LANSING COMMUNITY COLLEGE
Where Success Begins

**REPORT ON FINANCIAL STATEMENTS**
**(with additional information)**

**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

REHMANN ROBSON
Certified Public Accountants

# LANSING COMMUNITY COLLEGE

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# LANSING COMMUNITY COLLEGE
## MANAGEMENT'S DISCUSSION AND ANALYSIS
### YEARS ENDED JUNE 30, 2008 AND 2007

The discussion and analysis of Lansing Community College's financial statements provides 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 accuracy and completeness of this information rests with the College's management.

**Using this Report**

The College's financial statements have been prepared in accordance with the following standards.

In June 1999, the Governmental 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 entity 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*. Subsequent GASB statements, when applicable, have been implemented as well.

**Component Unit**

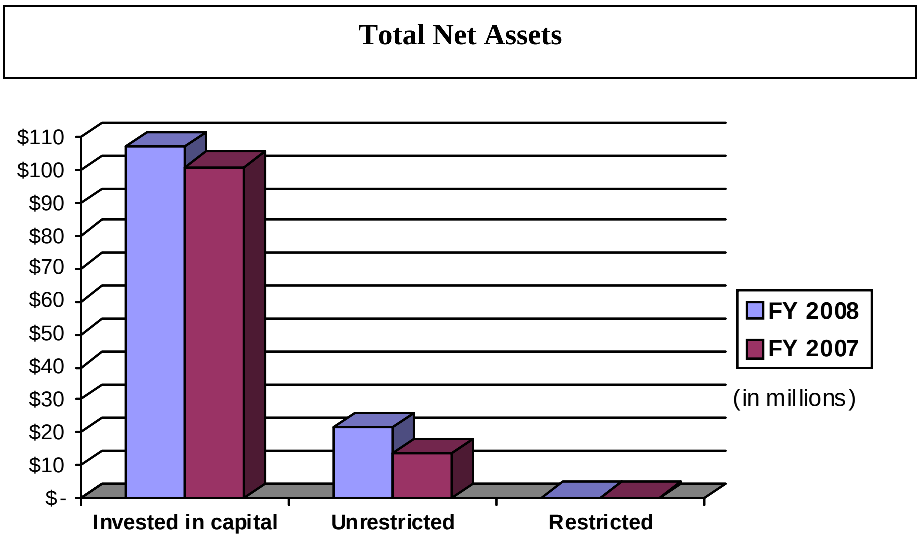
In May 2002, GASB released Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Statement No. 39 requires that separate legal entities associated with a primary government that meet certain criteria are included with the financial statements of the Primary Reporting Unit.

In compliance with this statement, the Lansing Community College Foundation is reported as a component unit of the College and its financial activities are presented separately from the rest of the College's activities in the Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets, in separate columns headed "Component Unit".

This annual financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements in the above referred to format, notes to financial statements, and additional information.

## Financial Highlights

The College's financial position improved significantly during the fiscal year ended June 30, 2008 with a $14.2 million increase in total net assets. The three major categories of net assets changed somewhat, as shown in the graph below. Unrestricted net assets as shown here increased by approximately $8.0 million, from $13.5 to $21.5 million as a result of net increase in net assets. Also, the amount invested in capital assets, net of related debt increased as a result of the final phases of the Banner ERP implementation.




## Balance Sheets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions to ask about the College's finances is, "Is Lansing Community College as a whole better off or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question.

These two statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report Lansing Community College's net assets and changes in them. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Lansing Community College's operating results.

You can think of LCC's net assets - the difference between assets and liabilities - as one way to measure the College's financial 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. To assess the overall health of the College, you will need to consider many other non-financial factors, such as the trend in College enrollment, student retention, condition of the buildings, and strength of the faculty.

Below is an analysis of the major components of the net assets of the College as of June 30, 2008 and 2007, with prior year information shown to the right. The College significantly increased its cash and receivables from the increase in net assets and the liquidation of some short term investments (part of current assets). Construction was completed on the University Center Building and the fit out of the Health and Human Services Building third floor. The College also continued into the final phase of the implementation of a Banner ERP. In turn, the College's capital assets, net of depreciation, increased slightly.

**Net Assets as of June 30, 2008 and 2007** (in millions)

| | 2008 | 2007 |
|---|---|---|
| Current assets | $ 33.2 | $ 23.2 |
| Non-current assets | | |
| Capital assets, net of depreciation | 170.1 | 166.6 |
| Other | 10.0 | 13.9 |
| Total assets | $ 213.3 | $ 203.7 |
| Current liabilities | $ 18.2 | $ 18.3 |
| Long-term liabilities | 66.3 | 70.8 |
| Total liabilities | 84.5 | 89.1 |
| Net assets | | |
| Invested in capital assets | 107.1 | 100.9 |
| Restricted | 0.2 | 0.2 |
| Unrestricted | 21.5 | 13.5 |
| Total net assets | 128.8 | 114.6 |
| Total liabilities and net assets | $ 213.3 | $ 203.7 |

A comparison of fiscal year 2008 and 2007 operating results is provided on the following page.

**Operating Results for the Years Ended June 30, 2008 and 2007** (in millions)

| | 2008 | 2007 |
|---|---|---|
| Operating revenues: | | |
| Tuition and fees (net of scholarship allowances) | $ 30.3 | $ 26.2 |
| Federal grants and contracts | 4.1 | 4.7 |
| State grants and contracts | 1.2 | 1.9 |
| Local grants and contracts | 2.1 | 1.5 |
| Sales and services of educational activities | 1.9 | 2.4 |
| Sales and services of auxiliary activities | 2.9 | 2.6 |
| Miscellaneous | 0.4 | 0.3 |
| Total operating revenues | 42.9 | 39.6 |
| Operating expenses: | | |
| Instruction | 39.5 | 39.9 |
| Information technology | 7.3 | 5.8 |
| Public services | 1.9 | 1.8 |
| Instructional support | 19.6 | 19.2 |
| Student services | 16.6 | 16.8 |
| Institutional administration | 8.4 | 8.0 |
| Operation and maintenance of plant | 16.3 | 14.1 |
| Depreciation expense | 7.7 | 8.7 |
| Total operating expenses | 117.3 | 114.3 |
| Operating loss | (74.4) | (74.7) |
| Nonoperating revenues (expenses): | | |
| State appropriations | 31.8 | 25.0 |
| Property tax levy | 41.7 | 39.4 |
| Pell Grant revenue | 13.4 | 11.8 |
| Other nonoperating expenses - net | (1.9) | (1.9) |
| Net nonoperating revenues | 85.0 | 74.3 |
| Other revenues: | | |
| State capital appropriations | 2.5 | 1.6 |
| Capital gifts | 1.1 | - |
| Total other revenues | 3.6 | 1.6 |
| Net increase in net assets | 14.2 | 1.2 |
| Net assets - beginning of year | 114.6 | 113.4 |
| Net assets - end of year | $ 128.8 | $ 114.6 |

## Operating Revenues

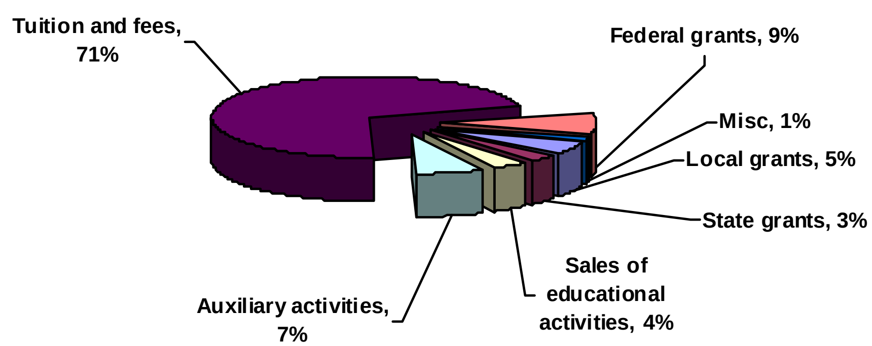
Operating revenues include all transactions that result from the sales and/or receipts of goods and services such as tuition and fees. In addition, certain federal, state, and private grants are considered operating revenues if they are considered a contract for services and are not for capital purposes.

Operating revenue changes were the result of the following factors:

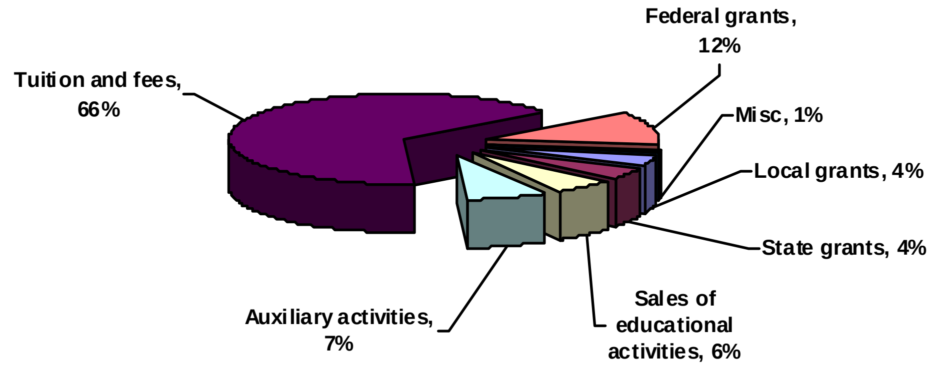
- Tuition and fee revenue increased significantly due to increases in tuition and fee rates along with a slight increase in enrollment.
- Federal grants and contracts decreased $577 thousand as a result of reductions in several grants including Energy and Efficiency and Alternative Energy, TANF/Work First, and Improving Teacher Quality grants.
- State grants and contracts decreased $685 thousand as a result of reductions in several EDJT grants including General Motors training.
- Sales and services of educational activities decreased as a result of reduced General Motors training.

The following is a graphic illustration of operating revenues by source for 2008 and 2007:

**2008 Operating Revenues by Source**




**2007 Operating Revenues by Source**

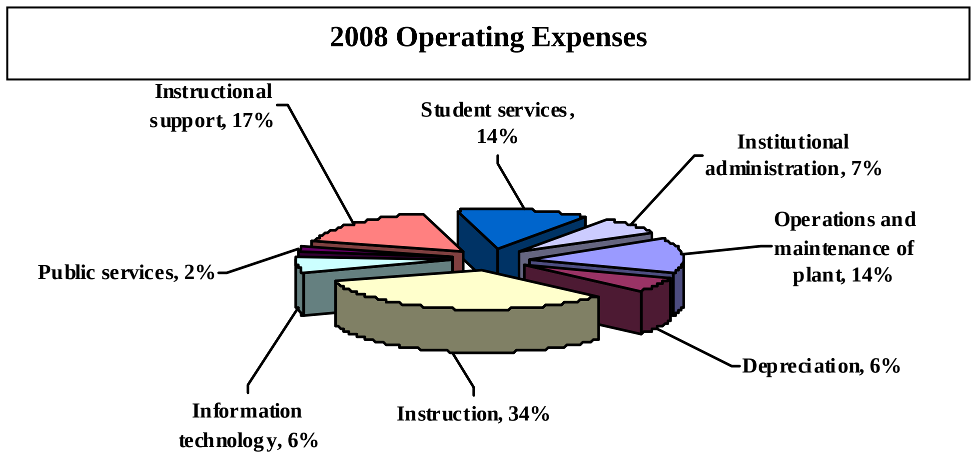


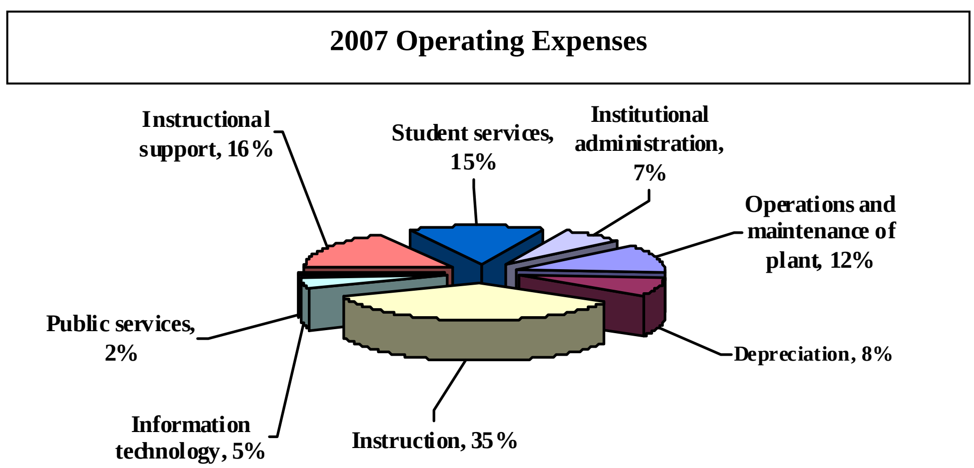
## Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. Total operating expenses are up by approximately $3.0 million. Factors that influence this increase are:

- Instructional costs decreased by $0.4 million due to more efficient delivery of sections.
- Student services costs decreased by $0.2 million due to a redeployment of resources to the implementation of the new ERP system by these student services staff.
- The College's depreciation expense decreased by $1.0 million. The legacy ERP system was fully depreciated at the end of last year.
- Operation and maintenance of plant increased by $2.2 million due to repairs and upgrades to the photography building as well as increased operating costs from additional space occupied during the last few years, including new and recently acquired buildings.
- Information technology costs increased by $1.5 million due to transition issues from the legacy to the new ERP system.

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



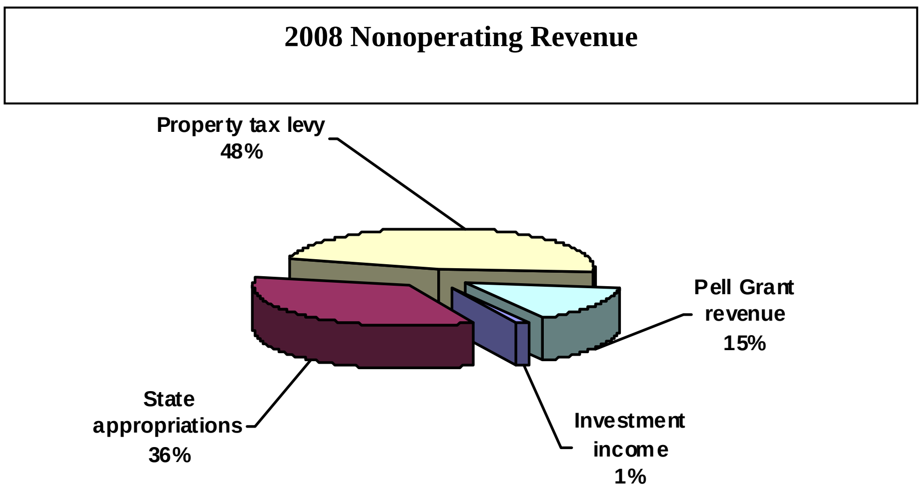
## Nonoperating Revenues

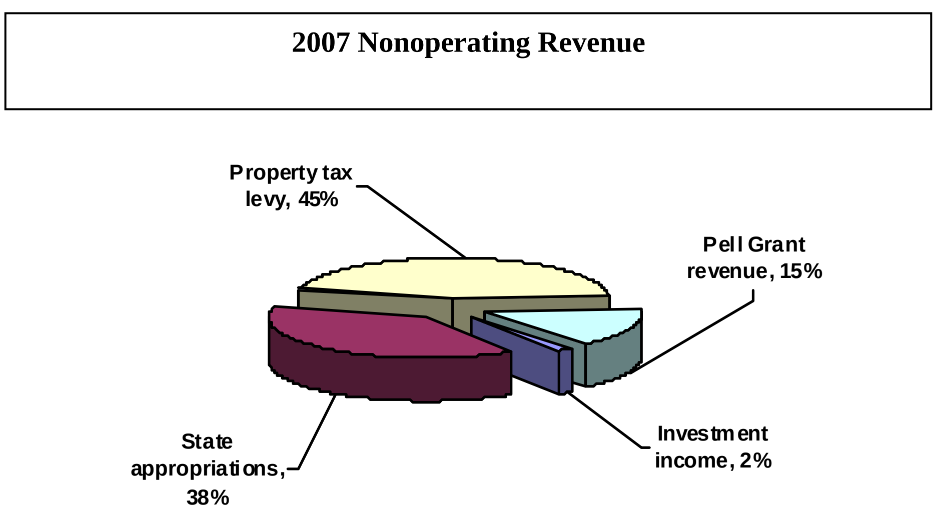
Nonoperating revenues are all revenue sources that are mainly non-exchange in nature. They consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and Pell Grant revenue.

Changes in nonoperating revenues were the result of the following factors:

- An increase of 27.2% in state appropriations representing $6.8 million. A significant portion of this increase is a result of the appropriation of the delayed payment from fiscal year 2007 along with the one time reduction in fiscal year 2007 from the pension fund credit.
- An increase of over 5.9% in property taxes representing $2.3 million.
- An increase in investment income due to improved cash flow from increased net assets.

The graphs that follow illustrate the distribution of nonoperating revenues by source for 2008 and 2007:



## Statement of Cash Flows

Another way to assess the financial health of a college is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a designated period. The statement of cash flows also helps users assess the College's:

- Ability to generate future net cash flows
- Ability to meet its obligations as they come due
- Needs for external financing

**Cash flows for the years ended June 30, 2008 and 2007** (in millions):

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Cash provided (used) by: | | | | |
| Operating activities | $ | (65.1) | $ | (69.9) |
| Noncapital financing activities | | 84.5 | | 79.9 |
| Capital and related financing activities | | (12.4) | | (17.9) |
| Investing activities | | 5.5 | | 1.0 |
| Net increase (decrease) in cash | | 12.5 | | (6.9) |
| Cash, beginning of year | | 0.2 | | 7.1 |
| Cash, end of year | $ | 12.7 | $ | 0.2 |

The College’s cash and cash equivalents increased by $12.5 million during 2008 primarily due to the increase in net assets.

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2008, the College had $170.1 million invested in capital assets, net of accumulated depreciation of $80.8 million. Depreciation expense totaled $7.7 million for the current fiscal year. Details of these assets at net book value for 2008 and 2007 are shown below:

| | 2008 | 2007 |
|---|---|---|
| Land | $ 10.8 | $ 10.8 |
| Buildings and improvements | 141.0 | 128.9 |
| Equipment | 11.6 | 9.5 |
| Infrastructure | 2.0 | 2.2 |
| Construction in progress | 4.7 | 15.2 |
| Total | $ 170.1 | $ 166.6 |

Major capital assets placed in service during the year were (in millions):

- Furniture and equipment $6.0 million
- Buildings and improvements $15.7 million

Planned capital expenditures for the fiscal year ended June 30, 2008 included final payments for the Banner ERP system installation.

### Debt

At year end, the College had $70.7 million in outstanding debt including five outstanding bond issues. The 2002 bond issue will be paid off in May of 2012, the 2003 bond issue will be paid off in May of 2022, the 2005 bond issue will be paid off in May of 2022, the 2006 bond issue will be paid off in May of 2026 and the 2007 bond issue will be paid off in May of 2026. The table below summarizes these amounts.

| | 2008 | 2007 |
|---|---|---|
| 2002 building & site bonds | $ 11.7 | $ 14.2 |
| 2003 building & site bonds | 15.1 | 16.6 |
| 2005 building & site bonds | 22.8 | 22.9 |
| 2006 building & site bonds | 9.9 | 9.9 |
| 2007 building & site bonds | 9.5 | 9.5 |
| National City note payable | 1.7 | 1.9 |
| | $ 70.7 | $ 75.0 |

## Economic Factors That Will Affect the Future

In fiscal year 2002, Lansing Community College received more than $32 million in state appropriations. Since that time, Michigan community colleges have experienced a decrease in state appropriations resulting in State appropriations for the fiscal year ended June 30, 2007 at $28.3 million. During the fiscal year ended June 30, 2007 the state cut funding as a result of changes in tax structure and the Michigan economy. The final state appropriation for the fiscal year ended June 30, 2007 was $25.0 million. This included a “delay” in the final state aid payment of $2.6 million (which the state restored for next fiscal year with an appropriations bill in September, 2007). The State offset another $1.2 million of reduction with a one for one reduction in contribution to the MPSERS retirement fund as a result of an actuarial adjustment. For the fiscal year ended June 30, 2008 the final appropriation included $29.2 million in base appropriation plus the restoration of the 2007 delayed payment of $2.6 million.

The current and projected economic outlook for Michigan includes significant reductions in domestic automobile sales resulting in further reductions in jobs and employment. The State budget projections for Community College funding are flat, with a risk of possible reductions in the future.

The College must continue to identify other sources of revenue beyond State aid.

While property tax revenue to the College increased by approximately 5.9% compared to fiscal year 2007, Lansing Community College remains near the bottom of Michigan’s 28 community colleges in terms of taxable value per Fiscal Year Equated Student (FYES). Growth in property tax revenue is anticipated to slow significantly for the fiscal year end June 30, 2009 and possibly decline in the subsequent fiscal year as a result of declining real estate market values.

The College faces continued increases in benefit costs. The contribution rate to the MPSERS system was 12.17% of all wages and salaries in fiscal year 2002. For most of fiscal year 2008, it was 16.72%. The College now budgets approximately $60 million in salaries and wages (excluding student staff), so each 1% increase in contribution rate equates to approximately $600,000 more in retirement contribution costs. The actuarial adjustment made to MPSERS in fiscal year ended June 30, 2007 combined with recent significant downturns in the investment markets are projected to significantly increase the contribution rate in the future.

Finally, rising energy costs affect all organizations. The College’s emphasis on energy conservation through equipment upgrades and renewable energy sources such as the geothermal system at the new West Campus has helped offset the significant financial impact of continually rising energy costs.

## Contacting the College's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office, Lansing Community College, P. O. Box 40010, Lansing, Michigan 48901-7210.

# INDEPENDENT AUDITORS' REPORT

November 10, 2008

Board of Trustees
Lansing Community College
Lansing, Michigan

We have audited the accompanying balance sheet of ***Lansing Community College*** (the "College") and its discretely presented component unit as of and for the year ended June 30, 2008, and the related statements of revenues, expenses, and changes in net assets, and the College's cash flows for the year 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 audit. The 2007 financial statements were audited by other auditors whose report dated November 5, 2007, prior to the reclassifications described in Note 1, expressed an unqualified opinion on those statements.

We conducted our audit of the 2008 financial statements 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 Lansing Community College Foundation, the College's discretely presented component unit, 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 audit of the 2008 financial statements provides 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 ***Lansing Community College*** and its discretely presented component unit, as of June 30, 2008, and the respective results of their operations and the College's cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated November 10, 2008, on our consideration of Lansing Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic 2008 financial statements taken as a whole. The additional information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 2008 financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the 2008 financial statements and, accordingly, we express no opinion on it.

The Management's Discussion and Analysis ("MD&A") presented on pages 1 through 10 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.

Rehmann Robson

# LANSING COMMUNITY COLLEGE

## BALANCE SHEETS

| | Primary Government Lansing Community College June 30, 2008 | Primary Government Lansing Community College June 30, 2007 | Component Unit Lansing Community College Foundation June 30, 2008 | Component Unit Lansing Community College Foundation June 30, 2007 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | $ 12,733,701 | $ 222,407 | $ 44,540 | $ 73,369 |
| Short-term investments | 2,289,200 | 6,885,064 | 687,888 | 1,181,737 |
| Property taxes receivable, net | 1,234,454 | 1,397,587 | - | - |
| State appropriations receivable | 5,306,146 | 2,004,222 | - | - |
| State capital appropriations receivable | 2,425,881 | 1,592,206 | - | - |
| Accounts receivable, net | 5,123,871 | 4,390,907 | 209,735 | 300,995 |
| Federal and state grants receivable | 3,980,348 | 6,522,162 | - | - |
| Inventories | 130,085 | 119,926 | - | - |
| Prepaid expenses and other assets | 12,205 | 54,589 | - | - |
| **Total current assets** | **33,235,891** | **23,189,070** | **942,163** | **1,556,101** |
| Restricted cash - unspent bond proceeds | 7,779,759 | 11,150,375 | - | - |
| Long-term investments | 1,355,123 | 1,937,789 | 8,265,918 | 8,951,232 |
| Promises to give | - | - | 489,242 | 654,906 |
| Bond issuance costs, net | 793,147 | 848,844 | - | - |
| Property and equipment, net | 170,142,530 | 166,622,672 | - | - |
| **Total assets** | **$ 213,306,450** | **$ 203,748,750** | **$ 9,697,323** | **$ 11,162,239** |
| **LIABILITIES AND NET ASSETS** | | | | |
| **Current liabilities** | | | | |
| Current portion of debt obligations | $ 4,463,668 | $ 4,224,947 | $ - | $ - |
| Accounts payable | 3,149,068 | 5,518,449 | 332,060 | 315,329 |
| Accrued payroll and other compensation | 6,032,208 | 3,596,117 | - | - |
| Accrued vacation | 1,512,748 | 1,240,572 | - | - |
| Accrued interest payable | 511,673 | 555,254 | - | - |
| Unearned revenue | 2,561,402 | 3,200,291 | - | - |
| **Total current liabilities** | **18,230,767** | **18,335,630** | **332,060** | **315,329** |
| Long-term debt obligations, net of current portion | 66,255,870 | 70,813,793 | - | - |
| **Total liabilities** | **84,486,637** | **89,149,423** | **332,060** | **315,329** |
| **Net assets** | | | | |
| Invested in capital assets, net of related debt | 107,118,926 | 100,880,868 | - | - |
| Restricted: | | | | - |
| Restricted fund activities | 171,618 | 184,743 | - | - |
| Non-expendable - permanently restricted | - | - | 5,153,967 | 4,975,558 |
| Expendable - temporarily restricted | - | - | 3,651,417 | 5,212,166 |
| Unrestricted | 21,529,269 | 13,533,716 | 559,879 | 659,186 |
| **Total net assets** | **128,819,813** | **114,599,327** | **9,365,263** | **10,846,910** |
| **Total liabilities and net assets** | **$ 213,306,450** | **$ 203,748,750** | **$ 9,697,323** | **$ 11,162,239** |

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

# LANSING COMMUNITY COLLEGE

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | Primary Government Lansing Community College Year Ended June 30, | | Component Unit Lansing Community College Foundation Year Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Operating revenues** | | | | |
| Tuition and fees (net of scholarship allowances of $14,834,794 and $13,328,200, respectively) | $ 30,337,889 | $ 26,232,399 | $ - | $ - |
| Federal grants and contracts | 4,161,928 | 4,738,870 | - | - |
| State grants and contracts | 1,170,917 | 1,856,065 | - | - |
| Local grants and contracts | 2,093,096 | 1,526,458 | - | - |
| Sales and services of educational activities | 1,951,275 | 2,347,778 | - | - |
| Sales and services of auxiliary activities | 2,872,679 | 2,624,492 | - | - |
| Miscellaneous | 358,168 | 258,154 | - | - |
| **Total operating revenues** | **42,945,952** | **39,584,216** | **-** | **-** |
| **Operating expenses** | | | | |
| Instruction | 39,503,913 | 39,862,366 | - | - |
| Information technology | 7,307,373 | 5,796,646 | - | - |
| Public services | 1,900,833 | 1,842,137 | - | - |
| Instructional support | 19,624,663 | 19,147,107 | - | - |
| Student services | 16,630,582 | 16,774,351 | - | - |
| Institutional administration | 8,357,057 | 8,038,973 | - | - |
| Operation and maintenance of plant | 16,306,001 | 14,133,693 | - | - |
| Depreciation expense | 7,680,791 | 8,678,276 | - | - |
| Foundation operations and fundraising | - | - | 607,994 | 537,908 |
| **Total operating expenses** | **117,311,213** | **114,273,549** | **607,994** | **537,908** |
| **Operating loss** | **(74,365,261)** | **(74,689,333)** | **(607,994)** | **(537,908)** |
| **Nonoperating revenues (expenses)** | | | | |
| State appropriations | 31,810,203 | 25,019,900 | - | - |
| Property tax levy | 41,722,075 | 39,394,072 | - | - |
| Pell Grant revenue | 13,428,753 | 11,772,511 | - | |
| Investment income (loss) | 1,244,354 | 1,018,574 | (294,074) | 1,135,271 |
| Interest on capital asset - related debt | (3,241,375) | (2,888,177) | - | - |
| Other | - | (22,830) | - | - |
| Gifts | - | - | 1,215,458 | 1,806,002 |
| Payments to primary government | - | - | (1,932,815) | (916,562) |
| **Net nonoperating revenues (expenses)** | **84,964,010** | **74,294,050** | **(1,011,431)** | **2,024,711** |
| **Other revenues** | | | | |
| State capital appropriations | 2,532,140 | 1,592,206 | - | - |
| Capital gifts | 1,089,597 | - | - | - |
| Additions to permanent endowment funds | - | - | 137,778 | 182,242 |
| **Total other revenues** | **3,621,737** | **1,592,206** | **137,778** | **182,242** |
| **Increase (decrease) in net assets** | **14,220,486** | **1,196,923** | **(1,481,647)** | **1,669,045** |
| Net assets, beginning of year | 114,599,327 | 113,402,404 | 10,846,910 | 9,177,865 |
| **Net assets, end of year** | **$ 128,819,813** | **$ 114,599,327** | **$ 9,365,263** | **$ 10,846,910** |

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

# LANSING COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS

| | Primary Government Lansing Community College Year Ended June 30, 2008 | 2007 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Tuition and fees | $ 29,760,243 | $ 27,082,262 |
| Grants and contracts | 9,967,755 | 9,232,027 |
| Payments to suppliers | (31,421,595) | (34,497,141) |
| Payments to or on behalf of employees | (78,670,482) | (76,941,143) |
| Collection of loans from students | - | 14,469 |
| Educational enterprise charges | 1,951,275 | 2,347,778 |
| Auxiliary enterprise charges | 2,872,679 | 2,624,492 |
| Other | 358,168 | 258,154 |
| **Net cash used in operating activities** | **(65,181,957)** | **(69,879,102)** |
| **Cash flows from noncapital financing activities** | | |
| Local property taxes | 41,885,208 | 39,632,300 |
| Pell Grant receipts | 14,155,094 | 11,772,511 |
| William D. Ford direct lending receipts | 28,567,036 | 23,528,385 |
| William D. Ford direct lending disbursements | (28,567,036) | (23,164,014) |
| State scholarship and grant receipts | 3,359,597 | 3,544,712 |
| State scholarship and grant disbursements | (3,359,597) | (3,544,712) |
| State appropriations | 28,508,279 | 28,124,240 |
| **Net cash provided by noncapital financing activities** | **84,548,581** | **79,893,422** |
| **Cash flows from capital and related financing activities** | | |
| Purchase of capital assets | (11,200,649) | (20,783,604) |
| Sale of capital assets | - | 309,377 |
| Principal paid on capital debt | (4,224,947) | (4,016,540) |
| Proceeds from debt | - | 19,370,000 |
| Restricted cash released from restrictions (unspent bond proceeds) | 3,370,616 | (11,150,375) |
| Bond issuance costs | - | (419,887) |
| Discount on bonds | (46,284) | (52,392) |
| Capital gifts | 1,089,597 | - |
| State capital appropriations | 1,698,465 | 1,592,206 |
| Interest paid on capital debt | (3,097,625) | (2,764,176) |
| **Net cash used in capital and related financing activities** | **(12,410,827)** | **(17,915,391)** |
| **Cash flows from investing activities** | | |
| Proceeds from sales and maturities of investments | 7,422,120 | 36,960,679 |
| Interest on investments | 1,244,354 | 1,018,574 |
| Purchases of investments | (3,110,977) | (37,006,639) |
| **Net cash provided by investing activities** | **5,555,497** | **972,614** |
| **Net increase (decrease) in cash** | **12,511,294** | **(6,928,457)** |
| Cash and cash equivalents, beginning of year | 222,407 | 7,150,864 |
| **Cash and cash equivalents, end of year** | **$ 12,733,701** | **$ 222,407** |

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

# LANSING COMMUNITY COLLEGE

## STATEMENTS OF CASH FLOWS (Concluded)

| | Primary Government Lansing Community College Year Ended June 30, | |
|---|---|---|
| | **2008** | **2007** |
| **Reconciliation of net operating loss to net cash used in operating activities** | | |
| Operating loss | $ (74,365,261) | $ (74,689,333) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | |
| Depreciation | 7,680,791 | 8,678,276 |
| Amortization of bond issuance costs | 55,697 | 45,157 |
| Amortization of bond premium | (192,473) | (192,473) |
| Accretion of bond discount | 5,142 | 966 |
| Amortization of loss on refunding | 93,075 | 93,075 |
| (Increase) decrease in operating assets: | | |
| Accounts receivables, net | (732,964) | (835,191) |
| Federal and state grants receivable | 2,541,814 | (3,006,141) |
| Inventories | (10,159) | 19,557 |
| Prepaid expenses and other current assets | 42,384 | 46,237 |
| Loans to students | - | 14,469 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (2,369,381) | 1,450,297 |
| Accrued payroll and other compensation | 2,436,091 | (2,257,211) |
| Accrued vacation | 272,176 | 181,150 |
| Unearned revenue | (638,889) | 572,063 |
| **Net cash used in operating activities** | **$ (65,181,957)** | **$ (69,879,102)** |

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

### 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Lansing Community College (the “College”) have been prepared in accordance with generally accepted accounting principles (“GAAP”) as applicable to public colleges and universities as described in Governmental Accounting Standards Board (“GASB”) Statement No. 35 and the *Manual for Uniform Financial Reporting—Michigan Public Community Colleges.* The College follows the “business-type” activities model of 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 and services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The College has elected not to follow subsequent private-sector guidance.

#### A. Reporting Entity

Lansing Community College is a Michigan community college with its main campus located in Lansing, Michigan. The College is governed by a Board of Trustees consisting of seven members.

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 College has determined that Lansing Community College Foundation (the “Foundation”) meets the criteria of a component unit.

Lansing Community College Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. The College provides certain support and facilities to the Foundation.

During the year ended June 30, 2008 and 2007, the Foundation distributed $1,932,815 and $916,562, respectively, to the College for both restricted and unrestricted purposes. Complete financial statements prepared in accordance with accounting standards established by the Financial Accounting Standards Board for the Foundation can be obtained from the Administrative Office at 520 N. Capitol Avenue, Lansing, Michigan, 48901-7210.

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

**B. Accrual Basis**

The financial statements have been prepared on 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.

**C. Cash and Cash Equivalents**

Cash and cash equivalents consists of demand deposits in banks, cash on hand, and highly liquid investments with an initial maturity of three months or less.

**D. Investments**

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

**E. Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for consumption and resale.

**F. Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. A property tax receivable allowance of approximately $1,197,000 and $380,000 has been established at June 30, 2008 and 2007, respectively. Also, an accounts receivable allowance of approximately $2,770,000 and $1,610,000 has been established at June 30, 2008 and 2007, respectively.

### G. Property and Equipment

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets. Depreciation on all assets is provided on the straight-line basis over the estimated useful as follows:

| | |
|---|---|
| Buildings and improvements | 40 years |
| Furniture, fixtures and equipment | 5 - 20 years |
| Infrastructure and land improvements | 10 - 20 years |

Buildings and major building improvements are depreciated using a 10% salvage value. The College's capitalization policy is to capitalize individual amounts exceeding $5,000.

### H. Prepaid Expenses and Deposits

Expenses, such as insurance premiums, that are expected to be of benefit within the next fiscal year are included in prepaid expenses. Deposits paid for equipment not yet received are included in prepaid deposits.

### I. Revenue Recognition

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

Revenues received prior to year-end that are related to the next fiscal period are recorded as unearned revenues. Unearned revenue relates primarily to student tuition and fees on the summer semester and student deposits. The 2008 summer semester began June 6, 2008 and ended August 1, 2008. The 2007 summer semester began June 6, 2007 and ended August 1, 2007.

Property taxes levied by the College are collected by various municipalities and periodically remitted to the College. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied to the extent that they are determined to be collectible. Property taxes receivable are recorded net of an allowance for uncollectibles. For the years ended June 30, 2008 and 2007, the College levied 3.8072 mills per $1,000 of assessed valuation for general operations.

State appropriation revenue has been recorded in accordance with the *Manual for Uniform Financial Reporting – Michigan Public Community Colleges.* For the year ended June 30, 2007, the State of Michigan delayed state appropriation payments totaling $2,626,400. The delayed payment was paid in October 2007 and as a result was recorded as fiscal year 2008 revenue. Also, during fiscal year 2007 the State of Michigan provided for a credit toward future MPSERS contributions in lieu of a state appropriation cash payment. The credit amounted to $1,244,500 and was used to reduce 2007 pension expenses.

**J. Internal Service Activities**

Both revenue and expenses related to internal service activities including print shops, office equipment, maintenance, telecommunications, and institutional services have been eliminated.

**K. Accrued Vacation**

Accrued vacation represents the accumulated liability to be paid under the College's vacation pay policy. Under the College's policy, employees earn vacation time based on time of service with the College.

**L. Long-Term Obligations**

In the College's financial statements, long-term debt and other long-term obligations are reported as liabilities on the balance sheet. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method.

### M. Sabbatical Leaves

In accordance with the collective bargaining agreement between the College and its faculty, the College grants sabbatical leaves to various full-time instructors. The leaves are granted to enhance the professional competence of the instructors, who are required to return to the College for a period of one year. Compensation is recorded as an expense in the fiscal year that the leave is taken.

### N. Use of Estimates

The process of preparing basic financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Estimates include allowances for doubtful accounts and estimated useful lives and salvage value of property.

### O. Foundation Reporting

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (“FASB”) standards, including Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the College’s financial reporting for these differences.

### P. Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation. Reclassifications were primarily made in the areas of federal and state grant revenues and related student services expense for agency transactions, as well as between scholarship allowances and student services expense.

## 2. DEPOSITS AND INVESTMENTS

As of June 30, 2008, the College had the following investment securities:

| Investment Type | Fair Value | Weighted Average Maturity (Years) | Standard & Poor's Rating | % |
|---|---|---|---|---|
| Money market funds | $ 13,076,690 | 0.0027 | N/A | 86.69% |
| Fannie Mae | 1,000,310 | 1.3334 | AAA | 6.63% |
| U.S. Treasury N/B | 652,923 | 0.1189 | AAA | 4.33% |
| Freddie Mac | 354,813 | 0.1840 | AAA | 2.35% |
| **Total fair value** | **$ 15,084,736** | | | **100.00%** |
| **Portfolio weighted average maturity** | | **1.6390** | | |

As of June 30, 2007, the College had the following investment securities:

| Investment Type | Fair Value | Weighted Average Maturity (Years) | Standard & Poor's Rating | % |
|---|---|---|---|---|
| Money market funds | $ 14,949,537 | 0.0027 | N/A | 75.27% |
| Fannie Mae | 2,641,769 | 0.9203 | AAA | 13.30% |
| Federal Home Loan Bank | 992,500 | 0.0675 | AAA | 5.00% |
| U.S. Treasury N/B | 934,486 | 0.1845 | AAA | 4.70% |
| Freddie Mac | 343,658 | 0.1430 | AAA | 1.73% |
| **Total fair value** | **$ 19,861,950** | | | **100.00%** |
| **Portfolio weighted average maturity** | | **1.3180** | | |

1 day maturity equals .0027; one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the College will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the College's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations ("NRSRO"). The College does not allow direct investment in corporate bonds.

**Concentration of credit risk.** The College will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the College's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

No more than $10,000,000 shall be invested in any of the following:

1. The certificates of deposit, savings accounts, or share certificates of any one financial institution.

2. The bankers' acceptances of any one bank.

3. The commercial paper of any one issuer.

Investments in commercial paper rated prime 1, certificates of deposit, savings accounts, share certificates, or bankers' acceptances may not exceed 5% of the issuer's net worth at the time of purchase by the College. Investments in commercial paper rated prime 2 may not exceed 3% of the issuer's net worth at the time of purchase by the College.

The investment officer will attempt to match investments with anticipated cash flow requirements to prevent the need to sell securities before maturation.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank or financial institution failure, the College's deposits may not be returned to it because the bank or financial institution was uninsured and uncollateralized. At June 30, 2008, $12,140,071 of the College's bank balance of $12,340,071 was uninsured and uncollateralized. As of June 30, 2007, $20,908 of the College's bank balance of $220,908 was uninsured and uncollateralized. As of June 30, 2008 and 2007, no more than $10 million was invested in any one financial institution. Interest bearing accounts and money market deposit accounts are included in the above totals.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The College will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the College will do business.

**Foreign currency risk.** The College is not authorized to invest in investments which have this type of risk.

The College is authorized by Michigan Public Act 331, as amended through 1997, and by resolution of the Board of Trustees, to invest surplus monies in:

1. Bonds, bills or notes of the United States (or of an agency or instrumentality of the United States) or obligations of this state.

2. Negotiable certificates of deposit, savings accounts, or other interest earning deposit accounts of a financial institution. As used in this subdivision, “financial institution” means a bank that is a member of the Federal Deposit Insurance Corporation (“FDIC”), a savings and loan association that is a member of the Federal Savings and Loan Insurance Corporation, or a credit union whose deposits are insured by the National Credit Union Administration that have their principal office or a branch office in Michigan and which otherwise meets the requirement imposed by law.

3. Bankers’ acceptances that are issued by a bank that is a member of the Federal Deposit Insurance Corporation.

4. Commercial paper that is supported by an irrevocable letter of credit issued by a bank that is a member of the Federal Deposit Insurance Corporation.

5. Commercial paper of corporation rated prime by at least one of the standard rating services.

6. Mutual funds, trusts or investment pools composed entirely of instruments that are eligible collateral.

7. Repurchase agreements against eligible collateral of the type specified in subsection (1) hereof, the market value of which must be maintained during the life of the agreements at levels equal to or greater than the amounts advanced. An undivided interest in the instruments pledged for these agreements must be granted to the College and the securities held by an independent custodial bank for the College without any right of set off. The repurchase agreement may allow for the substitution of collateral but shall not otherwise allow for the pledging or transfer of such collateral.

8. Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a community college.

Deposit and investment amounts previously reported in Note 2 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Deposits | $ 9,073,047 | $ 333,685 |
| Investments | 15,084,736 | 19,861,950 |
| | **$ 24,157,783** | **$ 20,195,635** |

The above amounts are reported in the financial statements as follows:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ 12,733,701 | $ 222,407 |
| Short-term investments, including money market funds | 2,289,200 | 6,885,064 |
| Restricted cash | 7,779,759 | 11,150,375 |
| Long-term investments | 1,355,123 | 1,937,789 |
| | **$ 24,157,783** | **$ 20,195,635** |

## 3. PROPERTY AND EQUIPMENT

Capital assets activity for the years ended June 30, 2008 and 2007 follows:

| 2008 | Balance, July 1, 2007 | Additions | Deletions | Transfers | Balance, June 30, 2008 |
|---|---|---|---|---|---|
| **Capital Assets:** | | | | | |
| Land | $ 10,804,778 | $ - | $ - | $ - | $ 10,804,778 |
| Infrastructure and land improvements | 3,204,561 | - | - | - | 3,204,561 |
| Buildings and improvements | 162,290,743 | - | - | 15,703,365 | 177,994,108 |
| Furniture, fixtures and equipment | 48,180,685 | 1,653,973 | 15,255 | 4,410,037 | 54,229,440 |
| Construction in progress | 15,236,448 | 9,546,676 | - | (20,113,402) | 4,669,722 |
| Total property and equipment | 239,717,215 | 11,200,649 | 15,255 | - | 250,902,609 |
| Less accumulated depreciation | 73,094,543 | 7,680,791 | 15,255 | - | 80,760,079 |
| **Property and equipment, net** | **$ 166,622,672** | **$ 3,519,858** | **$ -** | **$ -** | **$ 170,142,530** |

| 2007 | Balance, July 1, 2006 | Additions | Deletions | Transfers | Balance, June 30, 2007 |
|---|---|---|---|---|---|
| **Capital Assets:** | | | | | |
| Land | $ 10,049,790 | $ 754,988 | $ - | $ - | $ 10,804,778 |
| Infrastructure and land improvements | 3,204,561 | - | - | - | 3,204,561 |
| Buildings and improvements | 158,558,164 | 4,077,785 | 345,206 | - | 162,290,743 |
| Furniture, fixtures and equipment | 46,070,940 | 2,127,036 | 17,291 | - | 48,180,685 |
| Construction in progress | 1,326,431 | 13,910,017 | - | - | 15,236,448 |
| Total property and equipment | 219,209,886 | 20,869,826 | 362,497 | - | 239,717,215 |
| Less accumulated depreciation | 64,469,387 | 8,678,276 | 53,120 | - | 73,094,543 |
| **Property and equipment, net** | **$ 154,740,499** | **$ 12,191,550** | **$ 309,377** | **$ -** | **$ 166,622,672** |

## 4. UNEARNED REVENUE

Unearned revenue at June 30 consists of the following:

| | 2008 | 2007 |
|---|---|---|
| Student tuition and fees | $ 2,385,422 | $ 2,446,982 |
| Restricted grants | 95,757 | 716,725 |
| Student deposits | 80,223 | 36,584 |
| **Total** | **$ 2,561,402** | **$ 3,200,291** |

## 5. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2008 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 73,099,531 | $ - | $ 4,084,255 | $ 69,015,276 | $ 4,220,000 |
| Note payable | 1,939,209 | - | 234,947 | 1,704,262 | 243,668 |
| **Total long-term debt** | **$ 75,038,740** | **$ -** | **$ 4,319,202** | **$ 70,719,538** | **$ 4,463,668** |

Long-term debt activity for the year ended June 30, 2007 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 57,670,356 | $ 19,370,000 | $ 3,940,825 | $ 73,099,531 | $ 3,990,000 |
| Note payable | 2,165,748 | - | 226,539 | 1,939,209 | 234,947 |
| **Total long-term debt** | **$ 59,836,104** | **$ 19,370,000** | **$ 4,167,364** | **$ 75,038,740** | **$ 4,224,947** |

The following is a summary of long-term obligations for the College as of June 30:

| | 2008 | 2007 |
|---|---|---|
| 2002 building and site bonds due in installments of $2,275,000 to $3,150,000 through May 1, 2012 plus interest at 3.5% to 5.0% | $ 11,750,000 | $ 14,200,000 |
| 2003 building and site and refunding bonds due in installments of $690,000 to $1,545,000 through May 1, 2022 plus interest at 3.3% to 5.0% | 15,135,000 | 16,675,000 |
| 2005 building and site and refunding bonds due in installments of $275,000 to $3,990,000 through May 1, 2022 plus interest at 3.5% to 5.0% | 21,740,000 | 21,740,000 |
| 2006 general obligation limited tax bonds due in installments of $325,000 to $875,000 through May 1, 2026 plus interest at 3.7% to 3.9% | 9,900,000 | 9,900,000 |
| 2007 general obligation limited tax bonds due in installments of $230,000 to $900,000 through May 1, 2026 plus interest at 4.0 to 4.3%% | 9,470,000 | 9,470,000 |
| Plus: premium on bond refunding | 2,369,615 | 2,562,088 |
| Less: discount on bonds | (46,284) | (51,426) |
| Less: deferred loss on bond refunding | (1,303,055) | (1,396,131) |
| **Total bonded debt** | **69,015,276** | **73,099,531** |
| Note payable – bank, secured by equipment, with monthly payments of $25,152 with interest at 3.65%, maturing October 2014 | 1,704,262 | 1,939,209 |
| **Total long-term liabilities** | **$ 70,719,538** | **$ 75,038,740** |

Scheduled principal and interest requirements of bonds payable for years succeeding June 30, 2008 are summarized are as follows:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2009 | $ 4,463,668 | $ 3,128,190 | $ 7,591,858 |
| 2010 | 4,672,712 | 2,936,972 | 7,609,684 |
| 2011 | 4,912,092 | 2,725,866 | 7,637,958 |
| 2012 | 5,111,820 | 2,530,626 | 7,642,446 |
| 2013 | 5,336,909 | 2,297,245 | 7,634,154 |
| 2014 - 2018 | 25,892,061 | 7,567,320 | 33,459,381 |
| 2019 - 2023 | 14,160,000 | 2,785,164 | 16,945,164 |
| 2024 - 2026 | 5,150,000 | 427,354 | 5,577,354 |
| | **69,699,262** | **24,398,737** | **94,097,999** |
| Premium on refunding | 2,369,615 | - | 2,369,615 |
| Discount on bonds | (46,284) | - | (46,284) |
| Loss on refunding | (1,303,055) | - | (1,303,055) |
| **Total** | **$ 70,719,538** | **$ 24,398,737** | **$ 95,118,275** |

Interest is payable semi-annually on the bonds payable and monthly on the note payable at rates ranging from 3.3% to 5.0%. The principal and interest are generally payable from the College's nonoperating revenues. Certain bonds are callable at par and accrue interest plus a premium. Total interest charged to expense for the years ended June 30, 2008 and 2007 was $3,241,375 and $2,888,177, respectively. Interest expense was reduced by interest capitalized in relation to various construction projects in the amount of $86,223 for the year ended June 30, 2007.

The College has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. At June 30, 2008 and 2007, $18,510,000 and $19,470,000, respectively of bonds outstanding were considered defeased.

## 6. EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

**Plan Description** - The College contributes to the statewide Michigan Public School Employees' Retirement System ("MPSERS"), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the College. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**Funding Policy** - Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000, 3.6% of $5,001 through $15,000, and 4.3% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ended December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts. The total rate for the year ended June 30, 2008 was 17.74% through September 30, 2007 and decreased to 16.72% effective October 2007 through June 30, 2008. The total rate for the year ended June 30, 2007 was 16.34% through September 30, 2006 and increased to 17.74% effective October 2006 through June 30, 2007. The total rate for the year ended June 30, 2006 was 14.87% of payroll through September 30, 2005 and 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the College are established and may be amended by the MPSERS Board of Trustees.

The College also contributes to the MPSERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPSERS. This plan provides medical benefits to retired employees of participating community colleges. Participating community colleges are contractually required to make monthly contributions to the plan at amounts assessed each year by MPSERS (current rate of 6.55% of annual covered payroll, which is included in the total of MPSERS rate disclosed above). The MPSERS board of trustees sets the employer contributions based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The College's contributions to the MPSERS healthcare plan for the years ended June 30, 2008, 2007 and 2006 equaled the required contributions each year. Thus, the College did not book a liability for this postemployment healthcare.

The College's total contributions to MPSERS for the year ended June 30, 2008, 2007, and 2006 were $8,084,450, $8,051,800, and $7,550,611, respectively.

As discussed in Note 1, during 2007 the State of Michigan provided for a credit toward future MPSERS contributions in lieu of a state appropriation cash payment. The MPSERS credit amounted to $1,244,500.

Per MPSERS Compreshensive Annual Financial Report ("CAFR") as of September 30, 2007, the Unfunded Actuarial Accrued Liability ("UAAL") for Pensions and Other Postemployment Benefits ("OPEB/Healthcare") for MPSERS is $6.1 billion and $24.8 billion, respectively, and the ratio of UAAL to covered payroll is 62.6% and 252.5%, respectively.

For the fiscal year ended June 30, 2008, Lansing Community College had approximately $55 million of covered payroll. Applying the MPSERS ratio of UAAL to Lansing Community College's covered payroll results in an estimated share of UAAL for Pension and OPEB/Healthcare of $34.4 million and $138.9 million, respectively.

## 7. OPTIONAL RETIREMENT PROGRAM - DEFINED CONTRIBUTION PLAN

**Plan Description** **-** The College has adopted the Lansing Community College Optional Retirement Plan ("ORP") under Code Section 403(A). This defined contribution plan is administered by the College and provides retirement benefits to participants. The ORP was established Pursuant to Public Act No. 296 of 1994 and permits full-time faculty and administrative staff of the College to elect an optional retirement plan in lieu of coverage under the MPSERS.

**Funding Policy** - The contribution requirements of plan members and the College are established by the plan document as 4.3% and 12.0% of MPSERS compensation, respectively. Institutional plan contributions will only be made for participants who have authorized the required participant plan contribution. Participant contributions are fully vested and non-forfeitable when made. Institutional contributions vest after 2 years of continuous full-time service as interpreted under MPSERS guidelines. The participant and College contributions to ORP for the year ended June 30, 2008 were $277,452 and $774,405, respectively. The participant and College contributions to ORP for the year ended June 30, 2007 were $263,838 and $717,738, respectively.

## 8. UNRESTRICTED NET ASSETS

The College has designated the use of unrestricted net assets as follows:

| | 2008 | 2007 |
|---|---|---|
| Auxiliary activities | $ 2,891,622 | $ 1,599,785 |
| Designated for on-campus activities | - | 137,317 |
| Designated for tuition stabilization | 3,154,654 | - |
| Encumbrances | 1,751,852 | 1,217,659 |
| Unrestricted and undesignated | 13,731,141 | 10,578,955 |
| **Total unrestricted net assets** | **$ 21,529,269** | **$ 13,533,716** |

## 9. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The College participates in the Middle Cities Risk Management Pool for claims relating to auto, property, and liability; the College is separately insured for medical benefits provided to employees' claims.

The Middle Cities Risk Management Pool 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. The College has purchased reinsurance should any claims exceed the retention limits. The College has not been notified of any special assessments being required.

### 10. COMMITMENTS, CONTINGENCIES AND CAPITAL OUTLAY

The College has numerous construction, renovation, and capital improvement projects and a management information system implementation project in process at June 30, 2008. Total future commitments related to these projects approximate $500,000 at June 30, 2008.

The College committed $6,000,000 in matching funds towards the completion of an $11,000,000 building program that was completed in December 2007. The State of Michigan committed to funding up to $5,000,000 of the project. At June 30, 2008, the College has incurred costs of approximately $10,124,000; accordingly, cumulative revenue of approximately $4,124,000 has been recorded from the State of Michigan. This building will be used as collateral until the State of Michigan pays off their portion of the related debt. The total remaining maximum State commitment is approximately $876,000.

Certain employees have filed a formal grievance under the collective bargaining agreement between the College and its faculty, alleging that such employees and unspecified other employees had been underpaid for an unspecified period of time. The employees' bargaining representative filed a demand for arbitration of the dispute. Arbitration is scheduled to commence on December 3, 2008. The College is currently continuing the process of investigating and responding to the allegations raised in the grievance and preparing for the arbitration. Management of the College intends to contest the case vigorously, unless it can be settled on favorable terms before the arbitration. Because of the early stage of the attorneys' involvement in the process and the uncertainties inherent in the arbitration process, the College is unable to provide an evaluation of the likelihood of an unfavorable outcome or the amount or range of any potential loss.

The College may be subject to various other 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 or will be covered by insurance.

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# ADDITIONAL INFORMATION

# LANSING COMMUNITY COLLEGE
## COMBINING BALANCE SHEET
## JUNE 30, 2008

| | Combined Total | General Fund | Designated Fund | Auxiliary Activities Funds | Expendable Restricted Funds | Plant Funds | Agency Funds |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 12,733,701 | $ 10,368,249 | $ - | $ 2,363,952 | $ - | $ - | $ 1,500 |
| Short-term investments | 2,289,200 | - | - | - | - | 2,289,200 | - |
| Property taxes receivable, net | 1,234,454 | 1,234,454 | - | - | - | - | - |
| State appropriations receivable | 5,306,146 | 5,306,146 | - | - | - | - | - |
| State capital appropriations receivable | 2,425,881 | - | - | - | - | 2,425,881 | - |
| Accounts receivable, net | 5,123,871 | 4,369,297 | 562,424 | 168,036 | - | - | 24,114 |
| Federal and state grants receivable | 3,980,348 | - | - | - | 3,980,348 | - | - |
| Inventories | 130,085 | - | - | 130,085 | - | - | - |
| Prepaid expenses and deposits | 12,205 | 12,205 | - | - | - | - | - |
| Due from (due to) other funds | - | 12,279,901 | (533,231) | 413,719 | (3,567,252) | (9,365,926) | 772,789 |
| **Total current assets** | **33,235,891** | **33,570,252** | **29,193** | **3,075,792** | **413,096** | **(4,650,845)** | **798,403** |
| Restricted cash - unspent bond proceeds | 7,779,759 | - | - | - | - | 7,779,759 | - |
| Long-term investments | 1,355,123 | 1,000,310 | - | - | - | 354,813 | - |
| Bond issuance costs, net | 793,147 | - | - | - | - | 793,147 | - |
| Property and equipment, net | 170,142,530 | - | - | - | - | 170,142,530 | - |
| **Total assets** | **$ 213,306,450** | **$ 34,570,562** | **$ 29,193** | **$ 3,075,792** | **$ 413,096** | **$ 174,419,404** | **$ 798,403** |
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Current portion of debt obligations | $ 4,463,668 | $ - | $ - | $ - | $ - | $ 4,463,668 | $ - |
| Accounts payable | 3,149,068 | 1,783,258 | 39,923 | 103,948 | 141,949 | 1,063,414 | 16,576 |
| Accrued payroll and other compensation | 6,032,208 | 5,246,609 | - | - | 3,772 | - | 781,827 |
| Accrued vacation | 1,512,748 | 1,512,748 | - | - | - | - | - |
| Accrued interest payable | 511,673 | - | - | - | - | 511,673 | - |
| Unearned revenue | 2,561,402 | 2,385,423 | - | 80,222 | 95,757 | - | - |
| **Total current liabilities** | **18,230,767** | **10,928,038** | **39,923** | **184,170** | **241,478** | **6,038,755** | **798,403** |
| Long-term debt obligations, net of current portion | 66,255,870 | - | - | - | - | 66,255,870 | - |
| **Total liabilities** | **84,486,637** | **10,928,038** | **39,923** | **184,170** | **241,478** | **72,294,625** | **798,403** |
| **Net assets (deficit)** | | | | | | | |
| Invested in capital assets, net of related debt | 107,118,926 | - | - | - | - | 107,118,926 | - |
| Restricted: | | | | | | | |
| Restricted fund activities | 171,618 | - | - | - | 171,618 | - | - |
| Unrestricted (deficit) | 21,529,269 | 23,642,524 | (10,730) | 2,891,622 | - | (4,994,147) | - |
| **Total net assets (deficit)** | **128,819,813** | **23,642,524** | **(10,730)** | **2,891,622** | **171,618** | **102,124,779** | **-** |
| **Total liabilities and net assets** | **$ 213,306,450** | **$ 34,570,562** | **$ 29,193** | **$ 3,075,792** | **$ 413,096** | **$ 174,419,404** | **$ 798,403** |

See independent auditors' report.

# LANSING COMMUNITY COLLEGE

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

## YEAR ENDED JUNE 30, 2008

| | Combined Total | Eliminations | General Fund | Designated Fund | Auxiliary Activities Funds | Expendable Restricted Funds | Plant Funds |
|---|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | | |
| Tuition and fees (net of scholarship allowances of $14,834,794) | $ 30,337,889 | $ (14,834,794) | $ 44,867,839 | $ 304,844 | $ - | $ - | $ - |
| Federal grants and contracts | 4,161,928 | - | - | - | - | 4,161,928 | - |
| State grants and contracts | 1,170,917 | - | - | - | - | 1,170,917 | - |
| Local grants and contracts | 2,093,096 | - | 1,763,577 | - | - | 329,519 | - |
| Sales and services of educational activities | 1,951,275 | - | 1,178,981 | 772,294 | - | - | - |
| Sales and services of auxiliary activities | 2,872,679 | - | - | - | 2,872,679 | - | - |
| Miscellaneous | 358,168 | - | 314,310 | - | - | 43,858 | - |
| **Total operating revenues** | **42,945,952** | **(14,834,794)** | **48,124,707** | **1,077,138** | **2,872,679** | **5,706,222** | **-** |
| **Operating expenses** | | | | | | | |
| Instruction | 39,503,913 | - | 39,503,913 | - | - | - | - |
| Information technology | 7,307,373 | - | 7,274,644 | 3,113 | 9,048 | 20,568 | - |
| Public services | 1,900,833 | - | 1,102,235 | 58,497 | 252,308 | 487,793 | - |
| Instructional support | 19,624,663 | - | 15,312,969 | 18,514 | - | 4,293,180 | - |
| Student services | 16,630,582 | (14,834,794) | 14,348,166 | 777,439 | 1,039,051 | 15,300,720 | - |
| Institutional administration | 8,357,057 | - | 7,995,526 | 361,531 | - | - | - |
| Operation and maintenance of plant | 16,306,001 | - | 9,968,509 | 6,091 | 1,178,630 | - | 5,152,771 |
| Depreciation expense | 7,680,791 | - | - | - | - | - | 7,680,791 |
| **Total operating expenses** | **117,311,213** | **(14,834,794)** | **95,505,962** | **1,225,185** | **2,479,037** | **20,102,261** | **12,833,562** |
| **Operating (loss) income** | **(74,365,261)** | **-** | **(47,381,255)** | **(148,047)** | **393,642** | **(14,396,039)** | **(12,833,562)** |
| **Nonoperating revenues (expenses)** | | | | | | | |
| State appropriations | 31,810,203 | - | 31,810,203 | - | - | - | - |
| Property tax levy | 41,722,075 | - | 41,722,075 | - | - | - | - |
| Pell Grant revenue | 13,428,753 | - | - | - | - | 13,428,753 | - |
| Investment income | 1,244,354 | - | 662,686 | - | 98,195 | - | 483,473 |
| Interest on capital asset - related debt | (3,241,375) | - | - | - | - | - | (3,241,375) |
| **Net nonoperating revenues (expenses)** | **84,964,010** | **-** | **74,194,964** | **-** | **98,195** | **13,428,753** | **(2,757,902)** |
| **Other revenues** | | | | | | | |
| State capital appropriations | 2,532,140 | - | - | - | - | - | 2,532,140 |
| Capital gifts | 1,089,597 | - | - | - | - | - | 1,089,597 |
| **Total other revenues** | **3,621,737** | **-** | **-** | **-** | **-** | **-** | **3,621,737** |
| **Increase (decrease) in net assets** | **14,220,486** | **-** | **26,813,709** | **(148,047)** | **491,837** | **(967,286)** | **(11,969,727)** |
| Transfers in (out) | - | - | (16,958,302) | - | 800,000 | 954,161 | 15,204,141 |
| **Net increase (decrease) in net assets** | **14,220,486** | **-** | **9,855,407** | **(148,047)** | **1,291,837** | **(13,125)** | **3,234,414** |
| Net assets, beginning of year | 114,599,327 | - | 13,787,117 | 137,317 | 1,599,785 | 184,743 | 98,890,365 |
| **Net assets (deficit), end of year** | **$ 128,819,813** | **$ -** | **$ 23,642,524** | **$ (10,730)** | **$ 2,891,622** | **$ 171,618** | **$ 102,124,779** |

See independent auditors' report.