



Jackson, Michigan

ANNUAL FINANCIAL REPORT

For The Years Ended June 30, 2007 and 2006



REHMANN ROBSON

Certified Public Accountants



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**JACKSON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

Management's discussion and analysis (MD&A) of Jackson Community College's financial statements provides an overview of the College's financial position as of June 30, 2007 and 2006 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. Responsibility for the completeness and fairness of this information rests with the College's management.

Using the Annual Financial Report

In June 1999, the Government Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the College as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and therefore, has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges 2001*.

The major changes from the fund basis financial statements presented by the College in the past and the "one-line look at the entity as a whole" are as follows:

- Establishing new reporting standards – Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows
- Recording depreciation expense and accumulated depreciation
- Capitalizing all capital expenditures on the Balance Sheet instead of recording as an expense
- Allocating summer session revenues and expenses between fiscal years
- Establishing an operating and nonoperating basis of reporting whereby revenues that are charges for services are recorded as operating revenues. Essentially all other types of revenue are nonoperating or other revenue
- Netting tuition and fees for scholarship allowances that were also reported as federal and state grant revenue

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, and 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>2007</u>	<u>2006</u>
ASSETS		
Current assets	\$ 7,025,799	\$ 5,933,700
Capital assets	43,990,591	21,542,785
Noncurrent assets - investments	<u>12,656,802</u>	<u>30,765,351</u>
Total assets	<u>\$ 63,673,192</u>	<u>\$ 58,241,836</u>
LIABILITIES		
Current liabilities	\$ 7,736,346	\$ 4,737,284
Noncurrent liabilities	<u>18,025,454</u>	<u>19,127,164</u>
Total liabilities	<u>25,761,800</u>	<u>23,864,448</u>
NET ASSETS		
Invested in capital assets, net of related debt	24,733,389	15,266,585
Restricted:		
Nonexpendable	527,740	523,721
Expendable	439,480	717,327
Jackson Community College Foundation	11,605,291	10,190,138
Unrestricted	<u>605,492</u>	<u>7,679,617</u>
Total net assets	<u>37,911,392</u>	<u>34,377,388</u>
Total liabilities and net assets	<u>\$ 63,673,192</u>	<u>\$ 58,241,836</u>

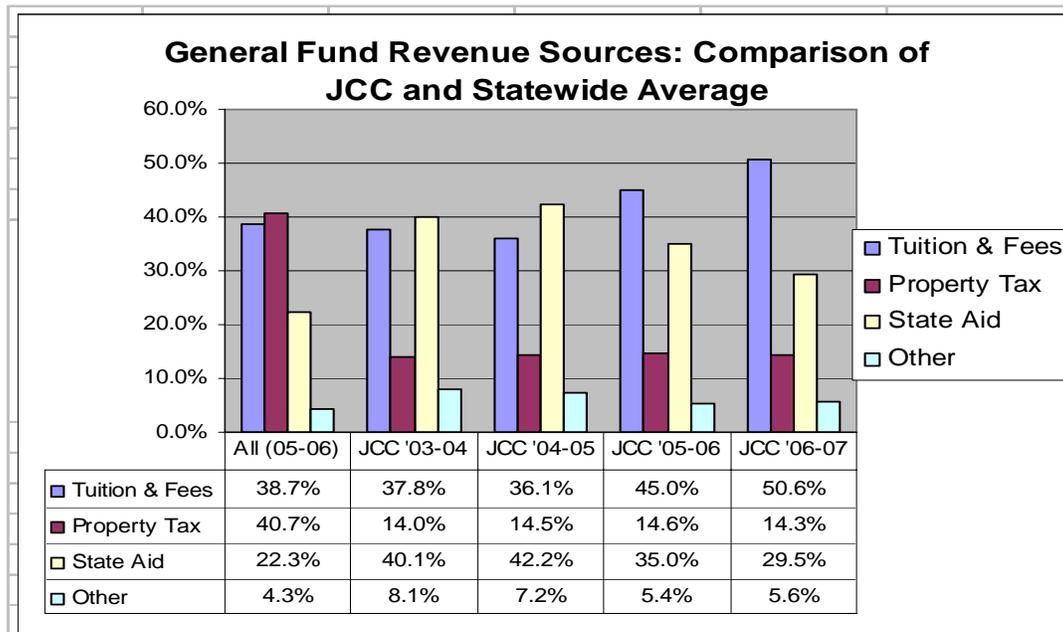
The major change in the Balance Sheet of the College is a result of construction projects totaling over \$26,000,000 when completed. This construction includes a new information technology building (William Atkinson Hall), the renovation of the Center for Health Professions in Whiting Hall, the construction of 24 apartment units for student housing, and renovations to the Hillsdale Center and to the Fieldhouse on main campus. Most will be completed in time for the Fall 2007 term, while the renovation in Whiting Hall will be completed prior to Winter 2008.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Operating revenues		
Tuition and fees, net	\$12,169,314	\$ 10,135,467
Grants and contracts	6,507,950	5,913,083
Potter Center & Dahlem Center activities	502,444	548,584
Other operating revenues	<u>1,571,794</u>	<u>1,393,791</u>
Total operating revenues	<u>20,751,502</u>	<u>17,990,925</u>
Operating expenses		
Instruction	15,334,037	13,764,960
Public service	787,089	964,432
Academic support	3,740,833	3,248,603
Student services	4,901,098	4,397,918
Administration	3,966,153	3,951,992
Operation and maintenance of plant	4,339,255	5,944,248
Depreciation and amortization	1,463,146	1,251,905
Technology	<u>1,378,128</u>	<u>1,715,599</u>
Total operating expenses	<u>35,909,739</u>	<u>35,239,657</u>
Operating loss	<u>(15,158,237)</u>	<u>(17,248,732)</u>
Nonoperating and other revenues		
State appropriations	9,891,200	11,049,000
Local property taxes	4,782,657	4,603,595
Other	<u>4,018,384</u>	<u>2,918,074</u>
Total nonoperating and other revenues	<u>18,692,241</u>	<u>18,570,669</u>
Increase in net assets	3,534,004	1,321,937
Net assets, beginning of year	<u>34,377,388</u>	<u>33,055,451</u>
Net assets, end of year	<u>\$37,911,392</u>	<u>\$34,377,388</u>

Revenues

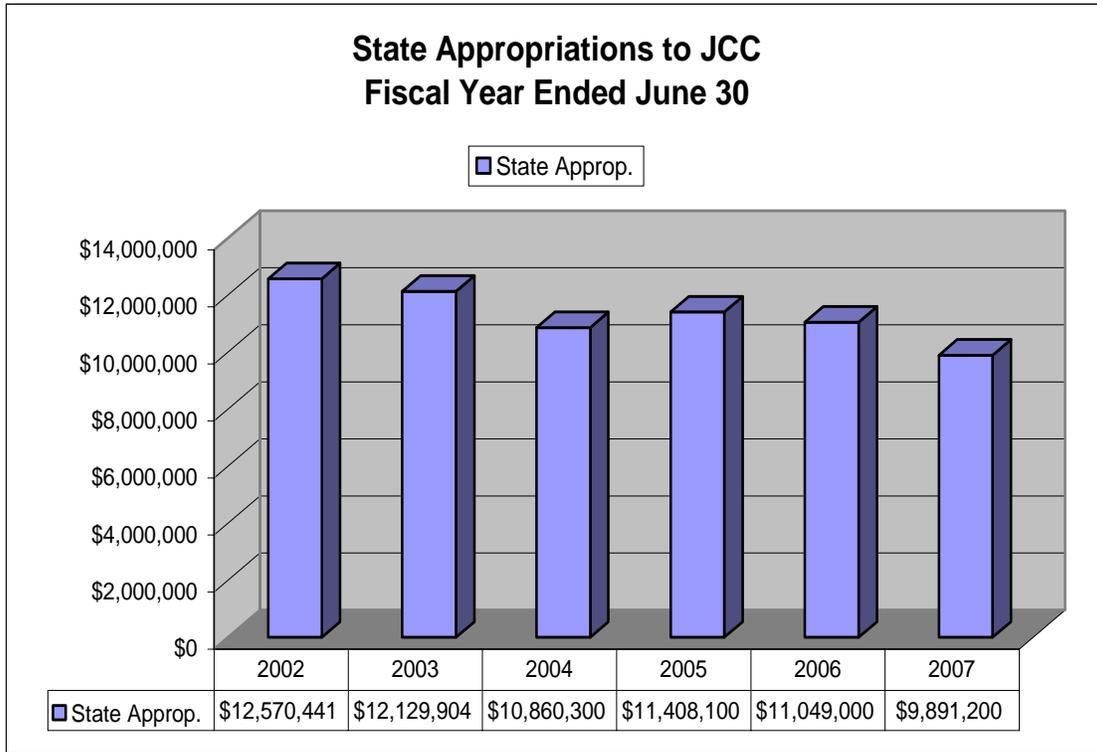
Each year the 28 Michigan public community colleges are required to submit data that is the basis of the Activities Classification Structure (ACS) Data Book. The Community College Appropriations Act assigns primary responsibility for data collection to the Michigan Department of Labor and Economic Growth. 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 2005-06 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.



State Appropriations

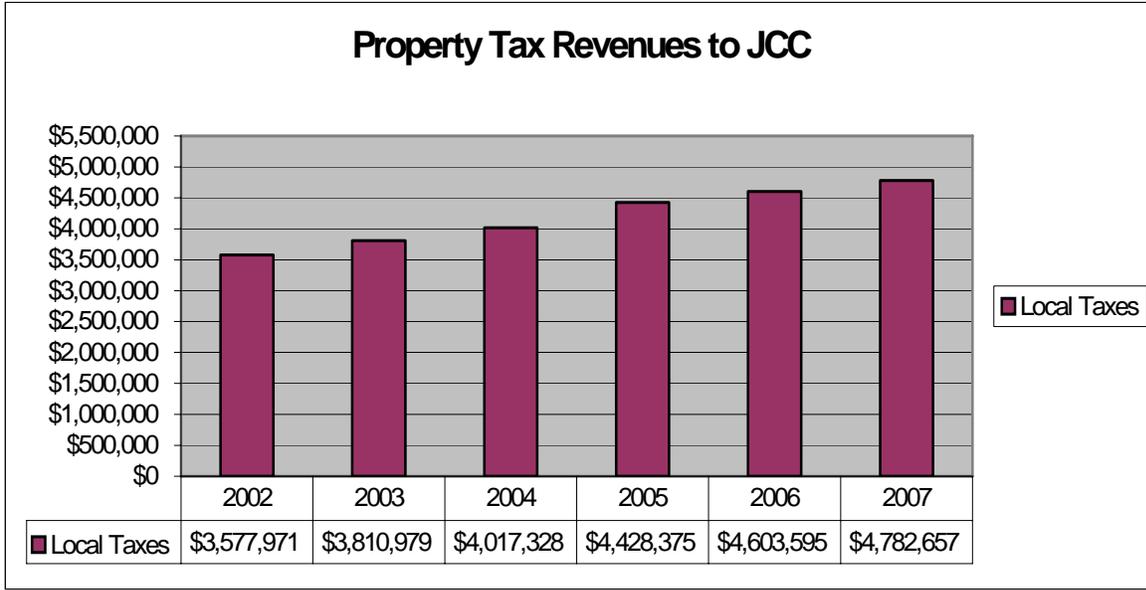
Accounting guidelines issued by the GASB obligate the College to report this revenue source as nonoperating income. For the year ended June 30, 2007 this source represented 29.5% of General Fund revenues⁽¹⁾. Generally, the State of Michigan includes the Appropriation to Community Colleges Act in its annual budget, which is approved just prior to the beginning of the State's fiscal year, October 1. Due to a poor economic climate in the State, the College continues to see this portion of the revenue stream decline. The 2007 allocation was 10.5% below the 2006 allocation. This was a decline of \$1,157,800, and \$2,679,241 below the 2002 funding level.

⁽¹⁾ According to the latest information from the Michigan Department of Career Development, only four other state community colleges depend on state appropriations to this degree: Alpena, Bay de Noc, Gogebic, and Southwestern Community Colleges.



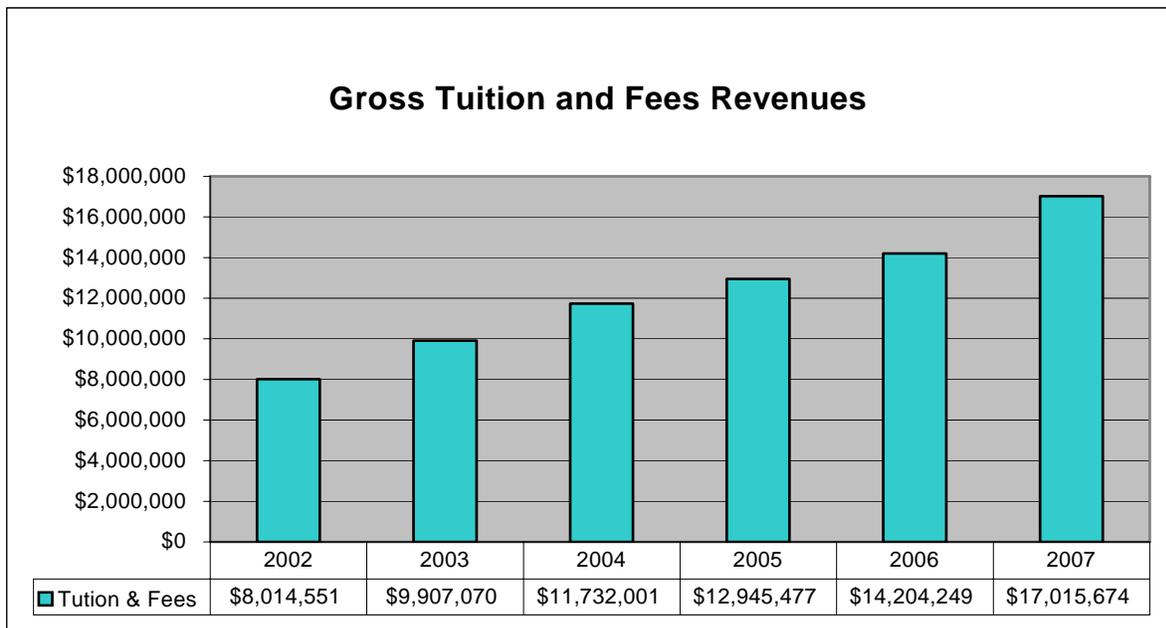
Property Taxes

Only 12.1% of our total revenue, or 14.3% of General Fund 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 40.7%. 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 1.463 (December 2006) is the lowest in the State. The increase in revenue is due solely to the taxable valuation in the County.



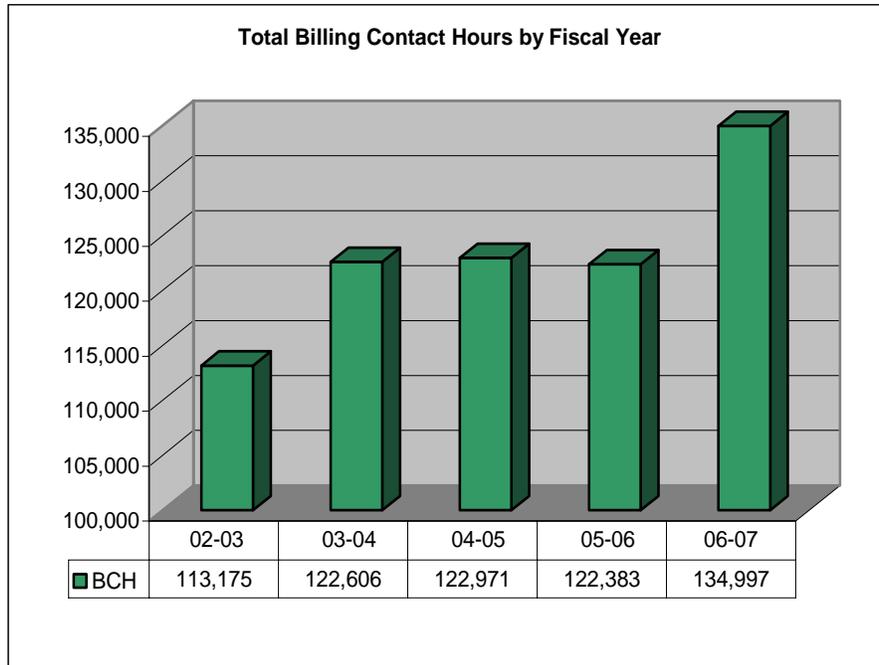
Tuition and Fees

As required by generally accepted accounting principles, the College netted \$4,846,360 and \$4,068,782 of scholarship allowances against tuition and fees representing amounts paid by grants, resulting in a "discount rate" of 28.5% and 22.2% for fiscal 2007 and 2006, respectively. For purposes of this analysis, to show trends over time, the following chart presents gross tuition and fees. The College experienced an increase of over 19.8% from this source of revenue in the current year as compared to fiscal 2006. The scholarship allowances also increased by \$777,578 or 19.1%.



There was little change this year in the amount of billing hours generated, thus the increase in revenue is a result of increased pricing in tuition and fees.

From fiscal year 2006 to 2007, billing contact hours decreased by .4%, while annualized unduplicated headcount decreased by 4.8%. The total make up of this source of revenue did not change significantly from last year. However, the trend of fewer students taking higher course loads, thereby boosting billing contact hour totals, did continue from the prior year.



Jackson Community College
Enrollment by Semester and Fiscal Year

	Billing Hours				Headcount			
	Fall	Winter	Spring	Fiscal Year Total	Fall	Winter	Spring	Unduplicated Fiscal Year Total
Year ending 2007	57,799	58,093	19,105	134,997	6,221	6,431	3,173	15,825
Change from PY	5.38%	13.41%	10.37%	9.41%	-9.74%	-6.31%	-10.44%	-8.52%
Year ending 2006	53,847	51,226	17,310	122,383	6,892	6,864	3,543	17,299
Change from PY	1.47%	-0.65%	-0.27%	0.34%	17.17%	18.00%	11.91%	16.37%
Year ending 2005	54,055	51,560	17,356	122,971	5,882	5,817	3,166	14,865
Change from PY	3.74%	-0.33%	-7.54%	0.30%	-5.46%	-6.33%	-0.42	-5.11%
Year ending 2004	52,104	51,730	18,772	122,606	6,222	6,210	3,234	15,666

It is unfortunate that the low property tax millage rate for the College and the decline in state appropriations has forced the administration to impose higher hourly tuition rates on our students. The historical rates are listed below.

	Hourly Tuition Rates		
	<u>In-district</u>	<u>Out-of-district</u>	<u>Out-of State</u>
Fiscal Year 2006-2007	\$78.50	\$118.00	\$157.00
Fiscal Year 2005-2006	\$74.00	\$104.00	\$133.00
Fiscal Year 2004-2006	\$70.50	\$ 95.00	\$116.00

Other Operating Revenues

The only major change in other operating revenues was the establishment of a Truck Driving School. These non-credit classes are reported as contract training and thus an element of this line item.

Expenses

Compared to statewide averages, JCC is very close to the state averages. The increase in student services expenses includes scholarships and student activities efforts.

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>ACS 2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
	Jackson Community College			
Instructional	43.0%	50.0%	47.2%	39.2%
Information Tech	6.0%	4.5%	5.9%	6.6%
Public Service	1.0%	2.6%	2.5%	3.2%
Inst. Support	13.5%	8.7%	9.0%	12.0%
Std Services	11.8%	9.4%	8.2%	12.5%
Adm	12.2%	11.2%	12.5%	12.2%
Plant	<u>12.5%</u>	<u>13.6%</u>	<u>14.7%</u>	<u>14.3%</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 (\$12,134,692 in 2007 and \$10,104,908 in 2006), grants and contracts (\$6,645,555 in 2007 and \$5,807,434 in 2006), State appropriations (\$11,023,978 in 2007 and \$10,996,436 in 2006), and local property taxes (\$4,782,657 in 2007 and \$4,603,595 in 2006). The single, largest type of disbursement was compensation payments to our employees (\$24,722,309 in 2007 and \$23,174,041 in 2006).

Capital Assets

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

	<u>2007</u>	<u>2006</u>
Land	\$ 916,312	\$ 850,312
Infrastructure and land improvements	1,722,908	837,875
Buildings and improvements	35,696,348	35,563,823
Artwork	2,740,275	1,114,455
Equipment	8,297,191	7,894,511
Construction in progress	<u>20,897,160</u>	<u>606,036</u>
Total capital assets	70,270,194	46,867,012
Less accumulated depreciation	<u>26,279,603</u>	<u>25,324,227</u>
Capital assets, net	<u>\$ 43,990,591</u>	<u>\$ 21,542,785</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. Fiscal year 2006-2007 included a 1.7% increase in the initial allocation. This was at the low end of percentage increases to community colleges by the State. Executive Orders reduced this by \$1,343,900 or a decrease of 10.5% from the previous year. With the State economy still in a decline, future cuts could happen as the State budget is balanced.

The College will continue to face fiscal challenges brought forth by the economy of the State of Michigan and the failure to convince voters to support additional millage requests. Management hopes are that the investment made in the infrastructure of the campus and the improvements of the program offerings will continue the strong enrollment trends.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

November 5, 2007

Board of Trustees
Jackson Community College
Jackson, Michigan

We have audited the accompanying balance sheets of **Jackson Community College** as of June 30, 2007 and 2006, 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, 2007 and 2006 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 5, 2007, 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 audits.

The Management's Discussion and Analysis ("MD&A") presented on pages 1 to 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

JACKSON COMMUNITY COLLEGE

BALANCE SHEETS

	June 30,	
	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,855,861	\$ 2,854,377
Tuition and other receivables, net	880,218	582,013
State appropriations receivable	860,094	1,992,872
Federal and state grants receivable	237,873	375,478
Inventories	43,137	58,733
Prepaid expenses and other assets	148,616	70,227
Total current assets	7,025,799	5,933,700
Investments	12,656,802	30,765,351
Campus property, plant and equipment, net	43,990,591	21,542,785
Total assets	\$ 63,673,192	\$ 58,241,836
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 3,332,533	\$ 646,876
Accrued compensation and benefits	2,011,345	1,877,061
Current portion of long-term debt	1,095,000	1,000,000
Accrued interest	136,749	126,887
Unearned revenue	1,160,719	1,086,460
Total current liabilities	7,736,346	4,737,284
Long-term debt, net of current portion	18,025,454	19,127,164
Total liabilities	25,761,800	23,864,448
Net assets		
Invested in capital assets, net of related debt	24,733,389	15,266,585
Restricted:		
Nonexpendable	527,740	523,721
Expendable	439,480	717,327
Jackson Community College Foundation	11,605,291	10,190,138
Unrestricted	605,492	7,679,617
Total net assets	37,911,392	34,377,388
Total liabilities and net assets	\$ 63,673,192	\$ 58,241,836

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,	
	2007	2006
Operating revenues		
Tuition and fees (net of scholarship allowances of \$4,846,360 and \$4,068,782)	\$ 12,169,314	\$ 10,135,467
Federal grants and contracts	6,136,824	5,515,945
State grants and contracts	371,126	397,138
Potter Center activities	502,444	547,325
Auxiliary activities - Dahlem Center	-	1,259
Contract training	579,179	619,068
Seminars, workshops, and other	992,615	774,723
Total operating revenues	20,751,502	17,990,925
Operating expenses		
Instruction	15,334,037	13,764,960
Public service	787,089	964,432
Academic support	3,740,833	3,248,603
Student services	4,901,098	4,397,918
Administration	3,966,153	3,951,992
Operation and maintenance of plant	4,339,255	5,944,248
Depreciation and amortization	1,463,146	1,251,905
Technology	1,378,128	1,715,599
Total operating expenses	35,909,739	35,239,657
Operating loss	(15,158,237)	(17,248,732)
Nonoperating revenues (expenses)		
State appropriations	9,891,200	11,049,000
Local property taxes	4,782,657	4,603,595
Gifts	280,919	150,729
Investment income	2,234,566	1,305,830
(Loss) gain on disposal of property and equipment	(26,313)	506,937
Interest expense	(808,012)	(262,343)
Net nonoperating revenues	16,355,017	17,353,748
Other revenues		
Capital gifts and grants	1,671,820	1,114,456
Additions to permanent endowment funds	665,404	102,465
Total other revenues	2,337,224	1,216,921
Increase in net assets	3,534,004	1,321,937
Net assets, beginning of year	34,377,388	33,055,451
Net assets, end of year	\$ 37,911,392	\$ 34,377,388

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

JACKSON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2007	2006
Cash flows from operating activities		
Tuition and fees	\$ 12,134,692	\$ 10,104,908
Grants and contracts	6,645,555	5,807,434
Contract training	586,346	601,828
Payments to vendors	(5,700,670)	(10,818,904)
Payments to or on behalf of employees	(24,722,309)	(23,174,041)
Payments to students	(1,196,448)	(1,176,651)
Potter Center activities	466,180	523,852
Auxiliary activities - Dahlem Center	-	1,259
Seminars, workshops and other	946,524	812,271
	(10,840,130)	(17,318,044)
Net cash used in operating activities		
Cash flows from noncapital financing activities		
State appropriations	11,023,978	10,996,436
Local property taxes	4,782,657	4,603,595
Private gifts for endowment purposes	545,929	94,301
Gifts and contributions for other than capital purposes	156,211	185,605
Transfer of Dahlem restricted funds	-	(192,447)
FFELP loan receipts	5,358,446	3,950,977
FFELP loan disbursements	(5,358,446)	(3,950,977)
State scholarship and grant receipts	1,297,222	1,133,797
State scholarship and grant disbursements	(1,297,222)	(1,133,797)
	16,508,775	15,687,490
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Purchases and construction of campus property, plant and equipment	(22,861,798)	(3,754,415)
Proceeds from sale of property and equipment	-	1,135,845
Proceeds from issuance of capital debt, net of discount of \$183,000 in 2006	-	14,457,000
Principal paid on capital debt	(1,000,000)	(960,000)
Interest paid on capital debt	(804,860)	(271,140)
	(24,666,658)	10,607,290
Net cash (used in) provided by capital and related financing activities		
Cash flows from investing activities		
Proceeds from maturities of investments	32,353,234	10,637,394
Purchases of investments	(12,925,034)	(25,254,125)
Interest and dividends on investments	1,571,297	349,449
	20,999,497	(14,267,282)
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	2,001,484	(5,290,546)
Cash and cash equivalents, beginning of year	2,854,377	8,144,923
Cash and cash equivalents, end of year	\$ 4,855,861	\$ 2,854,377

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

JACKSON COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS (Concluded)

	Year Ended June 30,	
	2007	2006
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (15,158,237)	\$ (17,248,732)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	1,463,146	1,251,905
Change in operating assets and liabilities that provided (used) cash:		
Tuition and other receivables, net	137,605	(105,648)
Federal and state grants receivable	(114,051)	309,059
Inventories	15,596	(6,357)
Prepaid expenses	(78,389)	36,768
Accounts payable	2,685,657	(991,731)
Accrued compensation and benefits	134,284	(442,154)
Unearned revenue	74,259	(121,154)
Net cash used in operating activities	\$ (10,840,130)	\$ (17,318,044)

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 provide quality learning opportunities for individual growth and community improvement. 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. These 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.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College follows all applicable GASB pronouncements. In addition, the College applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected to not apply FASB pronouncements issued after November 30, 1989.

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.

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*).

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 assets at June 30, 2007 or 2006. 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.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

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

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

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, and property taxes 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 balance sheets.

Reclassifications

Certain 2006 amounts have been reclassified to conform with the 2007 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 donations primarily in debt and equity securities.

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

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2007</u>			
Cash and cash equivalents	\$ 4,435,153	\$ 420,708	\$ 4,855,861
Investments	<u>985,440</u>	<u>11,671,362</u>	<u>12,656,802</u>
	<u>\$ 5,420,593</u>	<u>\$12,092,070</u>	<u>\$17,512,663</u>
<u>2006</u>			
Cash and cash equivalents	\$ 2,558,038	\$ 296,339	\$ 2,854,377
Investments	<u>20,205,107</u>	<u>10,560,244</u>	<u>30,765,351</u>
	<u>\$ 22,763,145</u>	<u>\$10,856,583</u>	<u>\$33,619,728</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The above amounts are categorized as follows at June 30:

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2007</u>			
Bank deposits (checking, savings, cash sweep accounts, and certificates of deposit)	\$ 4,418,219	\$ 420,708	\$ 4,838,927
Petty cash	<u>1,820</u>	<u>-</u>	<u>1,820</u>
	4,420,039	420,708	4,840,747
Investments in government obligations	972,201	839,784	1,811,985
Investments in short-term funds	15,114	580,264	595,378
Investments in fixed income securities	-	1,757,584	1,757,584
Investments in equity securities	13,239	7,393,485	7,406,724
Investments in trusts and life insurance	<u>-</u>	<u>1,100,245</u>	<u>1,100,245</u>
Total	<u>\$ 5,420,593</u>	<u>\$ 12,092,070</u>	<u>\$ 17,512,663</u>
<u>2006</u>			
Bank deposits (checking, savings, cash sweep accounts, and certificates of deposit)	\$ 5,864,217	\$ 296,339	\$ 6,160,556
Petty cash	<u>2,070</u>	<u>-</u>	<u>2,070</u>
	5,866,287	296,339	6,162,626
Investments in government obligations	16,742,054	710,187	17,452,241
Investments in short-term funds	145,584	521,742	667,326
Investments in fixed income securities	-	1,483,678	1,483,678
Investments in equity securities	9,220	6,804,880	6,814,100
Investments in trusts and life insurance	<u>-</u>	<u>1,039,757</u>	<u>1,039,757</u>
Total	<u>\$ 22,763,145</u>	<u>\$ 10,856,583</u>	<u>\$ 33,619,728</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk. The College's investment policy does not have specific limits on maturities of debt securities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Foundation's investment policy limits the maximum maturity date of any debt security to six years. The maturities of the Foundation's debt securities generally represent a "laddered" approach with monies equally divided between two and six years.

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

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			<u>Credit Rating Range</u>	
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Standard & Poors</u>	<u>Moody's Investor's Services</u>
<u>2007</u>						
U.S. treasuries	\$ 738,475	\$ -	\$ 244,725	\$ 493,750	N/A	N/A
U.S. agencies	1,073,510	348,453	725,057	-	N/A	N/A
Money market funds	595,378	595,378	-	-	N/A	N/A
Corporate bonds	1,757,584	141,075	1,426,270	190,239	A- to AAA	A3 to AAA
Total debt securities	\$ 4,164,947	\$ 1,084,906	\$ 2,396,052	\$ 683,989		
<u>2006</u>						
U.S. treasuries	\$ 11,742,642	\$ 11,325,327	\$ 207,583	\$ 209,732	N/A	N/A
U.S. agencies	5,709,599	4,675,701	1,033,898	-	N/A	N/A
Money market funds	667,326	667,326	-	-	N/A	N/A
Corporate bonds	1,483,678	218,832	938,464	326,382	A- to AAA	A3 to AAA
Total debt securities	\$ 19,603,245	\$ 16,887,186	\$ 2,179,945	\$ 536,114		

Credit Risk. The College's investment policy does not have 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, 2007 and 2006. The Foundation's investment policy limits debt securities to issues rated "A" by Standard & Poor's rating service, with a minimum of all debt securities with a maturity exceeding one year be invested in U.S. Treasury obligations.

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, 2007 and 2006, \$4,090,234 and \$5,607,656 of the College's bank deposits balance of \$5,577,828 and \$6,347,217, respectively, 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:

	<u>2007</u>	<u>2006</u>
Tuition and fees	\$ 650,213	\$ 404,483
Private grants	42,436	46,306
Reimbursements	147,518	173,546
Bookstore	41,573	27,458
Employees	8,324	12,221
Contributions receivable (Foundation)	<u>240,154</u>	<u>56,000</u>
Total	1,130,218	720,013
Less allowances	<u>250,000</u>	<u>138,000</u>
Net book value	<u>\$ 880,218</u>	<u>\$ 582,013</u>

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>2007</u>	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Capital Assets:					
Land	\$ 850,312	\$ 66,000	\$ -	\$ -	\$ 916,312
Infrastructure and land improvements	837,875	885,033	-	-	1,722,908
Buildings and improvements	35,563,823	132,525	-	-	35,696,348
Artwork	1,114,455	1,625,820	-	-	2,740,275
Furniture, fixtures and equipment	7,894,511	936,763	534,083	-	8,297,191
Construction in progress	606,036	20,291,124	-	-	20,897,160
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total property and equipment	46,867,012	23,937,265	534,083	-	70,270,194
Less accumulated depreciation	25,324,227	1,463,146	507,770	-	26,279,603
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Campus property, plant and equipment, net	\$ 21,542,785	\$ 22,474,119	\$ 26,313	\$ -	\$ 43,990,591
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>2006</u>	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2006</u>
Capital Assets:					
Land	\$ 890,312	\$ -	\$ 40,000	\$ -	\$ 850,312
Infrastructure and land improvements	1,127,875	-	290,000	-	837,875
Buildings and improvements	32,273,608	3,291,076	1,299,096	1,298,235	35,563,823
Artwork	-	1,114,455	-	-	1,114,455
Furniture, fixtures and equipment	8,453,417	591,952	1,150,858	-	7,894,511
Construction in progress	1,298,235	606,036	-	(1,298,235)	606,036
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total property and equipment	44,043,447	5,603,519	2,779,954	-	46,867,012
Less accumulated depreciation	26,231,248	1,251,905	2,158,926	-	25,324,227
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Campus property, plant and equipment, net	\$ 17,812,199	\$ 4,351,614	\$ 621,028	\$ -	\$ 21,542,785
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT

Long-term debt consists of the following obligations as of June 30:

<u>2007</u>	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Change in Premium/ Discount</u>	<u>Balance, June 30, 2007</u>	<u>Current Portion</u>
General Bonds, Series 1998	\$ 500,000	\$ -	\$ 245,000	\$ -	\$ 255,000	\$ 255,000
General Bonds, Series 2001	1,320,000	-	190,000	-	1,130,000	200,000
General Bonds, Series 2005	3,850,164	-	565,000	(15,860)	3,269,304	590,000
General Bonds, Series 2006	14,457,000	-	-	9,150	14,466,150	50,000
	<u>\$ 20,127,164</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ (6,710)</u>	19,120,454	<u>\$ 1,095,000</u>
Less current portion					<u>1,095,000</u>	
Total long-term debt, net of current portion					<u>\$ 18,025,454</u>	

<u>2006</u>	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Change in Premium/ Discount</u>	<u>Balance, June 30, 2006</u>	<u>Current Portion</u>
General Bonds, Series 1998	\$ 730,000	\$ -	\$ 230,000	\$ -	\$ 500,000	\$ 245,000
General Bonds, Series 2001	1,505,000	-	185,000	-	1,320,000	190,000
General Bonds, Series 2005	4,408,976	-	545,000	(13,812)	3,850,164	565,000
General Bonds, Series 2006	-	14,640,000	-	(183,000)	14,457,000	-
	<u>\$ 6,643,976</u>	<u>\$ 14,640,000</u>	<u>\$ 960,000</u>	<u>\$ (196,812)</u>	20,127,164	<u>\$ 1,000,000</u>
Less current portion					<u>1,000,000</u>	
Total long-term debt, net of current portion					<u>\$ 19,127,164</u>	

Bonded Debt

\$2,000,000 General Bonds, Series 1998

Unsecured bonds mature serially in the amount of \$255,000 due in May 2008, with interest charged at a rate of 4.2% per annum.

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

Unsecured bonds mature serially in annual amounts ranging from \$155,000 to \$245,000 through May 2012, with interest charged at rates ranging from 3.65% to 4.55% per annum.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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

Unsecured bonds mature serially in annual amounts ranging from \$545,000 to \$690,000 through 2012 with interest charges at rates ranging from 3.50% to 5.00% per annum.

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

Unsecured bonds mature serially in annual amounts ranging from \$50,000 to \$1,240,000 through 2026, with interest charges at rates ranging from 4.00% to 4.50% per annum.

All borrowed debt is to be paid out of operating funds.

Scheduled principal and interest requirements of long-term debt for years succeeding June 30, 2007, are summarized below:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,095,000	\$ 821,321	\$ 1,916,321
2009	1,155,000	771,011	1,926,011
2010	1,190,000	724,380	1,914,380
2011	1,250,000	676,090	1,926,090
2012	1,310,000	625,010	1,935,010
2013-2017	3,750,000	2,586,786	6,336,786
2018-2022	4,775,000	1,712,825	6,487,825
2023-2026	<u>4,595,454</u>	<u>632,746</u>	<u>5,228,200</u>
Totals	<u>\$19,120,454</u>	<u>\$8,550,169</u>	<u>\$27,670,623</u>

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. The appropriation was funded by the issuance of bonds by the State Building Authority. In return, the College has deeded the building to the State Building Authority as collateral for the bondholders. The College and the State of Michigan are leasing the building from the State Building Authority for the period that the bonds for the building 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 building as part of its total investment in physical plant as a capital lease as the College will obtain title to the building at the end of the lease. No corresponding obligation has been recorded since there are no payments due by the College under this lease agreement.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

Funding Policy

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 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; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The College is required to contribute at an actuarially determined rate. The current rate is 16.72% of annual covered payroll (which includes 6.55% for retiree health care). 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 for the years ended June 30, 2007, 2006 and 2005 were approximately \$1,704,000, \$1,843,000, and \$1,797,000, respectively, which were equal to the required contributions for each year.

On June 6, 2007 the College received a credit from MPSERS for the amount of \$322,500 as a result of Executive Order 2007-3. This credit is included in the total expense reported above for the fiscal ended June 30, 2007.

Other Postemployment Benefits

Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, 2007, and 2006 the cost of this plan to the College was approximately \$580,000 and \$561,000 and participant contributions in the form of payroll deductions were approximately \$153,000 and \$160,000, 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:

	<u>2007</u>	<u>2006</u>
Unrestricted	\$ 3,007,711	\$ 2,770,423
Temporarily restricted	1,928,261	1,470,288
Permanently restricted	<u>6,669,319</u>	<u>5,949,427</u>
Total	<u>\$ 11,605,291</u>	<u>\$10,190,138</u>

The College provides personnel support, facilities and equipment to the Foundation.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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. As a result of this lease agreement, the private donor agreed to terminate the Declaration and Acceptance of Gift entered into with the College in November 1976. The agreement stipulates that the Foundation retain any nonexpendable restricted net assets (permanent endowment funds) held by the College and the Foundation for the benefit of the Center as of the date of the agreement. Accordingly, the College transferred to the Foundation the balance of its endowment fund held for the benefit of the Center in the amount of \$571,734. Also in accordance with the terms of the agreement, the College transferred the balance of its expendable restricted net assets held for the benefit of the Center as of the date of the agreement in the amount of \$192,447 to the Conservancy. The agreement also states that any endowment gifts received for the benefit of the Center will continue to 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:

	<u>2007</u>	<u>2006</u>
Major maintenance and equipment replacement	\$ (3,038,798)	\$3,607,663
Future operations	2,909,374	3,339,302
Student loans	<u>39,680</u>	<u>38,866</u>
Total unrestricted and designated	(89,744)	6,985,831
Unrestricted and undesignated	<u>695,236</u>	<u>693,786</u>
Total unrestricted net assets	<u>\$ 605,492</u>	<u>\$7,679,617</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, 2007 and 2006, 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 began several construction projects on its main campus in Jackson County in the spring of 2006, including renovating Whiting Hall, new construction of an Information and Technology Center, new construction of a student housing facility, and renovations of the Hillsdale Center and Fieldhouse on the main campus. These projects are budgeted for a total cost of \$26,000,000. The projects will be funded by the \$14.6 million 2006 Series bond issue and \$7.5 million of state capital appropriations, with the remainder paid out of net assets. As of June 30, 2007, total costs incurred were approximately \$20,897,000.

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, and establish a deferred compensation plan on the President's behalf. The employment agreement 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, 2010.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Other Matters

On August 29, 2007, the College issued 15-year General Series Bonds for \$6,000,000 to fund current and future projects. The projects include a new sewage disposal system estimated at \$3,000,000. The overall interest rate for the bonds is 4.1%.

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.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION

November 5, 2007

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 2007 and 2006 basic financial statements and, accordingly, we express no opinion on it.

SUPPLEMENTARY INFORMATION

**JACKSON COMMUNITY COLLEGE
COMBINING BALANCE SHEET
JUNE 30, 2007**

	General Fund	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	College		Foundation	Elimination Entries	Combined Total
							Total	Total			
ASSETS											
Current assets											
Cash and cash equivalents	\$ 1,714,043	\$ 2,909,410	\$ 290,146	\$ 43,568	-	\$ -	\$ (522,014)	\$ 4,435,153	\$ 420,708	-	\$ 4,855,861
Tuition and other receivables, net	628,719	3,036	100	8,209	-	-	-	640,064	240,154	-	880,218
State appropriations receivable	860,094	-	-	-	-	-	-	860,094	-	-	860,094
Federal and state grants receivable	2,711	-	235,162	-	-	-	-	237,873	-	-	237,873
Inventories	43,137	-	-	-	-	-	-	43,137	-	-	43,137
Prepaid expenses and other assets	148,616	-	-	-	-	-	-	148,616	-	-	148,616
Advances to Jackson Community College Foundation	-	-	-	-	471,178	243,491	-	714,669	-	(714,669)	-
Total current assets	3,397,320	2,912,446	525,408	51,777	471,178	(278,523)	7,079,606	660,862	(714,669)	7,025,799	7,025,799
Investments	928,878	-	-	-	56,562	-	985,440	11,671,362	-	-	12,656,802
Campus property, plant and equipment, net	-	-	-	-	-	43,990,591	43,990,591	-	-	-	43,990,591
Total assets	\$ 4,326,198	\$ 2,912,446	\$ 525,408	\$ 51,777	\$ 527,740	\$ 43,712,068	\$ 52,055,637	\$ 12,332,224	\$ (714,669)	\$ 63,673,192	\$ 63,673,192
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable	\$ 552,762	\$ 3,072	\$ 4,161	\$ -	\$ -	\$ 2,760,274	\$ 3,320,269	\$ 12,264	\$ -	\$ -	\$ 3,332,533
Accrued compensation and benefits	1,917,481	-	93,864	-	-	-	2,011,345	-	-	-	2,011,345
Current portion of long-term debt	-	-	-	-	-	1,095,000	1,095,000	-	-	-	1,095,000
Accrued interest	-	-	-	-	-	136,749	136,749	-	-	-	136,749
Unearned revenue	1,160,719	-	-	-	-	-	1,160,719	-	-	-	1,160,719
Funds advanced from Jackson Community College	-	-	-	-	-	-	-	714,669	(714,669)	-	-
Total current liabilities	3,630,962	3,072	98,025	-	-	3,992,023	7,724,082	726,933	(714,669)	7,736,346	7,736,346
Long-term debt, net of current portion	-	-	-	-	-	18,025,454	18,025,454	-	-	-	18,025,454
Total liabilities	3,630,962	3,072	98,025	-	-	22,017,477	25,749,536	726,933	(714,669)	25,761,800	25,761,800
Net assets											
Invested in capital assets, net of related debt	-	-	-	-	-	24,733,389	24,733,389	-	-	-	24,733,389
Restricted:	-	-	-	-	527,740	-	527,740	-	-	-	527,740
Nonexpendable	-	-	427,383	12,097	-	-	439,480	-	-	-	439,480
Expendable	-	-	-	-	-	-	-	11,605,291	-	-	11,605,291
Jackson Community College Foundation	-	-	-	-	-	(3,038,798)	605,492	-	-	-	605,492
Unrestricted	695,236	2,909,374	427,383	51,777	527,740	21,694,591	26,306,101	11,605,291	-	-	37,911,392
Total net assets	695,236	2,909,374	427,383	51,777	527,740	21,694,591	26,306,101	11,605,291	-	-	37,911,392
Total liabilities and net assets	\$ 4,326,198	\$ 2,912,446	\$ 525,408	\$ 51,777	\$ 527,740	\$ 43,712,068	\$ 52,055,637	\$ 12,332,224	\$ (714,669)	\$ 63,673,192	\$ 63,673,192

See independent auditors' report on supplementary information

**JACKSON COMMUNITY COLLEGE
COMBINING BALANCE SHEET
JUNE 30, 2006**

	General Fund	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	College Total	Foundation	Elimination	GASB 39 Entries	Combined Total
ASSETS											
Current assets											
Cash and cash equivalents	\$ 1,255,768	\$ 949,294	\$ 32,265	\$ 48,889	\$ -	\$ 271,822	\$ 2,558,038	\$ 296,339	\$ -	\$ -	\$ 2,854,377
Tuition and other receivables, net	521,731	-	1,993	2,074	-	215	526,013	56,000	-	-	582,013
State appropriations receivable	1,992,872	-	-	-	-	-	1,992,872	-	-	-	1,992,872
Federal and state grants receivable	2,930	-	372,548	-	-	-	375,478	-	-	-	375,478
Inventories	58,733	-	-	-	-	-	58,733	-	-	-	58,733
Prepaid expenses and other assets	70,227	-	-	-	-	-	70,227	-	-	-	70,227
Advances to Jackson Community College Foundation	-	-	-	471,178	-	243,491	714,669	-	-	(714,669)	-
Total current assets	3,902,261	949,294	406,806	50,963	471,178	515,528	6,296,030	352,339	(714,669)	(714,669)	5,933,700
Investments	-	2,390,544	400,000	-	52,543	17,362,020	20,205,107	10,560,244	-	-	30,765,351
Campus property, plant and equipment, net	-	-	-	-	-	21,542,785	21,542,785	-	-	-	21,542,785
Total assets	\$ 3,902,261	\$ 3,339,838	\$ 806,806	\$ 50,963	\$ 523,721	\$ 39,420,333	\$ 48,043,922	\$ 10,912,583	\$ (714,669)	\$ (714,669)	\$ 58,241,836
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable	\$ 328,547	\$ 536	\$ 17,983	\$ -	\$ -	\$ 292,034	\$ 639,100	\$ 7,776	\$ -	\$ -	\$ 646,876
Accrued compensation and benefits	1,793,468	-	83,593	-	-	-	1,877,061	-	-	-	1,877,061
Current portion of long-term debt	-	-	-	-	-	1,000,000	1,000,000	-	-	-	1,000,000
Accrued interest	-	-	-	-	-	126,887	126,887	-	-	-	126,887
Unearned revenue	1,086,460	-	-	-	-	-	1,086,460	-	-	-	1,086,460
Funds advanced from Jackson Community College	-	-	-	-	-	-	-	714,669	(714,669)	-	-
Total current liabilities	3,208,475	536	101,576	-	-	1,418,921	4,729,508	722,445	(714,669)	(714,669)	4,737,284
Long-term debt, net of current portion	-	-	-	-	-	19,127,164	19,127,164	-	-	-	19,127,164
Total liabilities	3,208,475	536	101,576	-	-	20,546,085	23,856,672	722,445	(714,669)	(714,669)	23,864,448
Net assets											
Invested in capital assets, net of related debt	-	-	-	-	-	15,266,585	15,266,585	-	-	-	15,266,585
Restricted:	-	-	-	-	-	-	-	-	-	-	-
Nonexpendable	-	-	-	523,721	-	-	523,721	-	-	-	523,721
Expendable	-	-	705,230	12,097	-	-	717,327	-	-	-	717,327
Jackson Community College Foundation	-	-	-	-	-	-	-	10,190,138	-	-	10,190,138
Unrestricted	693,786	3,339,302	-	38,866	-	3,607,663	7,679,617	-	-	-	7,679,617
Total net assets	693,786	3,339,302	705,230	50,963	523,721	18,874,248	24,187,250	10,190,138	-	-	34,377,388
Total liabilities and net assets	\$ 3,902,261	\$ 3,339,838	\$ 806,806	\$ 50,963	\$ 523,721	\$ 39,420,333	\$ 48,043,922	\$ 10,912,583	\$ (714,669)	\$ (714,669)	\$ 58,241,836

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, 2007

	General Fund	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	GASB 35		College Total	Foundation	GASB 39	
							Elimination Entries	Total			Elimination Entries	Combined Total
Operating revenues	\$ 17,015,674	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,846,360)	\$ 12,169,314	\$ -	\$ -	\$ 12,169,314
Tuition and fees (net of scholarship allowance of \$4,846,360)	17,711	-	6,119,113	-	-	-	-	-	6,136,824	-	-	6,136,824
Federal grants and contracts	-	-	371,126	-	-	-	-	-	371,126	-	-	371,126
State grants and contracts	502,444	-	-	-	-	-	-	-	502,444	-	-	502,444
Potter/Center activities	579,179	-	-	-	-	-	-	-	579,179	-	-	579,179
Contract training	559,908	88,182	706,438	814	-	17,375	-	-	1,372,717	15,535	(395,637)	992,615
Seminars, workshops and other	-	-	-	-	-	-	-	-	-	-	-	-
Current funds expenditures for capital equipment and improvement:	-	-	-	-	-	22,112,920	(22,112,920)	-	-	-	-	-
Total operating revenues	18,674,916	88,182	7,196,677	814	-	22,130,295	(26,959,280)	21,131,604	15,535	(395,637)	20,751,502	
Operating expenses	15,334,037	-	-	-	-	-	-	15,334,037	-	-	15,334,037	
Instruction	787,089	-	-	-	-	-	-	787,089	-	-	787,089	
Public service	2,675,084	401,292	664,457	-	-	-	-	3,740,833	-	-	3,740,833	
Academic support	2,891,971	61,943	6,793,544	-	-	-	(4,846,360)	4,901,098	-	-	4,901,098	
Student services	3,434,273	-	62,487	-	-	-	-	3,496,760	865,030	(395,637)	3,966,153	
Administration	4,157,940	-	31,164	-	-	22,263,071	(22,112,920)	4,339,255	-	-	4,339,255	
Operation and maintenance of plant	-	-	-	-	-	1,463,146	-	1,463,146	-	-	1,463,146	
Depreciation and amortization	1,378,128	-	-	-	-	-	-	1,378,128	-	-	1,378,128	
Technology	-	-	-	-	-	-	-	-	-	-	-	
Total operating expenses	30,658,522	463,235	7,551,652	-	-	23,726,217	(26,959,280)	35,440,346	865,030	(395,637)	35,909,739	
Operating (loss) income	(11,983,606)	(375,053)	(354,975)	814	-	(1,595,922)	-	(14,308,742)	(849,495)	-	(15,158,237)	
Nonoperating revenues (expenses)	9,891,200	-	-	-	-	-	-	9,891,200	-	-	9,891,200	
State appropriations	4,782,657	-	-	-	-	-	-	4,782,657	-	-	4,782,657	
Local property taxes	4,251	-	3,430	-	-	-	-	7,681	273,238	-	280,919	
Gifts	91,336	324,409	39,853	-	5,592	447,370	-	908,560	1,326,006	-	2,234,566	
Investment income	-	-	-	-	-	(26,313)	-	(26,313)	-	-	(26,313)	
Loss on disposal of equipment	-	-	-	-	-	(808,012)	-	(808,012)	-	-	(808,012)	
Interest expense	-	-	-	-	-	-	-	-	-	-	-	
Net nonoperating revenues (expenses)	14,769,444	324,409	43,283	-	5,592	(386,955)	-	14,755,773	1,599,244	-	16,355,017	
Other revenues	-	-	-	-	-	1,671,820	-	1,671,820	-	-	1,671,820	
Capital gifts and grants	-	-	-	-	-	-	-	-	665,404	-	665,404	
Additions to permanent endowment funds	-	-	-	-	-	-	-	-	-	-	-	
Total other revenues	-	-	-	-	-	1,671,820	-	1,671,820	665,404	-	2,337,224	
Increase (decrease) in net assets	2,785,838	(50,644)	(311,692)	814	5,592	(311,057)	-	2,118,851	1,415,153	-	3,534,004	
Transfers in (out)	(2,784,388)	(379,284)	33,845	-	(1,573)	3,131,400	-	-	-	-	-	
Net increase (decrease) in net assets	1,450	(429,928)	(277,847)	814	4,019	2,820,343	-	2,118,851	1,415,153	-	3,534,004	
Net assets, beginning of year	693,786	3,339,302	705,230	50,963	523,721	18,874,248	-	24,187,250	10,190,138	-	34,377,388	
Net assets, end of year	\$ 695,236	\$ 2,909,374	\$ 427,383	\$ 51,777	\$ 527,740	\$ 21,694,591	\$ -	\$ 26,306,101	\$ 11,605,291	\$ -	\$ 37,911,392	

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, 2006

	General Fund	Auxiliary Activity Funds	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	GASB 35 Elimination Entries	College Total	Foundation	GASB 39 Elimination Entries	Combined Total
Operating revenues												
Tuition and fees (net of scholarship allowance of \$4,068,782)	\$ 14,204,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,068,782)	\$ 10,135,467	\$ -	\$ -	\$ 10,135,467
Federal grants and contracts	17,930	-	-	5,498,015	-	-	-	-	5,515,945	-	-	5,515,945
State grants and contracts	-	-	-	397,138	-	-	-	-	397,138	-	-	397,138
Porter Center activities	547,325	-	-	-	-	-	-	-	547,325	-	-	547,325
Auxiliary activities - Dahlem Center	-	1,259	-	-	-	-	-	-	1,259	-	-	1,259
Contract training	619,068	-	-	-	-	-	-	-	619,068	-	-	619,068
Seminars, workshops and other	467,629	-	64,046	426,523	390	-	-	-	1,063,483	14,666	(303,426)	774,723
Current funds expenditures for capital equipment and improvement:	-	-	-	-	-	-	4,489,064	(4,489,064)	-	-	-	-
Total operating revenues	15,856,201	1,259	64,046	6,321,676	390	-	4,593,959	(8,557,846)	18,279,685	14,666	(303,426)	17,990,925
Operating expenses												
Instruction	13,764,960	-	-	192,427	-	-	-	-	13,764,960	-	-	13,764,960
Public service	726,217	45,788	-	-	-	-	-	-	964,432	-	-	964,432
Academic support	2,617,825	-	40,310	590,468	-	-	-	-	3,248,603	-	-	3,248,603
Student services	2,401,710	-	40,767	6,022,477	1,746	-	-	(4,068,782)	4,397,918	-	-	4,397,918
Administration	3,656,080	-	-	16,148	-	-	-	-	3,672,228	583,190	(303,426)	3,951,992
Operation and maintenance of plant	4,296,966	-	-	18,354	-	-	6,117,992	(4,489,064)	5,944,248	-	-	5,944,248
Depreciation and amortization	-	-	-	-	-	-	1,251,905	-	1,251,905	-	-	1,251,905
Technology	1,715,599	-	-	-	-	-	-	-	1,715,599	-	-	1,715,599
Total operating expenses	29,179,357	45,788	81,077	6,839,874	1,746	-	7,369,897	(8,557,846)	34,959,893	583,190	(303,426)	35,239,657
Operating loss	(13,323,156)	(44,529)	(17,031)	(518,198)	(1,356)	-	(2,775,938)	-	(16,680,208)	(568,524)	-	(17,248,732)
Nonoperating revenues (expenses)												
State appropriations	11,049,000	-	-	-	-	-	-	-	11,049,000	-	-	11,049,000
Local property taxes	4,603,595	-	-	-	-	-	-	-	4,603,595	-	-	4,603,595
Gifts	20	-	-	1,000	-	-	-	-	1,020	149,709	-	150,729
Investment income	103,370	-	97,426	15,281	-	1,009	249,245	-	466,331	839,499	-	1,305,830
Gain on sale of equipment	-	-	-	-	-	-	506,937	-	506,937	-	-	506,937
Interest expense	-	-	-	-	-	-	(262,343)	-	(262,343)	-	-	(262,343)
Net nonoperating revenues	15,755,985	-	97,426	16,281	-	1,009	493,839	-	16,364,540	989,208	-	17,353,748
Other revenues												
Capital gifts and grants	-	-	-	-	-	-	1,114,456	-	1,114,456	-	-	1,114,456
Additions to permanent endowment fund:	-	-	-	-	-	-	-	-	-	102,465	-	102,465
Total other revenues	-	-	-	-	-	-	1,114,456	-	1,114,456	102,465	-	1,216,921
Transfer of Dahlem Center Endowment Funds to JCC Foundation	-	-	-	-	-	(571,734)	-	-	(571,734)	571,734	-	-
Increase (decrease) in net assets	2,432,829	(44,529)	80,395	(501,917)	(1,356)	(570,725)	(1,167,643)	-	227,054	1,094,883	-	1,321,937
Transfers in (out)	(2,432,678)	12,528	702,105	389,394	-	(2,490)	1,331,141	-	-	-	-	-
Net increase (decrease) in net assets	151	(32,001)	782,500	(112,523)	(1,356)	(573,215)	163,498	-	227,054	1,094,883	-	1,321,937
Net assets, beginning of year	693,635	32,001	2,556,802	817,753	52,319	1,096,936	18,710,750	-	23,960,196	9,095,255	-	33,055,451
Net assets, end of year	\$ 693,786	\$ -	\$ 3,339,302	\$ 705,230	\$ 50,963	\$ 523,721	\$ 18,874,248	\$ -	\$ 24,187,250	\$ 10,190,138	\$ -	\$ 34,377,388

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE GENERAL FUND

COMPARISON OF ACTUAL AND BUDGETED GENERAL FUND REVENUES, EXPENDITURES AND TRANSFERS

YEAR ENDED JUNE 30, 2007

	ACTUAL	BUDGET	ACTUAL OVER (UNDER) BUDGET
REVENUES			
State appropriations	\$ 9,891,200	\$ 11,235,000	\$ (1,343,800)
Tuition and fees	17,015,674	16,566,000	449,674
Local property taxes	4,782,657	4,725,000	57,657
Federal grants	17,711	18,000	(289)
Investment income	91,336	100,000	(8,664)
Potter Center revenues	502,444	604,000	(101,556)
Contract training	579,179	705,000	(125,821)
Seminars, workshops and other revenue:	564,159	376,000	188,159
TOTAL REVENUES	33,444,360	34,329,000	(884,640)
EXPENDITURES AND TRANSFERS			
Instruction	15,334,037	14,974,076	359,961
Public service	787,089	768,780	18,309
Academic support	2,675,084	2,847,516	(172,432)
Student services	2,891,971	2,865,609	26,362
Administration	3,434,273	3,630,841	(196,568)
Operations and maintenance of plant	4,157,940	4,194,958	(37,018)
Technology	1,378,128	1,657,220	(279,092)
TOTAL EXPENDITURES	30,658,522	30,939,000	(280,478)
Mandatory transfers:			
State and federal matching grants	32,988	27,000	5,988
Other transfers to:			
Designated Fund	1,035,000	1,067,115	(32,115)
Major Maintenance and Replacement Fund	1,495,000	1,704,885	(209,885)
Equipment Replacement Fund	221,400	591,000	(369,600)
TOTAL EXPENDITURES AND TRANSFERS	33,442,910	34,329,000	(886,090)
REVENUES IN EXCESS OF EXPENDITURES AND TRANSFERS	\$ 1,450	\$ -	\$ 1,450

See independent auditors' report on supplementary information.