820,165)	47,961,613
Operating loss	(11,859,672)	(345,908)	(11,440,366)	-	(5,323,223)	-	(28,969,169)
Nonoperating revenues (expenses)							
State appropriations	11,610,500	-	317,865	-	-	-	11,928,365
Local property taxes	4,641,703	-	-	-	-	-	4,641,703
Federal Pell grant revenue	-	-	10,835,404	-	-	-	10,835,404
Private gifts and grants	412,562	87,285	238,470	-	-	-	738,317
Interest income	374	14,273	-	1,033	1,949	-	17,629
Gain on disposal of campus property, plant, and equipment	-	-	-	-	388,561	-	388,561
Interest expense	-	-	-	-	(1,484,336)	-	(1,484,336)
Transfer of funds to Jackson College Foundation	-	(8,000)	-	(36,000)	-	-	(44,000)
Net nonoperating revenues (expenses)	16,665,139	93,558	11,391,739	(34,967)	(1,093,826)	-	27,021,643
Other revenues							
Capital gifts and grants	-	-	-	-	1,070,921	-	1,070,921
(Decrease) increase in net position	4,805,467	(252,350)	(48,627)	(34,967)	(5,346,128)	-	(876,605)
Transfers in (out)	(4,805,113)	(1,309,125)	(179,662)	-	6,293,900	-	-
Net (decrease) increase in net position	354	(1,561,475)	(228,289)	(34,967)	947,772	-	(876,605)
Net position, beginning of year	697,984	7,058,967	528,244	54,229	36,688,658	-	45,028,082
Net position, end of year	\$ 698,338	\$ 5,497,492	\$ 299,955	\$ 19,262	\$ 37,636,430	\$ -	\$ 44,151,477

See independent auditors' report on supplementary information.

JACKSON COLLEGE

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

	General Fund	Designated Fund	Restricted Funds	Endowment Funds	Plant Funds	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
Federal grants and contracts	44,400	-	6,717,870	-	-	-	6,762,270
State grants and contracts	-	-	572,277	-	-	-	572,277
Housing revenue	1,017,852	-	-	-	-	-	1,017,852
Potter Center activities	402,756	-	-	-	-	-	402,756
Contract training	158,515	-	-	-	-	-	158,515
Seminars, workshops and other	936,429	148,892	419,159	-	-	-	1,504,480
Current funds expenditures for capital equipment and improvements	-	-	-	-	3,935,789	(3,935,789)	-
Total operating revenues	29,349,587	148,892	7,709,306	-	3,935,789	(18,797,827)	22,345,747
Operating expenses							
Instruction	19,993,587	-	283,865	-	-	-	20,277,452
Public service	823,815	-	-	-	-	-	823,815
Academic support	3,243,183	-	1,042,577	-	-	-	4,285,760
Student services	5,704,442	157,703	19,453,575	-	-	(14,862,038)	10,453,682
Administration	7,797,640	76,541	-	-	-	-	7,874,181
Operation and maintenance of plant	5,324,792	-	-	-	6,194,752	(3,935,789)	7,583,755
Depreciation and amortization	-	-	-	-	3,619,280	-	3,619,280
Total operating expenses	42,887,459	234,244	20,780,017	-	9,814,032	(18,797,827)	54,917,925
Operating loss	(13,537,872)	(85,352)	(13,070,711)	-	(5,878,243)	-	(32,572,178)
Nonoperating revenues (expenses)							
State appropriations	11,219,700	-	-	-	-	-	11,219,700
Local property taxes	4,690,925	-	-	-	-	-	4,690,925
Federal Pell grant revenue	-	-	12,576,972	-	-	-	12,576,972
Private gifts and grants	366,003	27,520	374,754	-	-	-	768,277
Interest income	2,080	6,859	-	795	15,428	-	25,162
Loss on disposal of campus property, plant, and equipment	-	-	-	-	(28,682)	-	(28,682)
Interest expense	-	-	-	-	(1,541,578)	-	(1,541,578)
Net nonoperating revenues (expenses)	16,278,708	34,379	12,951,726	795	(1,554,832)	-	27,710,776
Other revenues							
State capital appropriations	-	-	-	-	492,892	-	492,892
Capital gifts and grants	-	-	-	-	481,100	-	481,100
Total other revenues	-	-	-	-	973,992	-	973,992
(Decrease) increase in net position	2,740,836	(50,973)	(118,985)	795	(6,459,083)	-	(3,887,410)
Transfers in (out)	(2,740,511)	(1,281,927)	248,438	-	3,774,000	-	-
Net (decrease) increase in net position	325	(1,332,900)	129,453	795	(2,685,083)	-	(3,887,410)
Net position, beginning of year	697,659	8,391,867	398,791	53,434	39,373,741	-	48,915,492
Net position, end of year	\$ 697,984	\$ 7,058,967	\$ 528,244	\$ 54,229	\$ 36,688,658	\$ -	\$ 45,028,082

See independent auditors' report on supplementary information.