



ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007



LAKE MICHIGAN COLLEGE

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Lake Michigan College's financial statements provide an overview of the College's financial activities for the years ended June 30, 2008 and 2007. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College administration.

Using this Report

This annual financial report includes the report of the independent auditors, the management's discussion and analysis, the basic financial statements, and notes to financial statements. Following the basic financial statements and footnotes are two supplementary schedules, the Combining Balance Sheet and the Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets. Though GASB does not require this information be present for a fair and complete presentation, the supplementary schedules do provide additional information regarding the various funds and activities of the College that is not disclosed in the basic statements.

Financial Highlights

For the year ended June 30, 2008, the College recorded total operating revenues of \$16,470,541 and total operating expenses of \$37,490,649. The difference produced an operating loss of \$21,020,108. Net non-operating revenue of \$21,405,356 offset this loss and resulted in an overall increase in net assets of \$385,248. The increase in net assets is a loss of \$582,318 from the Foundation and a \$967,566 increase in net assets from College activity. The loss for the Foundation was due to an unrealized loss on investments of \$478,645.

Nonoperating revenue included local property taxes of \$13,360,678, state appropriations of \$5,362,800, Pell Grants of \$2,452,307 and other net miscellaneous revenue of \$229,571.

Operating revenue accounted for 44% of the College's total revenue, while nonoperating revenues accounted for the other 56% of the College's total revenue. Operating revenue consisted of tuition and fees net of scholarships totaling \$6,223,770, grants totaling \$8,768,457, and auxiliary activities totaling \$1,478,314.

The College had net assets at the beginning of the year totaling \$45,174,345. The increase in net assets of \$385,248 brought the total net assets at the end of the year to \$45,559,593.

The **Balance Sheet** includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Statement presents the financial position of the College at June 30, 2008 and 2007. Net Assets, the difference between total assets and total liabilities, is one indicator of the current financial condition of the College. The College's financial position increased \$385,248, during the fiscal year ended June 30, 2008. The significant changes in the assets and liabilities of the College are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Current assets	\$ 10,631	\$ 8,772
Non-current assets	<u>45,347</u>	<u>46,367</u>
Total assets	<u>\$ 55,978</u>	<u>\$ 55,139</u>
Current liabilities	\$ 3,518	\$ 2,915
Noncurrent liabilities	<u>6,900</u>	<u>7,050</u>
Total liabilities	<u>10,418</u>	<u>9,965</u>
Net assets:		
Invested in capital assets, net	29,487	30,042
Restricted - nonexpendable	5,549	6,335
Restricted - expendable	3,172	2,679
Unrestricted	<u>7,351</u>	<u>6,119</u>
Total net assets	<u>45,560</u>	<u>45,174</u>
Total liabilities and net assets	<u>\$ 55,978</u>	<u>\$ 55,139</u>

Current assets consist of cash and cash equivalents, receivables, inventories and prepaid expenses. Current assets approximated \$10.6 million at June 30, 2008 as compared to \$8.8 million at June 30, 2007.

- Cash and investments have increased by \$1,677,970 due to improved operating performances which offset unfavorable market adjustments.
- Accounts receivable increased by approximately \$462,000 and other current assets decreased approximately \$221,000 due to a decrease in contributions receivable, and a \$69,000 decrease in prepaid expenses and other assets.

Non-current assets included restricted cash and endowment investments, contributions receivable, long-term investments and capital assets. Non-current assets total approximately \$45.3 million at June 30, 2008 compared to approximately \$46.3 million at June 30, 2007.

- Capital assets additions were \$1.3 million and \$341,000 of assets were written down due to changes in project scope. Depreciation expense was \$1.7 million. The College developed a long-term capital plan for fiscal year 2008. The document will help ensure the College properly identifies and funds its capital needs. Significant investment in capital included the nursing lab, pianos and music rooms.
- Long-term investments increased \$90,000 from \$8.1 million to \$8.2 million. The increase was due to the collection of contributions and recognition of unrealized losses of \$478,000.
- Long-term contributions receivable decreased \$370,000.

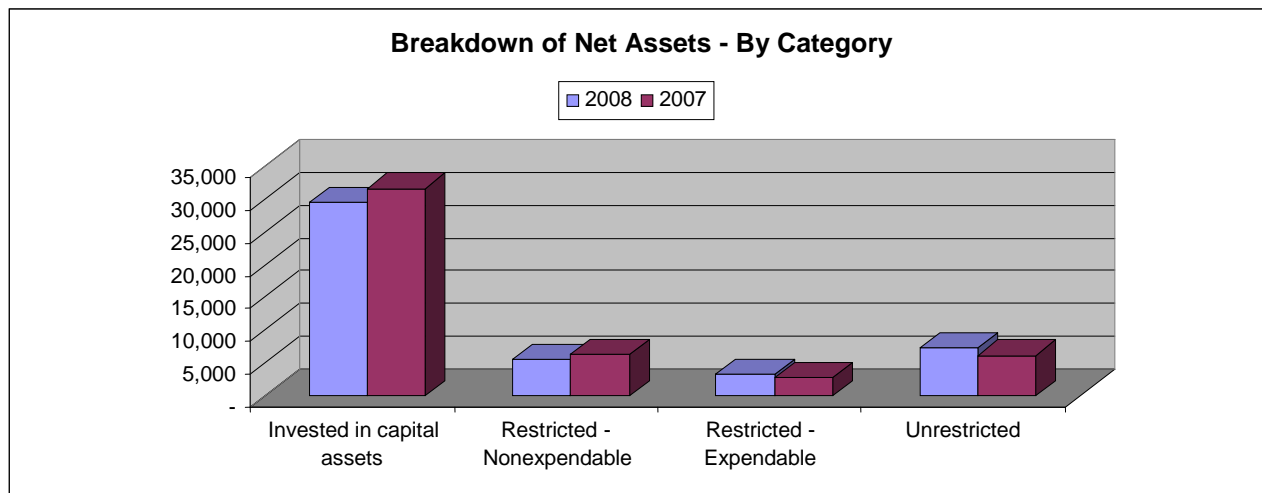
Current liabilities consist of accounts payable, deferred revenue and deposits, and current portion of long-term debt obligations due within the next fiscal year. Current liabilities were \$3.5 million at June 30, 2008 compared to \$2.9 million at June 30, 2007. Current liabilities increased by \$600,000 due to an increase in accounts payable and unearned revenue. Unearned revenue increased due to unearned tuition and payables increased due to some timing on invoices.

Non-current liabilities consist of long-term debt for which the principal is due more than one year. Principal payments of \$150,000 decreased the amount of long-term debt.

Net assets represent the difference between College assets and liabilities. In total, the College’s net assets increased \$385,248 from the previous year.

- Restricted nonexpendable net assets consist of endowments funds and their earnings. Earnings on endowed funds are considered restricted expendable until the Foundation Board approves their release.
- Restricted expendable net assets consist of funds, which are restricted for a specific program or services, and certain loan funds.
- Unrestricted net assets represent those balances from operations activities that have not been restricted by external parties to the College such as donors or grant agencies. This includes funds that have been designated by the governing board.

The following chart shows the breakdown of net assets by category.



Key Financial Indicators

The Board of Trustees’ has adopted **key financial indicators** to help measure the College’s financial health.

- Primary Reserve Ratio measures the organization’s ability to measure the flexibility of the organization to fund annual operating expenses
- Debt to Equity Ratio and the Debt to Capital Ratio are indicators of the organization’s capital resources, ability to borrow and financial viability

- Operating Margin Measures the College’s ability to cover its current operating expenses and also provide financial resources for the future
- The acid ratio is a conservative measure of the college’s ability to pay its short-term obligations. It indicates whether current assets could be quickly converted into cash and if they are sufficient to cover current liabilities
- Days cash on hand helps the organization understand how long the organization could continue to cover operating expenses in the face of no revenue

All indicators compared favorably to the prior year except the operating margin.

	<u>2008</u>	<u>2007</u>
Primary reserve ratio	0.26	0.23
Debt to equity	0.35	0.31
Debt to capital	0.13	0.13
Operating margin	0.01	0.09
Acid ratio	2.90	2.85
Days cash on hand	75.07	63.05

The operating margin decline is due to the combined increase in net assets of only \$385,248 which is a reflection of the \$582,318 loss from the Foundation. Without the unrealized loss the ratio would be 0.03.

The Statement of Revenues, Expenses and Change Net Assets presents the revenues earned and the expenses incurred during the year. The utilization of long-lived assets, referred to as “capital assets” is reflected in the financial statements as depreciation expense, which amortizes the cost of the asset over the expected life. A summarized comparison of the College’s revenues, expenses and changes in net assets for the year ended June 30 is as follows (in thousands):

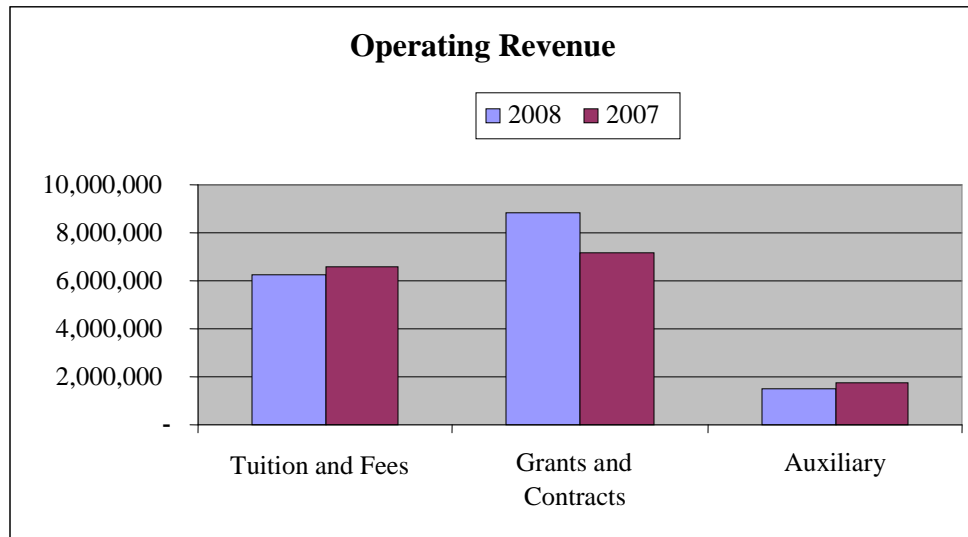
	<u>2008</u>	<u>2007</u>
Total operating revenues	\$ 16,471	\$ 17,874
Total operating expenses	<u>37,491</u>	<u>34,060</u>
Net operating loss	(21,020)	(16,186)
Net nonoperating revenues	<u>21,405</u>	<u>18,691</u>
Increase in net assets	385	2,505
Net assets – beginning of year	<u>45,174</u>	<u>42,669</u>
Net assets – end of year	<u>\$ 45,559</u>	<u>\$ 45,174</u>

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

Operating revenues included the following:

- Student tuition and fee revenue decreased by 5.0% due to a decrease in enrollment.
- Federal grants consist primarily of awards in the form of Michigan Works, Vocational Education, TRIO (Student Support Services, Upward Bound, Equal Opportunity and Talent Search), Title III and Gear-Up grants and increased approximately \$1,870,000 from the prior year.
- State grants, primarily comprised of Economic Development Job Training (EDJT) grants and Michigan scholarship programs, including MERIT, increased by nearly \$293,000.
- Auxiliary activities consist primarily of bookstore sales and other various activities related to the College. Auxiliary activities decreased \$242,000 or 16.3% from 2007. Mainstage performances, Conference and Event declines and the Cafe were primarily responsible for the decline.

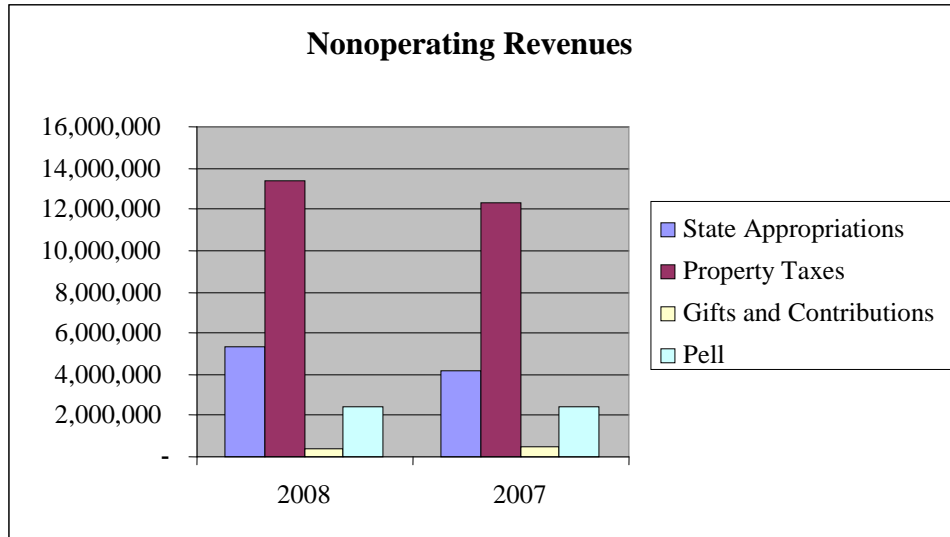
The following is a graphic illustration of operating revenues by source:



Non-operating revenues are all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, property taxes, Pell Grants, gifts, and investment income. Non operating revenue changes included the following factors:

- The state appropriation of \$5.4 million increased \$1,180,000 from fiscal year 2007. This is primarily due to the delayed funding from the prior year that was recognized in fiscal year 2008.
- Property tax revenue increased by \$1,000,000 or 8%. Receipts included \$532,000 from the Berrien County revolving loan fund and \$578,850 from the State of Michigan for Renaissance Zone reimbursement.

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



Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries and benefits, utilities, supplies, services, and depreciation and are then categorized by function.

Operating expenses increased 9.3% from 2007.

- Salaries and wages expenses increased by \$1,623,000 or 10% from the prior year. Most of this increase is due to the adding of positions to fulfill the Michigan Works! grants.
- Benefits increased by \$1,039,000 due again to the additional employees required for the Michigan Works! contracts.
- Professional fees increased \$661,200 compared to fiscal year 2007.
- Supplies and materials increased by a modest \$17,000 due to increases in building supplies.
- Rent, utilities and insurance increased \$129,000 due to increases in utility costs.
- Travel and communication and increased \$111,000 as a result of increases in the foundation for scholarships and millage expenses.
- Depreciation expense of \$1.7 million increased \$46,000 in 2008.

The following is a summary illustration of operating expenses.

Expenses	<u>2008</u>	<u>2007</u>	<u>Difference</u>
Operating expenses:			
Salaries and wages	\$ 17,722,915	\$ 16,099,617	\$ 1,623,298
Benefits	6,882,553	5,843,566	1,038,987
Professional services	2,889,768	2,228,568	661,200
Supplies and materials	1,804,631	1,787,192	17,439
Rent, utilities and insurance	1,671,116	1,542,325	128,791
Travel, communication and miscellaneous	4,401,704	4,290,656	111,048
Depreciation and amortization of assets	1,748,845	1,702,659	46,186
Small capital equipment	<u>369,117</u>	<u>565,622</u>	<u>(196,505)</u>
Total operating expenses	<u>\$ 37,490,649</u>	<u>\$ 34,060,205</u>	<u>\$ 3,430,444</u>

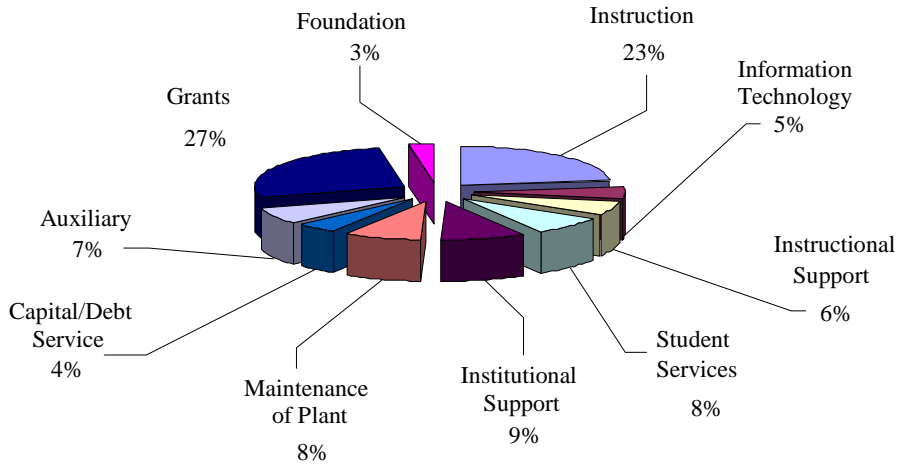
The following table summarizes the cost for travel, communication and miscellaneous expenses for the general operating budget, grants and the foundation. Over 66% of these costs are related to the disbursement of funds, for scholarships and financial support for non-tuition and fees, received from state and federal grants. Just under \$1 million in funds were disbursed under the Michigan Work!'s contract. None of these dollars were used for College expenses. It is the responsibility of LMC as the grant manager to ensure that all funds are properly disbursed based on the terms of the grants. For a detail list of expenses for the grants see the table for restricted funds.

	2008			
	<u>Operating Funds</u>	<u>Grant Funds</u>	<u>Foundation</u>	<u>Total</u>
Travel, communication and miscellaneous:				
Financial Aid Awards	\$ 362,752	\$ 1,381,704	\$ 20,949	\$ 1,765,405
Travel	188,208	61,570	31,089	280,867
Mileage reimbursement	99,033	198,954	408	298,395
Transportation – client	-	726,967	-	726,967
Transportation – brokered	-	43,733	-	43,733
Program expenses	-	-	352,324	352,324
Postage	104,807	6,864	-	111,671
Memberships	62,904	-	-	62,904
Licensing fees	185,082	34,228	-	219,310
Telephone and communications	38,874	4,883	-	43,757
Miscellaneous	<u>384,669</u>	<u>71,507</u>	<u>40,195</u>	<u>496,371</u>
Total travel, communication and miscellaneous	<u>\$ 1,426,329</u>	<u>\$ 2,530,410</u>	<u>\$ 444,965</u>	<u>\$ 4,401,704</u>
	2007			
	<u>Operating Funds</u>	<u>Grant Funds</u>	<u>Foundation</u>	<u>Total</u>
Travel, communication and miscellaneous:				
Financial Aid Awards	\$ 45,893	\$ 1,632,435	\$ 33,384	\$ 1,711,712
Travel	167,810	53,736	17,604	239,150
Mileage reimbursement	94,508	119,712	-	214,220
Transportation – client	-	316,240	-	316,240
Transportation – brokered	-	77,625	-	77,625
Program expenses	-	-	377,945	377,945
Postage	120,950	13,657	-	134,607
Memberships	65,602	-	-	65,602
Licensing fees	150,725	20,838	-	171,563
Telephone and communications	26,268	8,866	-	35,134
Miscellaneous	<u>778,741</u>	<u>135,775</u>	<u>32,342</u>	<u>946,858</u>
Total travel, communication and miscellaneous	<u>\$ 1,450,497</u>	<u>\$ 2,378,885</u>	<u>\$ 461,275</u>	<u>\$ 4,290,656</u>

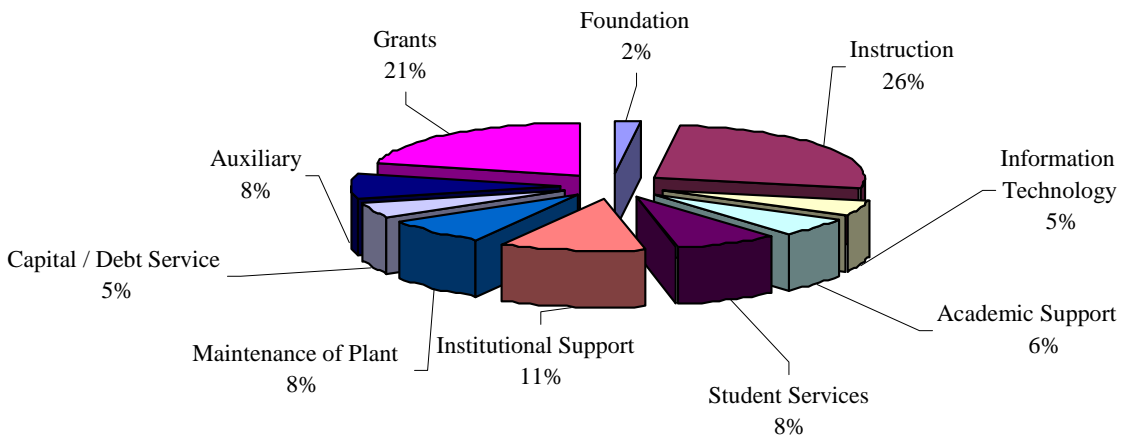
Operating

The following chart summarizes expenses by functional classification for the years ended June 30, 2008 and 2007.

**Operating Expenses - By Source
2008**



**Operating Expenses - By Source
2007**



Restricted Funds

Restricted Funds are funds restricted by the revenue source for specific purposes. Lake Michigan College restricted funds consist of Pell, Trio Grants, Michigan Works, other federal grants, state grants and non-governmental grants. The following chart details the revenue and expense activities for these grants:

2008

	<u>PELL</u>	<u>Total Trio</u>	<u>Total Other Federal</u>	<u>Total MI Works!</u>	<u>Total State Grant</u>	<u>Total Non-Gov.</u>	<u>Total Restricted</u>
Revenue	\$2,452,307	\$1,143,620	\$487,694	\$5,689,624	\$996,768	\$ 172,965	\$10,942,978
Operating expenses							
Salaries and benefits	\$ -	\$ 648,956	\$ 212,637	\$2,627,392	\$ 213,257	\$ 73,104	\$ 3,775,346
Benefits	-	282,874	38,069	1,104,819	31,268	25,999	1,483,029
Professional services	-	89,553	18,121	567,315	130,780	12,154	817,923
Supplies and materials	-	24,710	7,134	360,148	31,148	3,085	426,225
Rent, utilities and insurance	-	2,134	371	48,259	506	622	51,892
Travel and communication							
Financial Aid Awards	2,452,307	13,247	141,389	-	555,634	-	3,162,577
Conference registration	-	2,100	4,156	-	335	3,825	10,416
Travel	-	25,106	6,909	-	1,049	18,090	51,154
Miscellaneous	-	22,575	1,205	6,109	347	7,791	38,027
Mileage reimbursement	-	9,261	4,722	174,678	282	10,011	198,954
Transportation – client	-	-	-	726,967	-	-	726,967
Transportation – brokered	-	-	-	43,733	-	-	43,733
Student activities	-	21,768	-	-	1,908	16,668	40,344
Communications	-	1,336	620	1,902	904	121	4,883
Licensing fees	-	-	-	20,961	13,267	-	34,228
Small capital equipment	-	-	52,361	7,341	16,083	1,495	77,280
Total operating expenses	<u>\$2,452,307</u>	<u>\$1,143,620</u>	<u>\$ 487,694</u>	<u>\$5,689,624</u>	<u>\$ 996,768</u>	<u>\$ 172,965</u>	<u>\$10,942,978</u>

2007

	<u>PELL</u>	<u>Total Trio</u>	<u>Total Other Federal</u>	<u>Total MI Works!</u>	<u>Total State Grant</u>	<u>Total Non-Gov.</u>	<u>Total Restricted</u>
Revenue	\$2,420,678	\$1,173,213	\$ 459,520	\$3,429,445	\$1,248,393	\$653,520	\$9,384,769
Transfers	-	-	137,584	-	14,755	356,284	408,623
Operating expenses							
Salaries and benefits	\$ -	\$ 623,134	\$ 230,981	\$1,691,137	\$ 206,717	\$ 171,606	\$2,923,575
Benefits	-	272,409	21,662	746,389	23,284	44,463	1,108,307
Professional services	6,520	107,926	31,778	117,234	126,260	40,649	430,367
Supplies and materials	-	30,840	38,056	251,110	71,212	7,236	398,454
Rent, utilities and insurance	-	-	-	52,023	3,937	-	55,960
Travel and communication							
Financial Aid Awards	2,414,158	9,425	133,500	-	794,039	268,041	3,619,163
Conference registration	-	4,328	4,543	120	760	1,167	10,918
Travel	-	20,764	6,270	-	23,268	3,434	53,736
Miscellaneous	-	19,417	1,471	11,949	(12,485)	495	20,847
Mileage reimbursement	-	10,609	3,034	99,510	(635)	7,194	119,712
Transportation – client	-	-	-	316,240	-	-	316,240
Transportation – brokered	-	-	-	77,625	-	-	77,625
Student activities	-	57,548	475	54,201	-	5,444	117,668
Communications	-	3,338	540	3,680	995	313	8,866
Licensing fees	-	-	-	8,227	12,611	-	20,838
Small capital equipment	-	13,475	124,794	-	13,085	359,762	511,116
Total operating expenses	<u>\$2,420,678</u>	<u>\$1,173,213</u>	<u>\$ 597,104</u>	<u>\$3,429,445</u>	<u>\$1,263,148</u>	<u>\$ 909,804</u>	<u>\$9,793,392</u>

The **Statement of Cash Flows** is another way to assess the financial health of the College. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an institution during a period. The Statement of Cash Flows also helps users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Major sources of funds from operations came from student tuition and fees, grants and contracts and Mendel Center operations. These sources were offset by expenditures for operations such as payments to employees and suppliers.

Summary of Statements of Cash Flows for the Years Ended June 30 (in thousands)

	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating activities	\$ (18,243)	\$ (17,408)
Noncapital financing activities	21,986	21,229
Capital and related financing activities	(1,860)	(2,040)
Investing activities	<u>(205)</u>	<u>(520)</u>
Net increase in cash	1,678	1,261
Cash – beginning of year	<u>5,616</u>	<u>4,355</u>
Cash – end of year	<u>\$ 7,294</u>	<u>\$ 5,616</u>

Local property taxes, state appropriations, and other sources, received during the current year, provide non-capital financing sources of \$22.0 million in 2008. Cash used by capital and related financing activities totaled \$1.9 million primarily from the capital assets acquired and payment of principal and interest on debt.

Capital Assets

At June 30, 2008 and 2007, the College had \$36.5 and \$37.3 million invested in capital assets, net of accumulated depreciation of \$28.8 and \$27.1 million, respectively. Depreciation charges totaled \$1.7 million for the 2008 and 2007 fiscal year. Details of these assets are shown below (in thousands):

	<u>2008</u>	<u>2007</u>
Land and land improvements, net	\$ 2,077	\$ 2,084
Infrastructure, net	302	372
Buildings and improvements, net	31,181	32,211
Furniture, fixtures, equipment and library holdings, net	2,390	2,218
Construction in progress	<u>587</u>	<u>383</u>
Totals	<u>\$ 36,537</u>	<u>\$ 37,268</u>

Long-Term Debt

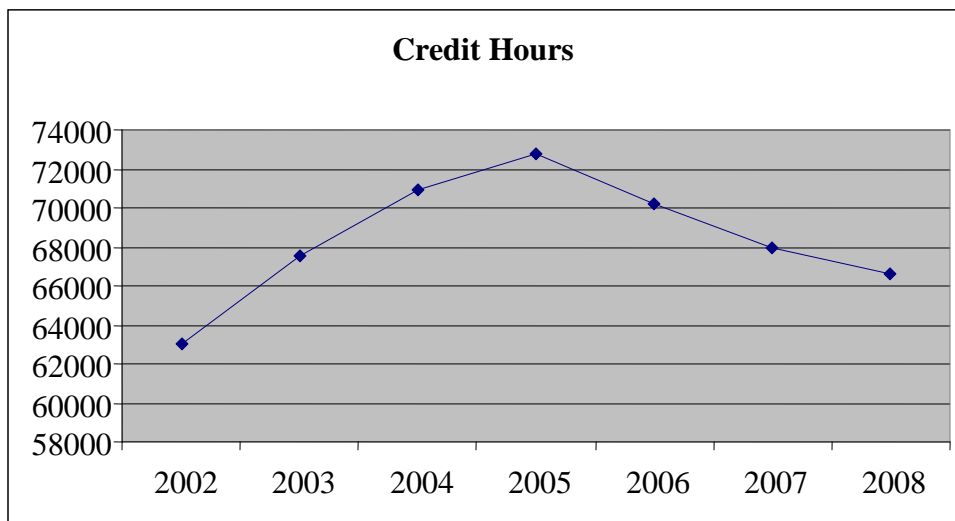
At year-end, the College had \$7.05 million in debt outstanding. Details of the debt balances are shown below.

Long-Term Debt at June 30 (in thousands)

	<u>2008</u>	<u>2007</u>
2002 College Building and Site Refunding Bonds, Series VII	\$ 7,050	\$ 7,200
Bank note payable, collateralized by certain vehicles	-	26
Totals	<u>\$ 7,050</u>	<u>\$ 7,226</u>

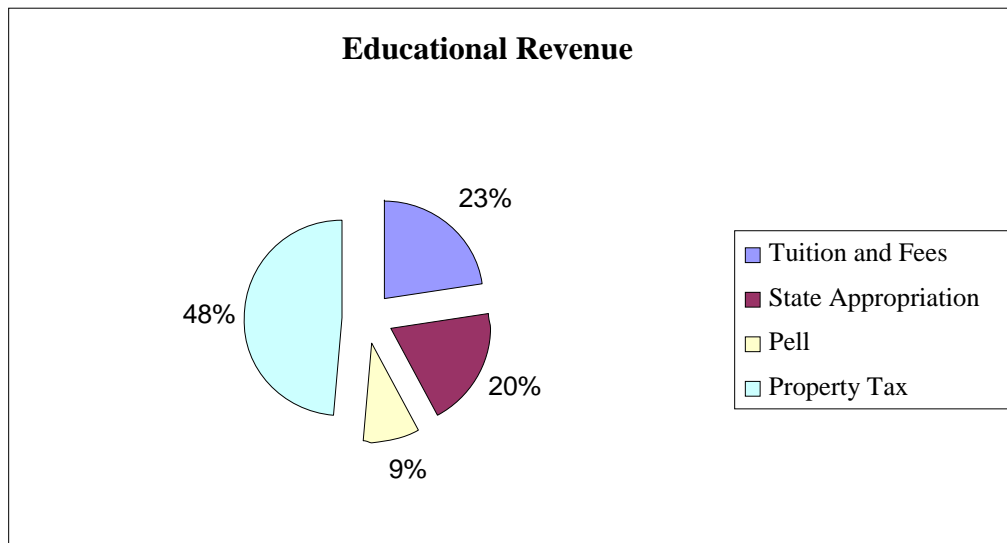
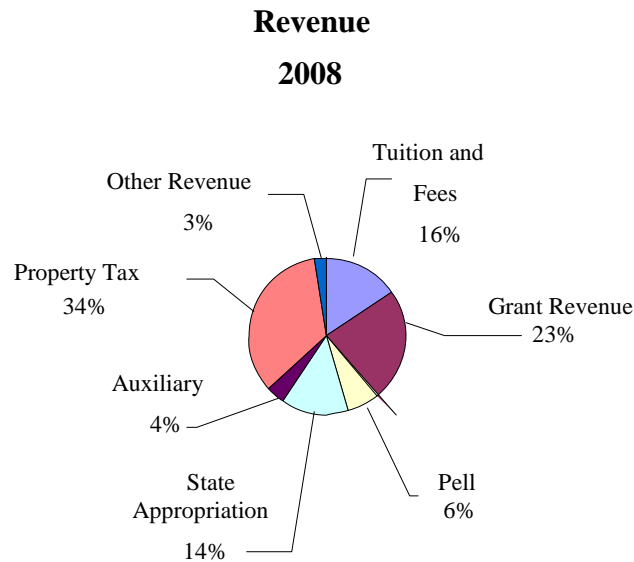
Economic Factors That Will Affect the Future

According to state representatives, community college enrollment has an inverse relationship to the economy. This trend has not been seen at Lake Michigan College. Over the last few years, the College has seen a decline in enrollment. The same trend can be seen at other colleges. The College showed continued growth in enrollment from 2001-2005.



By mid 2003, when the rest of the nation started to recover, Michigan significantly lagged behind. The overall unemployment rate was 5.7% in July 2008. Michigan's rate was 8.5%. The continued high unemployment rate has resulted in a significant budget shortfall in Michigan. Since 2001, the College has lost over \$4.5 million in state support. The decrease in funding comes at a time when most employers believe that they need higher skilled employees to compete in today's economy and for Michigan to make an economic recovery.

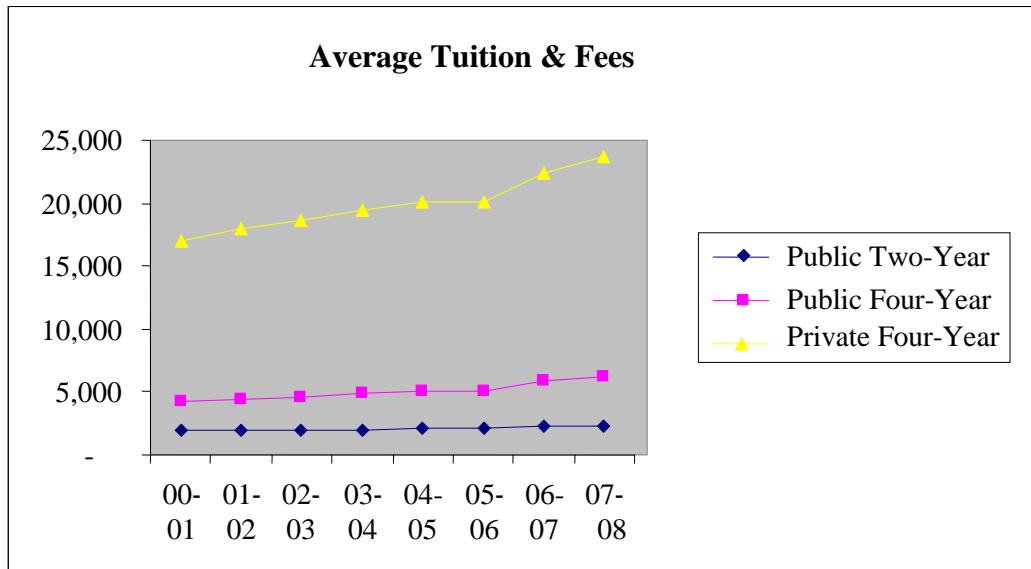
The chart below details the revenue of the College.



Property tax revenue is now over a third of total revenue and state appropriations account for only 14% of Lake Michigan College’s revenue. Revenue from property taxes has increased 8.1% in fiscal 2008. Lake Michigan College’s millage rate is 1.7916 which is the sixth lowest in the state for community colleges. These increases are due to increases in renaissance zone payments, increases in delinquent payments and increases in property values. However, this trend may not continue, if there are no improvements in the local economy.

Decreases in State support and increased tuition has also impacted the amount of student loan debt which has increased to \$19,237 from \$9,250 in 1993 according to the National Center for Educational Statistics. Even the increase in tuition, community colleges continued to over very affordable.

The chart below indicates that a two-year public institution is still the best value in education.



In 2008, the average cost of a two year public college was \$2,361, which is significantly less than providing child care. The 2006 average annual price of full-time care for an infant in a center ranges from \$4,388 to a whopping \$14,647.

Despite the decrease in state support and increased operating cost, the College has maintained in district tuition rates at of \$72.50 in FY 2008 and did not budget an increase in FY 2009. To offset the decrease in funds, the College had to make significant cost reductions and look for new revenue sources. The College has converted to a contact hour basis as opposed to our traditional credit hour cost. This year's net grant revenue accounted for a 12% increase compared to the prior year. The growth in nontraditional revenue sources means more administrative resources have to be used in order to support and ensure compliance to the new regulations.

Given the latest news from Lansing, the College does not expect to see any real increase in state funding in the near future. This may make it difficult for the College to offer new programs. According to a survey of southwest Michigan employers, 43% reported they had difficulty filling open positions. Sixty-eight percent of the firms that had difficulty filling positions say the main reason was a lack of qualified applicants. Employers are looking to increase the skills of prospective and current employees.

Employers in the Lake Michigan College district are hiring people to fill both current and new positions. However, these positions must be filled by people with new skill sets. Employers' ability to fill these positions is being hampered by the availability of people with the requisite skills.

The study confirms that the College's desire to place increasing emphasis on the sciences, technology and math areas is exactly what is needed so more people can succeed in today's workforce. Indeed, science is becoming the new "basic skill," because the concepts and habits learned in the discipline are so transferable to so many other core skill sets.

The study also presents the College with new program development opportunities to help students develop the “soft skills,” such as the ability to work in teams. It also strongly suggests that students should be taught to think independently, communicate well in writing and speaking and work effectively with computers and technology. To be successful in today’s and tomorrow’s economy, employees must be adaptable multi-taskers, as creative as the very businesses for which they work.

The rich diversity of businesses in the region, in both size and type, seem to create equal parts opportunity and challenge for the College. With more than half of the businesses having five or less employees, it is not cost-effective for the College, or these businesses, to create site-specific programs. And with so many different types of businesses, the range of training and education needs is great. To respond, the College must explore interactive technologies that will make it possible to offer a broader array of programs that can be accessed by employees from multiple sites and times.

Advanced education and training can be the economic engine for the region Lake Michigan College serves. To be successful, however, the College must invest the resources necessary to keep program offerings current and have the flexibility to meet continually changing business and community needs.

Michigan lags 7.8% below the national average in per capita personal income. Eight percent of the state’s job vacancies are in southwest Michigan. Virtually all of Michigan’s job growth is expected in service-producing industries such as professional and business services, education and health services, and leisure and hospitality.

Michigan’s economy will continue creating jobs for workers at all levels of education and training. Occupations requiring a postsecondary award (vocational training, Associate’s or higher degree) will, on average, have higher growth rates than occupations that require less education or training. Occupations with the largest growth rate require educational attainment of an associate’s degree or more, supporting demands from the new knowledge based economy. These positions tend to be in the faster growing services sector and are in diverse fields such as health, education, and business support services.

Inflation is accelerating to 5% as a result of surging commodity prices and price increases on imports; oil prices exceeding \$140/barrel and anticipation of a declining CPI by 2.5% in 2009. Housing prices continue to decline with an unsold inventory reaching 10.5 months. The labor market lost jobs for six consecutive months in 2008.

All these factors indicate that higher education is the key to recovering from the economic doldrums. Lake Michigan College remains poised to be a catalyst for providing the necessary skills for the future economic growth for the state of Michigan.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

November 18, 2008

Board of Trustees
Lake Michigan College
Benton Harbor, Michigan

We have audited the accompanying balance sheets of **Lake Michigan College** (Community College District of the Counties of Berrien and Van Buren) (the "College") as of June 30, 2008 and 2007, and the related statements of revenues and 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. 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 **Lake Michigan College** as of June 30, 2008 and 2007, 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, a report dated November 18, 2008 on our consideration of Lake Michigan College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

Our audits were performed for the purpose of forming an opinion on the financial statements of Lake Michigan College taken as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis presented on pages 1 through 14 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 the supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 10, the College restated its net assets as of July 1, 2006 and June 30, 2007, to properly record certain donated assets that had previously been omitted or recorded at incorrect amounts.

LAKE MICHIGAN COLLEGE

BALANCE SHEETS

	June 30	
	2008	As Restated (See Note 10) 2007
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 7,294,204	\$ 5,616,234
Accounts receivable, net (Note 3)	2,381,222	1,919,096
Contributions receivable, net (Note 3)	540,839	762,202
Inventories	41,388	32,576
Prepaid expenses and other assets	372,874	442,192
	10,630,527	8,772,300
Long term investments (Note 2)	8,228,020	8,139,570
Contributions receivable due in one to five years (Note 3)	440,736	812,101
Bond issuance costs	141,314	147,202
Capital assets (Note 4)		
Non-depreciable	2,151,809	1,948,002
Depreciable, net	34,385,603	35,320,022
	45,347,482	46,366,897
Total noncurrent assets	45,347,482	46,366,897
Total assets	\$ 55,978,009	\$ 55,139,197
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of debt obligations (Note 5)	\$ 150,000	\$ 176,213
Accounts payable	961,735	574,242
Accrued payroll and related compensation costs	1,156,845	1,183,075
Accrued interest payable	116,000	117,685
Unearned revenue	942,909	644,627
Other	190,927	219,010
	3,518,416	2,914,852
Total current liabilities	3,518,416	2,914,852
Long-term debt obligations, net of current portion (Note 5)	6,900,000	7,050,000
	10,418,416	9,964,852
Total liabilities	10,418,416	9,964,852
Net assets		
Invested in capital assets, net of related debt	29,487,412	30,041,811
Restricted for:		
Nonexpendable endowments	5,548,710	6,334,749
Expendable scholarships and fellowships	3,172,221	2,679,033
Unrestricted	7,351,250	6,118,752
	45,559,593	45,174,345
Total net assets	45,559,593	45,174,345
Total liabilities and net assets	\$ 55,978,009	\$ 55,139,197

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

LAKE MICHIGAN COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

	Year Ended June 30	
	2008	2007
Operating revenues		
Tuition and fees (net of scholarship allowance of \$1,980,314 in 2008 and \$1,784,344 in 2007)	\$ 5,798,340	\$ 6,129,150
Non credit tuition and fees	425,430	430,801
Federal grants and contracts	7,144,458	5,305,902
State grants and contracts	1,472,118	1,179,221
Nongovernmental grants	151,881	687,546
Auxilliary activities (net of internal revenue of \$125,376 in 2008 and \$121,118 in 2007)	1,478,314	1,720,201
Other sources	-	350
Total operating revenues	16,470,541	15,453,171
Operating expenses		
Salaries and wages	17,722,915	16,099,617
Benefits	6,882,553	5,843,566
Professional services	2,889,768	2,228,568
Supplies and materials	1,804,631	1,787,192
Rent, utilities and insurance	1,671,116	1,542,325
Travel, communication and miscellaneous	4,401,704	4,290,656
Depreciation and amortization of assets	1,748,845	1,702,659
Small capital equipment	369,117	565,622
Total operating expenses	37,490,649	34,060,205
Operating loss	(21,020,108)	(18,607,034)
Nonoperating revenues (expenses)		
State appropriations	5,362,800	4,180,500
Pell Grants	2,452,307	2,420,678
Property taxes	13,360,678	12,357,052
Gifts and contributions	395,414	456,834
Additions to nonexpendable endowments	132,512	129,454
Investment income	361,340	442,117
Interest on capital asset - related debt	(347,829)	(353,989)
(Loss) gain on investments	(799,197)	1,050,862
Other nonoperating revenues	487,331	428,679
Net nonoperating revenues	21,405,356	21,112,187
Increase in net assets	385,248	2,505,153
Net assets - beginning of year, as restated (see Note 10)	45,174,345	42,669,192
Net assets - end of year, as restated (see Note 10)	\$45,559,593	\$ 45,174,345

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

LAKE MICHIGAN COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2008	2007
Cash flows from operating activities		
Tuition and fees	\$ 6,345,258	\$ 6,458,941
Grants and contracts	8,749,970	6,752,527
Payments to suppliers	(10,715,196)	(10,618,439)
Payments to employees	(24,631,698)	(21,804,774)
Auxiliary and other charges	2,008,964	1,803,591
	(18,242,702)	(17,408,154)
Cash flows from noncapital financing activities		
Local property taxes	13,360,678	12,363,390
State appropriations	4,786,668	4,721,924
Gifts and grants for other than capital purposes	899,291	1,295,244
Pell Grants	2,452,307	2,420,678
Other nonoperating receipts	487,331	428,679
	21,986,275	21,229,915
Cash flows from capital and related financing activities		
Purchase of capital assets and construction	(1,332,898)	(1,477,902)
Principal paid on long-term debt	(176,213)	(205,898)
Interest paid on long-term debt	(350,738)	(356,699)
	(1,859,849)	(2,040,499)
Cash flows from investing activities		
Interest income	361,340	442,117
Purchase of investments	(567,094)	(962,219)
	(205,754)	(520,102)
Net cash used in investing activities	(205,754)	(520,102)
Net increase in cash and cash equivalents	1,677,970	1,261,160
Cash and cash equivalents - beginning of year	5,616,234	4,355,074
Cash and cash equivalents - end of year	\$ 7,294,204	\$ 5,616,234

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

LAKE MICHIGAN COLLEGE

STATEMENTS OF CASH FLOWS (CONCLUDED)

	Year Ended June 30,	
	<u>2008</u>	<u>2007</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (21,020,108)	\$ (18,607,034)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,748,845	1,702,659
Change in operating assets and liabilities which provided (used) cash:		
Accounts receivable	335,369	(525,134)
Inventories, prepaids, and other assets	60,506	(143,897)
Accounts payable and accrued liabilities	334,404	278,330
Unearned revenue	298,282	(113,078)
Net cash used in operating activities	<u>\$ (18,242,702)</u>	<u>\$ (17,408,154)</u>

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

NOTES TO FINANCIAL STATEMENTS

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Michigan College (the “College”) is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) No. 35 and the *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

The College reports business – type activities, as defined by GASB Statement No. 35. Business – type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the individual component unit discussed in Note 8 is included in the College’s reporting entity.

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

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

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 not to apply FASB pronouncements issued after November 30, 1989.

Use of Estimates – The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowance and depreciation expense.

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposits and highly liquid investments with an initial maturity of three months or less.

Gifts and Pledges – Gifts are recorded at estimated fair value when received, and pledges are recorded at their net present value when it is determined that the gift is probable of collection.

Investments – Investments are recorded at fair value, based on quoted market prices.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Inventories – Inventories are stated at the lower of cost using the first-in, first-out method, or market. Inventories consist primarily of food and beverages used in the Mendel Center operations.

Bond Issuance Costs – The bond issuance costs are being amortized over the life of the bonds using the straight-line method.

Capital Assets – Capital assets are recorded at cost. However, gifts of property are recorded at fair market value at the time gifts are received. The College capitalizes its arts collection, which is considered inexhaustible. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets. No depreciation is recorded on the land and art collection. Management annually reviews capital assets for impairment.

Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. The following estimated useful lives are used to compute depreciation:

Land improvements and infrastructure	15–20 years
Buildings	45 years
Equipment	7–15 years
Furniture and fixtures	5–7 years
Library materials	5 years

Unearned Revenue – Revenues received prior to year-end that are related to the next fiscal period are recorded as unearned revenue. Grants received prior to qualifying expenditures are also included in unearned revenue.

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 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 non – operating and other revenues. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy any expenses.

Internal Service Activities – Both revenue and expenses related to internal service activities including print shops, office equipment, maintenance, telecommunications, and institutional computing have been eliminated.

Restricted Net Assets – Restricted net assets represent amounts over which third parties have imposed restrictions that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties. Funds held by the College and the Foundation for endowments or donor designated purposes were \$8,720,931 and \$9,013,782 at June 30, 2008 and 2007, respectively.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Reclassifications – Certain amounts as reported in the 2007 financial statements have been reclassified to conform with the 2008 presentation. The most significant reclassification is the reclassification of Federal Pell Grant revenue from operating to nonoperating revenue based on recent clarification of GASB Statement No. 35.

Reporting – The College reports its expense activities by natural class versus program services. The following table shows expenses by functional area.

2008

	<u>Instruction</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Information Technology</u>	<u>Maintenance of Plant</u>
Salaries and benefits	\$ 8,744,228	\$ 5,977	\$ 2,082,839	\$ 1,942,517	\$ 2,337,964	\$ 991,644	\$ 1,433,661
Professional services	124,458	17,192	42,448	439,300	354,488	237,509	618,633
Supplies and materials	253,172	4,398	167,988	96,468	72,691	86,937	191,263
Rent, utilities and insurance	10,383	–	5,100	47,506	193,969	158,668	990,659
Travel and communication	120,834	6,029	54,707	551,084	423,151	243,433	22,732
Depreciation	–	–	–	–	–	–	–
Small capital equipment	10,400	–	31,099	69,722	–	210,543	15,303
Total	<u>\$ 9,263,475</u>	<u>\$ 33,596</u>	<u>\$ 2,384,181</u>	<u>\$ 3,146,597</u>	<u>\$ 3,382,263</u>	<u>\$ 1,928,734</u>	<u>\$ 3,272,251</u>

	<u>Capital/Debt Service</u>	<u>Auxiliary</u>	<u>Total Unrestricted</u>	<u>Grants</u>	<u>Foundation</u>	<u>Total</u>
Salaries and benefits	\$ –	\$ 1,532,696	\$ 19,071,526	\$ 5,337,957	\$ 195,985	\$ 24,605,468
Professional services	–	419,667	2,253,695	605,309	30,764	2,889,768
Supplies and materials	–	434,293	1,307,210	426,225	71,196	1,804,631
Rent, utilities and insurance	–	209,462	1,615,747	51,892	3,477	1,671,116
Travel and communication	–	40,999	1,462,969	2,103,120	835,615	4,401,704
Depreciation	1,748,845	–	1,748,845	–	–	1,748,845
Small capital equipment	–	6,997	344,064	25,053	–	369,117
Total	<u>\$ 1,748,845</u>	<u>\$ 2,642,096</u>	<u>\$ 27,991,182</u>	<u>\$ 8,788,943</u>	<u>\$ 1,137,037</u>	<u>\$ 37,490,649</u>

2007

	<u>Instruction</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Information Technology</u>	<u>Maintenance of Plant</u>
Salaries and benefits	\$ 8,425,446	\$ 4,415	\$ 1,879,798	\$ 1,673,534	\$ 2,241,521	\$ 574,818	\$ 1,085,629
Professional services	161,898	1,674	16,112	313,811	381,428	369,484	322,860
Supplies and materials	251,416	–	192,368	68,374	117,909	61,240	146,996
Rent, utilities and insurance	1,674	–	54,907	37,927	220,575	85,415	680,808
Travel and communication	153,842	–	47,449	484,276	471,562	159,174	13,583
Depreciation	–	–	–	–	–	–	–
Small capital equipment	1,365	–	26,807	338	5,236	395,015	18,099
Total	<u>\$ 8,995,641</u>	<u>\$ 6,089</u>	<u>\$ 2,217,441</u>	<u>\$ 2,578,260</u>	<u>\$ 3,438,231</u>	<u>\$ 1,645,146</u>	<u>\$ 2,267,975</u>

	<u>Capital/Debt Service</u>	<u>Auxiliary</u>	<u>Total Unrestricted</u>	<u>Grants</u>	<u>Foundation</u>	<u>Total</u>
Salaries and benefits	\$ –	\$ 1,782,238	\$ 17,667,399	\$ 4,079,327	\$ 196,457	\$ 21,943,183
Professional services	–	417,354	1,984,621	189,442	54,505	2,228,568
Supplies and materials	–	448,018	1,286,321	398,454	102,417	1,787,192
Rent, utilities and insurance	–	397,562	1,478,868	55,960	7,497	1,542,325
Travel and communication	–	120,611	1,450,497	2,378,884	461,275	4,290,656
Depreciation	1,702,659	–	1,702,659	–	–	1,702,659
Small capital equipment	–	–	446,860	118,762	–	565,622
Total	<u>\$ 1,702,659</u>	<u>\$ 3,165,783</u>	<u>\$ 26,017,225</u>	<u>\$ 7,375,768</u>	<u>\$ 822,151</u>	<u>\$ 34,060,205</u>

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

Cash and cash equivalents – Investment policies for cash and cash equivalents as set forth by the Board of Trustees authorize the College to invest in demand accounts, negotiable certificates of deposit, saving accounts, or other interest-earning deposit accounts of banks that are members of the Federal Deposit Insurance Corporation (FDIC) or savings and loan associations that are members of the Federal Savings and Loan Insurance Corporation.

Investments – Investment policies as set forth by the Board of Trustees also authorize the College to invest in bonds, bills or notes of the United States or of an agency of instrumentality of the United States or obligations of the state of Michigan. Funds may be invested in commercial paper that is supported by an irrevocable letter of credit issued by a bank that is a member of the FDIC and commercial paper of corporations located in Michigan. Mutual funds, trusts, or investment pools composed entirely of instruments that are legal for direct investment by a community college are also acceptable investments.

The investment policy of the Lake Michigan College Foundation, as established by the Foundation's Board of Directors, authorizes investments in a diversified portfolio of domestic or international stocks and bonds based on asset class, market capitalization, industry sector and security. Short sales of securities and investment in derivative securities are prohibited without prior consent of the Foundation's Board. The Foundation Board meets quarterly to review the performance of investments.

Interest Rate Risk – The College's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the College manages its exposure to interest rate risk by limiting the majority of its investment maturities to less than three years.

The Foundation invests in mutual funds with a long – term objective to preserve principal and provide appreciation. Due to the long – term nature of the investments, the Foundation's investment policy does not limit investment maturities.

As of June 30, 2008 and 2007, the Foundation had investments in mutual funds only in the amount of \$8,228,020 and \$8,139,571, respectively.

Credit Risk – State law limits investments in commercial paper to corporations rated prime by at least one of the standard rating services. The College uses Standard & Poor's and Moody's Investors Service to monitor ratings and the College portfolio is invested in accordance with these guidelines.

Concentration of Credit Risk – Certificates of deposit and commercial paper investments are not limited in any given financial institution or issuer. The College currently has no certificates of deposit and has diversity in its mutual fund companies. The College's investment policy does not limit investments in U.S. agencies or treasuries.

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, 2008 and 2007, \$7,241,206 and \$5,275,968 of the College's bank deposits balance of \$7,294,205 and \$5,616,096, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized, respectively.

LAKE MICHIGAN 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, 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. Custodial credit risk for the mutual funds cannot be determined as these investments are not evidenced by specifically identifiable securities.

3. RECEIVABLES

Accounts receivable consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Appropriations from the State of Michigan for operations	\$ 894,508	\$ 318,376
Federal and state grants receivable	1,032,747	1,014,260
Student receivables	459,504	640,252
Other	<u>282,963</u>	<u>166,820</u>
Total	2,669,722	2,139,708
Less allowance for doubtful accounts	<u>(288,500)</u>	<u>(220,612)</u>
Total accounts receivable, net	<u>\$ 2,381,222</u>	<u>\$ 1,919,096</u>

Contributions receivable consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Contributions receivable	1,041,010	1,633,739
Less allowance for doubtful accounts	<u>(59,436)</u>	<u>(59,436)</u>
Total contributions receivable, net	<u>\$ 981,575</u>	<u>\$ 1,574,303</u>

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

The following tables present the changes in the various capital asset class categories for the years ended June 30, 2008 and 2007:

	Balance July 1, 2007	Additions	Transfers and Retirements	Balance June 30, 2008
Nondepreciable capital assets:				
Land	\$ 1,221,057	\$ –	\$ –	\$ 1,221,057
Art collection (see Note 10)	344,173	–	–	344,173
Construction in progress	382,772	545,625	(341,818)	586,579
Total nondepreciable capital assets	1,948,002	545,625	(341,818)	2,151,809
Depreciable capital assets:				
Land improvements	3,231,982	47,451	–	3,279,433
Buildings and improvements	50,204,357	180,655	3,032	50,388,044
Equipment	4,062,722	515,836	–	4,578,558
Infrastructure	1,203,842	–	–	1,203,842
Furniture and fixtures	465,049	43,331	3,011	511,391
Library materials	3,222,348	–	–	3,222,348
Total depreciable capital assets	62,390,300	787,273	6,043	63,183,616
Total capital assets	64,338,302	\$1,332,898	\$(335,775)	65,335,425
	Balance July 1, 2007	Additions	Transfers and Retirements	Balance June 30, 2008
Less accumulated depreciation:				
Land improvements	\$ 2,368,714	\$ 54,780	\$ –	\$ 2,423,494
Buildings and improvements	17,993,590	1,228,765	(15,222)	19,207,133
Equipment	2,565,818	344,517	–	2,910,335
Infrastructure	831,636	69,868	–	901,504
Furniture and fixtures	139,516	26,393	–	165,909
Library materials	3,171,004	18,634	–	3,189,638
Total accumulated depreciation	27,070,278	\$1,742,957	\$(15,222)	28,798,013
Total depreciable capital assets, net	35,320,022			34,385,603
Total capital assets, net	\$ 37,268,024			\$ 36,537,412

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

	Balance July 1, 2006	Additions	Transfers and Retirements	Balance June 30, 2007
Nondepreciable capital assets:				
Land	\$ 1,221,057	\$ –	\$ –	\$ 1,221,057
Art collection (see Note 10)	344,173	–	–	344,173
Construction in progress	<u>454,031</u>	<u>1,130,035</u>	<u>(1,201,294)</u>	<u>382,772</u>
Total nondepreciable assets	<u>2,019,261</u>	<u>1,130,035</u>	<u>(1,201,294)</u>	<u>1,948,002</u>
Depreciable capital assets:				
Land improvements	3,231,982	–	–	3,231,982
Buildings and improvements	49,489,041	715,316	–	50,204,357
Equipment	3,301,324	761,398	–	4,062,722
Infrastructure	1,170,310	33,532	–	1,203,842
Furniture and fixtures	426,133	38,916	–	465,049
Library materials	<u>3,222,348</u>	<u>–</u>	<u>–</u>	<u>3,222,348</u>
Total depreciable capital assets	<u>60,841,138</u>	<u>1,549,162</u>	<u>–</u>	<u>62,390,300</u>
Total capital assets	<u>62,860,399</u>	<u>\$2,679,197</u>	<u>\$(1,201,294)</u>	<u>64,338,302</u>
Less accumulated depreciation:				
Land improvements	\$ 2,315,938	\$ 52,776	\$ –	\$ 2,368,714
Buildings and improvements	16,748,540	1,245,050	–	17,993,590
Equipment	2,276,893	288,925	–	2,565,818
Infrastructure	764,602	67,034	–	831,636
Furniture and fixtures	117,600	21,916	–	139,516
Library materials	<u>3,149,933</u>	<u>21,071</u>	<u>–</u>	<u>3,171,004</u>
Total accumulated depreciation	<u>25,373,506</u>	<u>\$1,696,772</u>	<u>\$ –</u>	<u>27,070,278</u>
Total depreciable capital assets, net	<u>35,467,632</u>			<u>35,320,022</u>
Capital assets, net	<u>\$ 37,486,893</u>			<u>\$ 37,268,024</u>

LAKE MICHIGAN COLLEGE
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT

Long-term debt activity during the years ended June 30, 2008 and 2007 was as follows:

	<u>Balance July 1, 2007</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
2002 College Building and Site Refunding Bonds, Series VII.	\$7,200,000	\$ 150,000	\$ 7,050,000	\$ 150,000
Bank note payable, collateralized by certain vehicles, repaid during fiscal 2008.	<u>26,213</u>	<u>26,213</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,226,213</u>	<u>\$ 176,213</u>	<u>\$ 7,050,000</u>	<u>\$ 150,000</u>
	<u>Balance July 1, 2006</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
2002 College Building and Site Refunding Bonds, Series VII.	\$ 7,350,000	\$ 150,000	\$ 7,200,000	\$ 150,000
Bank note payable, collateralized by certain vehicles, repaid during fiscal 2007.	5,298	5,298	-	-
Bank note payable, collateralized by certain vehicles, payable monthly including interest at 3.08%, due November 2007.	<u>76,813</u>	<u>50,600</u>	<u>26,213</u>	<u>26,213</u>
Total	<u>\$ 7,432,111</u>	<u>\$ 205,898</u>	<u>\$ 7,226,213</u>	<u>\$ 176,213</u>

Bond principal and interest are payable from the proceeds of ad valorem taxes levied on all taxable property in the district without limitation as to rate or amount.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Building and Site Refunding Bonds, Series VII were issued to fund a portion of the construction costs of the South Haven Campus, other improvements and to establish an escrow fund to provide for payment of principal and interest on the Series VI Bonds. The bonds mature serially through July 1, 2031, with interest due March 1 and September 1. Interest rates range from 1.50 percent to 5.25 percent with an effective rate of 5.05 percent.

Total principal maturities on the debt obligations as of June 30, 2008 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 150,000	\$ 345,413	\$ 495,413
2010	175,000	339,631	514,631
2011	175,000	333,069	508,069
2012	200,000	325,750	525,750
2013	200,000	317,750	517,750
2014–2018	1,150,000	1,424,125	2,574,125
2019–2023	1,475,000	1,085,406	2,560,406
2024–2028	1,775,000	676,656	2,451,656
2029–2032	<u>1,750,000</u>	<u>184,875</u>	<u>1,934,875</u>
Total	<u>\$ 7,050,000</u>	<u>\$ 5,032,675</u>	<u>\$ 12,082,675</u>

Interest expense paid by the College on all indebtedness for the year ended June 30, 2008 was \$349,053 and for the year ended June 30, 2007 was \$356,699.

Defeased Debt – During the fiscal year 2002, the College set aside in escrow for the retirement of \$2,800,000 of principal related to the Community College Bonds, Series VI bonds. This constituted an in-substance defeasance of debt, and accordingly, neither the assets of the irrevocable trust nor the bonds are reflected in the College's balance sheet. Principal and interest due on these bonds was paid from the funds placed in the irrevocable trust, and the interest earned on those funds. Of the bonds in-substance defeased, \$0 and \$687,148 remains outstanding at June 30, 2008 and 2007, respectively.

6. RETIREMENT PLANS

Defined Benefit Plan

Plan Description – The College participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the College. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. Beginning October 1, 2008, separately computed supplemental contributions will be required for retiree health care benefits. Future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. The Michigan Public Schools Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

Funding Policy – Employer contributions to the System result from the implementing effects of the School Finance Reform Act. Under these procedures, each College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate was 16.34% for the period July 1, 2005 through September 30, 2006 and 17.74% for the period October 1, 2006 through September 30, 2007, and 16.72% for the period October 1, 2007 through June 30, 2008. Basic plan members do not make contributions, other members contribute to a Member Investment Plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The College's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$1,103,000, \$1,079,000, and \$740,000, respectively.

Post Employment Benefits – The College also contributes to the MPSERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPSERS. The plan provides medical benefits to retired employees of participating colleges. Participating colleges are contractually required to make monthly contributions to the plan at amounts assessed each year by MPSERS. The MPSERS board of trustees sets the employer contributions based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The College's contributions to the MPSERS healthcare plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$710,000, \$632,000, and \$496,000, respectively, which equaled the required contributions each year. Thus, the College did not book a liability for this postemployment health care.

Defined Contribution Plan

As an alternative pension option, the College offers all full-time faculty and administrative employees the opportunity to participate in the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). Funding for the plan consists of employer contributions of 14.96% of covered compensation for the years ended June 30, 2008 and 2007, respectively. Benefits vest immediately. Contributions under the plan were approximately \$952,000 and \$772,000 for the years ended June 30, 2008 and 2007, respectively.

7. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The College has purchased commercial insurance for workers' compensation and medical benefits and participates in risk management pools for claims related to auto, property, and liability.

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) management pool for auto, property and liability claims. The program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the pool, which the pool uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

8. FOUNDATION

The Lake Michigan College Foundation (the "Foundation"), a not-for-profit corporation, was formed to solicit, collect, and invest donations made for the promotion of educational activities at the College and to augment the facilities of the College in such a manner as may be designated by its Board of Trustees. All distributions made out of the Foundation, other than normal operating expenses, are to be made to the College. Substantially all administrative and general costs incurred by the Foundation since its inception, other than commissions and trust administrative fees, have been paid and expensed by the College. Upon dissolution of the Foundation, its remaining assets will be distributed to the College.

The Internal Revenue Service has determined that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

At June 30, 2008 and 2007, the stated value of the net assets of the Foundation totaled \$8,881,469 and \$9,463,787, respectively. These assets and all activity of the Foundation are included in the financial statements of the College as a blended component unit.

9. DONOR-RESTRICTED ENDOWMENT EARNINGS

The Foundation utilizes a total return method distribution policy for unrestricted funds. Under the total return concept, the Foundation will spend 3-5 percent of a 3-year rolling average of market values (principal and interest). Distributions of any endowment fund amounts cannot exceed the retained earnings of the fund, without the express written consent of the donor for scholarships established prior to July 1, 2005. The Foundation Investment Committee may establish interim distribution rates for endowments that have yet to reach full maturity. Any unexpended allocations will be returned to the fund unless otherwise approved by the Investment Committee.

In the first calendar quarter of each year, the Lake Michigan College Foundation Investment committee shall evaluate the endowment fund's performance and recommend to the Foundation Board of Directors the specific percentage that shall be available for distribution during the following year. By March of each fiscal year, the Foundation shall inform affected departments of funds available to spend in the succeeding fiscal year.

10. PRIOR PERIOD ADJUSTMENT

In February of 2005, the College accepted a donation of artwork. Received with this artwork was an appraisal of the work stating the value was \$1,936,180. The College recorded contribution revenue and a capital asset for that amount at the time of the donation. During 2008, the College determined that the value of this artwork is currently \$224,413. Also, the College has concluded that the value of this artwork at the time of the 2005 donation was approximately the same amount.

Also, the College received a donation of artwork in 1994 with a value of \$56,050 which was never recorded in the College's financial statements.

LAKE MICHIGAN COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College's financial statements for the year ended June 30, 2007 have been restated to properly reflect the above described matters. As a result, capital assets and unrestricted net assets as of July 1, 2006 were retroactively restated and reduced by \$1,767,817. There was no change to revenues, expenses or the increase in net assets for the year ended June 30, 2007.

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SUPPLEMENTARY INFORMATION

LAKE MICHIGAN COLLEGE

COMBINING BALANCE SHEET

JUNE 30, 2008

ASSETS	GENERAL FUND	DESIGNATED FUND	AUXILIARY FUND	PLANT FUND	TOTAL UNRESTRICTED
Current assets					
Cash and cash equivalents	\$ 7,163,051	\$ -	\$ -	\$ -	\$ 7,163,051
Accounts receivable	2,388,506	-	-	-	2,388,506
Contributions receivable, net	-	-	-	-	-
Inventories	40,720	-	-	-	40,720
Prepaid expenses and other assets	371,329	-	-	-	371,329
Due from (due to) other funds	9,208,291	-	-	(8,391,138)	817,153
Total current assets	19,171,897	-	-	(8,391,138)	10,780,759
Non-current assets					
Long term investments	-	-	-	-	-
Contributions receivable	-	-	-	-	-
Bond issuance costs	-	-	-	141,314	141,314
Capital assets					
Land and land improvements	-	-	-	4,500,490	4,500,490
Buildings and improvements	-	-	-	50,388,044	50,388,044
Equipment, furniture and fixtures and library materials	-	-	-	8,312,299	8,312,299
Art collection	-	-	-	344,173	344,173
Infrastructure	-	-	-	1,203,840	1,203,840
Construction in progress	-	-	-	586,579	586,579
Accumulated depreciation	-	-	-	(28,798,013)	(28,798,013)
Total capital assets	-	-	-	36,537,412	36,537,412
Total non-current assets	-	-	-	36,678,726	36,678,726
Total assets	\$ 19,171,897	\$ -	\$ -	\$ 28,287,588	\$ 47,459,485
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of debt obligations	\$ -	\$ -	\$ -	\$ 150,000	\$ 150,000
Accounts payable	675,860	-	-	172,900	848,760
Accrued payroll and related compensation costs	1,000,975	-	-	-	1,000,975
Accrued interest payable	-	-	-	116,000	116,000
Due to LMC Foundation	3,772	-	-	-	3,772
Unearned revenue	1,669,013	-	-	-	1,669,013
Other	63,468	-	-	29,373	92,841
Total current liabilities	3,413,088	-	-	468,273	3,881,361
Long-term debt obligations	-	-	-	6,900,000	6,900,000
Total liabilities	3,413,088	-	-	7,368,273	10,781,361
Net assets (deficit)					
Invested in capital assets, net of related debt	-	-	-	29,487,412	29,487,412
Restricted for:					
Nonexpendable endowments	-	-	-	-	-
Expendable scholarships and fellowships	-	-	-	-	-
Unrestricted (deficit)	15,758,809	-	-	(8,568,097)	7,190,712
Total net assets	15,758,809	-	-	20,919,315	36,678,124
Total liabilities and net assets	\$ 19,171,897	\$ -	\$ -	\$ 28,287,588	\$ 47,459,485

<u>RESTRICTED FUND</u>	<u>AGENCY FUND</u>	<u>FOUNDATION</u>	<u>TOTAL RESTRICTED</u>	<u>ELIMINATION</u>	<u>COMBINED TOTAL</u>
\$ -	\$ 59,648	\$ 71,505	\$ 131,153	\$ -	\$ 7,294,204
1,013,002	688	6,056	1,019,746	(1,027,030)	2,381,222
-	-	540,839	540,839	-	540,839
668.00	-	-	668	-	41,388
1,106.00	-	439	1,545	-	372,874
(419,674)	60	-	(419,614)	(397,539)	-
595,102	60,396	618,839	1,274,337	(1,424,569)	10,630,527
-	-	8,228,020	8,228,020	-	8,228,020
-	-	440,736	440,736	-	440,736
-	-	-	-	-	141,314
-	-	-	-	-	4,500,490
-	-	-	-	-	50,388,044
-	-	-	-	-	8,312,299
-	-	-	-	-	344,173
-	-	-	-	-	1,203,840
-	-	-	-	-	586,579
-	-	-	-	-	(28,798,013)
-	-	-	-	-	36,537,412
-	-	8,668,756	8,668,756	-	45,347,482
\$ 595,102	\$ 60,396	\$ 9,287,595	\$ 9,943,093	\$ (1,424,569)	\$ 55,978,009
\$ -	\$ -	-	\$ -	\$ -	\$ 150,000
110,273	2,702	-	112,975	-	961,735
155,870	-	-	155,870	-	1,156,845
-	-	-	-	-	116,000
-	-	393,767	393,767	(397,539)	-
280,950	7,617	12,359	300,926	(1,027,030)	942,909
48,009	50,077	-	98,086	-	190,927
595,102	60,396	406,126	1,061,624	(1,424,569)	3,518,416
-	-	-	-	-	6,900,000
595,102	60,396	406,126	1,061,624	(1,424,569)	10,418,416
-	-	-	-	-	29,487,412
-	-	5,548,710	5,548,710	-	5,548,710
-	-	3,172,221	3,172,221	-	3,172,221
-	-	160,538	160,538	-	7,351,250
-	-	8,881,469	8,881,469	-	45,559,593
\$ 595,102	\$ 60,396	\$ 9,287,595	\$ 9,943,093	\$ (1,424,569)	\$ 55,978,009

LAKE MICHIGAN COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>GENERAL FUND</u>	<u>DESIGNATED FUND</u>	<u>AUXILIARY FUND</u>	<u>PLANT FUND</u>	<u>TOTAL UNRESTRICTED</u>
Operating revenue					
Tuition and fees (net of scholarship allowance of \$1,980,314)	\$ 7,778,654	\$ -	\$ -	\$ -	\$ 7,778,654
Non credit tuition and fees	425,430	-	-	-	425,430
Federal grants and contracts	277,786	-	-	-	277,786
State grants and contracts	-	-	-	-	-
Nongovernmental grants	-	-	-	-	-
Auxiliary activities (net of internal revenue of \$125,376)	-	-	1,603,690	-	1,603,690
Other sources	-	-	-	-	-
Total operating revenue	<u>8,481,870</u>	<u>-</u>	<u>1,603,690</u>	<u>-</u>	<u>10,085,560</u>
Operating expenses					
Salaries and wages	12,707,185	-	1,098,299	-	13,805,484
Benefits	4,831,646	-	434,397	-	5,266,043
Professional services	1,834,028	-	419,667	-	2,253,695
Supplies and materials	872,917	-	434,293	-	1,307,210
Rent, utilities and insurance	1,406,285	-	209,462	-	1,615,747
Travel, communication and miscellaneous	1,421,969	-	41,000	-	1,462,969
Depreciation and amortization of assets	-	-	-	1,748,845	1,748,845
Small capital equipment	337,068	-	6,996	-	344,064
Total operating expenses	<u>23,411,098</u>	<u>-</u>	<u>2,644,114</u>	<u>1,748,845</u>	<u>27,804,057</u>
Operating income (loss)	<u>(14,929,228)</u>	<u>-</u>	<u>(1,040,424)</u>	<u>(1,748,845)</u>	<u>(17,718,497)</u>
Nonoperating revenues (expenses)					
State appropriations	5,362,800	-	-	-	5,362,800
Pell Grants	-	-	-	-	-
Property taxes	13,360,678	-	-	-	13,360,678
Gift and contributions	165,765	-	-	-	165,765
Additions to nonexpendable endowments	-	-	-	-	-
Investment income	190,826	-	-	-	190,826
Interest on capital asset - related debt	-	-	-	(347,829)	(347,829)
Loss on investments	(148,023)	-	-	(172,529)	(320,552)
Other nonoperating revenue	478,759	-	-	-	478,759
Net nonoperating revenues (expenses)	<u>19,410,805</u>	<u>-</u>	<u>-</u>	<u>(520,358)</u>	<u>18,890,447</u>
Increase (decrease) in net assets	4,481,577	-	(1,040,424)	(2,269,203)	1,171,950
Transfers in (out)	<u>(1,244,808)</u>	<u>-</u>	<u>1,040,424</u>	<u>-</u>	<u>(204,384)</u>
Net increase (decrease) in net assets	3,236,769	-	-	(2,269,203)	967,566
Net assets - beginning of year (as restated)	<u>12,522,040</u>	<u>-</u>	<u>-</u>	<u>23,188,518</u>	<u>35,710,558</u>
Net assets - end of year	<u>\$ 15,758,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,919,315</u>	<u>\$ 36,678,124</u>

<u>RESTRICTED FUND</u>	<u>AGENCY FUND</u>	<u>FOUNDATION</u>	<u>ENDOWMENT FUND</u>	<u>TOTAL RESTRICTED</u>	<u>ELIMINATIONS</u>	<u>COMBINED TOTAL</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,980,314)	\$ 5,798,340
-	-	-	-	-	-	425,430
6,866,672	-	-	-	6,866,672	-	7,144,458
1,472,118	-	-	-	1,472,118	-	1,472,118
151,881	-	-	-	151,881	-	151,881
-	-	-	-	-	(125,376)	1,478,314
-	-	-	-	-	-	-
8,490,671	-	-	-	8,490,671	(2,105,690)	16,470,541
3,775,346	-	142,085	-	3,917,431	-	17,722,915
1,483,029	-	53,900	-	1,536,929	79,581	6,882,553
817,923	-	30,764	-	848,687	(212,614)	2,889,768
426,225	-	71,196	-	497,421	-	1,804,631
51,892	-	3,477	-	55,369	-	1,671,116
4,311,283	-	835,615	-	5,146,898	(2,208,163)	4,401,704
-	-	-	-	-	-	1,748,845
77,280	-	-	-	77,280	(52,227)	369,117
10,942,978	-	1,137,037	-	12,080,015	(2,393,423)	37,490,649
(2,452,307)	-	(1,137,037)	-	(3,589,344)	287,733	(21,020,108)
-	-	-	-	-	-	5,362,800
2,452,307	-	-	-	2,452,307	-	2,452,307
-	-	-	-	-	-	13,360,678
-	-	345,000	-	345,000	(115,351)	395,414
-	-	132,512	-	132,512	-	132,512
-	-	170,514	-	170,514	-	361,340
-	-	-	-	-	-	(347,829)
-	-	(478,645)	-	(478,645)	-	(799,197)
-	-	180,954	-	180,954	(172,382)	487,331
2,452,307	-	350,335	-	2,802,642	(287,733)	21,405,356
-	-	(786,702)	-	(786,702)	-	385,248
-	-	204,384	-	204,384	-	-
-	-	(582,318)	-	(582,318)	-	385,248
-	-	9,463,787	-	9,463,787	-	45,174,345
\$ -	\$ -	\$ 8,881,469	\$ -	\$ 8,881,469	\$ -	\$ 45,559,593

LAKE MICHIGAN COLLEGE

COMBINING BALANCE SHEET

JUNE 30, 2007

ASSETS	GENERAL FUND	DESIGNATED FUND	AUXILIARY FUND	PLANT FUND	TOTAL UNRESTRICTED
Current assets					
Cash and cash equivalents	\$ 5,484,759	\$ -	\$ -	\$ -	\$ 5,484,759
Accounts receivable	2,250,122	-	-	-	2,250,122
Contributions receivable	-	-	-	-	-
Inventories	32,576	-	-	-	32,576
Prepaid expenses and other assets	431,540	-	-	-	431,540
Due from (due to) other funds	7,910,650	-	-	(6,783,837)	1,126,813
Total current assets	16,109,647	-	-	(6,783,837)	9,325,810
Non-current assets					
Long term investments	-	-	-	-	-
Contributions receivable	-	-	-	-	-
Bond issuance costs	-	-	-	147,202	147,202
Capital assets					
Land and land improvements	-	-	-	4,453,039	4,453,039
Buildings and improvements	-	-	-	50,204,357	50,204,357
Equipment, furniture and fixtures, library materials and art collection	-	-	-	8,094,294	8,094,294
Infrastructure	-	-	-	1,203,840	1,203,840
Construction in progress	-	-	-	382,772	382,772
Accumulated depreciation	-	-	-	(27,070,278)	(27,070,278)
Total property and equipment	-	-	-	37,268,024	37,268,024
Total non-current assets	-	-	-	37,415,226	37,415,226
Total assets	\$ 16,109,647	\$ -	\$ -	\$ 30,631,389	\$ 46,741,036
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of debt obligations	\$ -	\$ -	\$ -	\$ 176,213	\$ 176,213
Accounts payable	451,988	-	-	68,377	520,365
Accrued payroll and related compensation costs	1,069,340	-	-	-	1,069,340
Accrued interest payable	-	-	-	117,685	117,685
Due to LMC	700	-	-	-	700
Unearned revenue	1,938,237	-	-	-	1,938,237
Other	127,342	-	-	30,596	157,938
Total current liabilities	3,587,607	-	-	392,871	3,980,478
Long-term debt obligations	-	-	-	7,050,000	7,050,000
Total liabilities	3,587,607	-	-	7,442,871	11,030,478
Net assets (deficit)					
Invested in capital assets, net of related debt	-	-	-	30,041,811	30,041,811
Restricted for:					
Nonexpendable endowments	-	-	-	-	-
Expendable scholarships and fellowships	-	-	-	-	-
Unrestricted (Deficit)	12,522,040	-	-	(6,853,293)	5,668,747
Total net assets	12,522,040	-	-	23,188,518	35,710,558
Total liabilities and net assets	\$ 16,109,647	\$ -	\$ -	\$ 30,631,389	\$ 46,741,036

RESTRICTED FUND	(RESTATED) FOUNDATION	TOTAL	ELIMINATION	COMBINED TOTAL
\$ -	\$ 131,475	\$ 131,475	\$ -	\$ 5,616,234
988,261	10,323	998,584	(1,329,610)	1,919,096
-	762,202	762,202	-	762,202
-	-	-	-	32,576
10,498	154	10,652	-	442,192
(724,975)	9,800	(715,175)	(411,638)	-
273,784	913,954	1,187,738	(1,741,248)	8,772,300
-	8,139,570	8,139,570	-	8,139,570
-	812,101	812,101	-	812,101
-	-	-	-	147,202
-	-	-	-	4,453,039
-	-	-	-	50,204,357
-	-	-	-	8,094,294
-	-	-	-	1,203,840
-	-	-	-	382,772
-	-	-	-	(27,070,278)
-	-	-	-	37,268,024
-	8,951,671	8,951,671	-	46,366,897
\$ 273,784	\$ 9,865,625	10,139,409	\$ (1,741,248)	\$ 55,139,197
\$ -	\$ -	\$ -	\$ -	\$ 176,213
53,877	-	53,877	-	574,242
113,735	-	113,735	-	1,183,075
-	-	-	-	117,685
9,100	401,838	410,938	(411,638)	-
35,999	-	35,999	(1,329,610)	644,626
61,073	-	61,073	-	219,011
273,784	401,838	675,622	(1,741,248)	2,914,852
-	-	-	-	7,050,000
273,784	401,838	675,622	(1,741,248)	9,964,852
-	-	-	-	30,041,811
-	6,334,749	6,334,749	-	6,334,749
-	2,679,033	2,679,033	-	2,679,033
-	450,005	450,005	-	6,118,752
-	9,463,787	9,463,787	-	45,174,345
\$ 273,784	\$ 9,865,625	10,139,409	\$ (1,741,248)	\$ 55,139,197

LAKE MICHIGAN COLLEGE

COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>GENERAL FUND</u>	<u>AUXILIARY FUND</u>	<u>PLANT FUND</u>	<u>TOTAL UNRESTRICTED</u>
Operating revenue				
Tuition and fees (net of scholarship allowance of \$1,831,790)	\$ 8,068,433	\$ -	\$ -	\$ 8,068,433
Non Credit Tuition and Fees	430,801	-	-	430,801
Federal grants and contracts	330,613	-	-	330,613
State grants and contracts	-	-	-	-
Nongovernmental grants	-	-	-	-
Auxiliary activities (net of internal revenue of \$124,144)	2,250	1,839,069	-	1,841,319
Other sources	-	350	-	350
Total operating revenue	<u>8,832,097</u>	<u>1,839,419</u>	<u>-</u>	<u>10,671,516</u>
Operating expenses				
Salaries and wages	12,126,678	1,049,364	-	13,176,042
Benefits	4,284,029	403,784	-	4,687,813
Professional services	1,507,808	476,813	-	1,984,621
Supplies and materials	851,909	434,412	-	1,286,321
Rent, utilities and insurance	1,216,694	260,981	1,380	1,479,055
Travel, communication and miscellaneous	1,329,903	120,045	549	1,450,497
Depreciation and amortization of assets	-	-	1,702,659	1,702,659
Small capital equipment	446,860	-	-	446,860
Total operating expenses	<u>21,763,881</u>	<u>2,745,399</u>	<u>1,704,588</u>	<u>26,213,868</u>
Operating income (loss)	<u>(12,931,784)</u>	<u>(905,980)</u>	<u>(1,704,588)</u>	<u>(15,542,352)</u>
Nonoperating revenues (expenses)				
State appropriations	4,180,500	-	-	4,180,500
Pell Grants	-	-	-	-
Property taxes	12,357,052	-	-	12,357,052
Gift and contributions	117,980	-	-	117,980
Additions to nonexpendable endowments	-	-	-	-
Investment income	315,086	-	-	315,086
Interest on capital asset - related debt	-	-	(353,989)	(353,989)
Gains on investments	-	-	-	-
Other nonoperating revenue	540,818	-	-	540,818
Net nonoperating revenues (expenses)	<u>17,511,436</u>	<u>-</u>	<u>(353,989)</u>	<u>17,157,447</u>
Increase (decrease) in net assets	4,579,652	(905,980)	(2,058,577)	1,615,095
Transfers in (out)	<u>(1,317,553)</u>	<u>908,930</u>	<u>-</u>	<u>(408,623)</u>
Net increase (decrease) in net assets	3,262,099	2,950	(2,058,577)	1,206,472
Net assets - beginning of year, as restated	<u>9,259,941</u>	<u>(2,950)</u>	<u>25,247,095</u>	<u>34,504,086</u>
Net assets - end of year, as restated	<u><u>\$ 12,522,040</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,188,518</u></u>	<u><u>\$ 35,710,558</u></u>

<u>RESTRICTED FUND</u>	<u>FOUNDATION</u>	<u>TOTAL RESTRICTED</u>	<u>ELIMINATIONS</u>	<u>COMBINED TOTAL</u>
\$ -	\$ -	\$ -	\$ (1,939,283)	\$ 6,129,150
-	-	-	-	430,801
5,095,096	-	5,095,096	(119,807)	5,305,902
1,179,221	-	1,179,221	-	1,179,221
687,546	-	687,546	-	687,546
-	-	-	(121,118)	1,720,201
-	-	-	-	350
6,961,863	-	6,961,863	(2,180,208)	15,453,171
2,923,575	-	2,923,575	-	16,099,617
1,108,307	-	1,108,307	47,446	5,843,566
430,367	54,505	484,872	(240,925)	2,228,568
398,454	102,417	500,871	-	1,787,192
55,960	7,310	63,270	-	1,542,325
4,365,613	574,255	4,939,868	(2,099,709)	4,290,656
-	-	-	-	1,702,659
511,116	-	511,116	(392,354)	565,622
9,793,392	738,487	10,531,879	(2,685,542)	34,060,205
(2,831,529)	(738,487)	(3,570,016)	505,334	(18,607,034)
-	-	-	-	4,180,500
2,420,678	-	2,420,678	-	2,420,678
-	-	-	-	12,357,052
-	451,834	451,834	(112,980)	456,834
-	129,454	129,454	-	129,454
(222)	127,253	127,031	-	442,117
-	-	-	-	(353,989)
-	1,050,862	1,050,862	-	1,050,862
2,450	277,765	280,215	(392,354)	428,679
2,422,906	2,037,168	4,460,074	(505,334)	21,112,187
(408,623)	1,298,681	890,058	-	2,505,153
408,623	-	408,623	-	-
-	1,298,681	1,298,681	-	2,505,153
-	8,165,106	8,165,106	-	42,669,192
\$ -	\$ 9,463,787	\$ 9,463,787	\$ -	\$ 45,174,345

