

Kellogg Community College

**Financial Report
with Supplemental Information
June 30, 2011**

Kellogg Community College

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Independent Auditor's Report

To the Board of Trustees
Kellogg Community College

We have audited the accompanying basic financial statements of Kellogg Community College (the "College") as of and for the years ended June 30, 2011 and 2010 as listed in the table of contents. 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. In addition, the basic financial statements were audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Kellogg Community College as of June 30, 2011 and 2010 and the changes in financial position and 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 our report dated October 31, 2011 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2011. 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 opinions on the internal control 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.

The management's discussion and analysis presented on pages 2 through 13 is not a required part of the basic financial statements but is supplemental 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

October 31, 2011

Kellogg Community College

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Kellogg Community College's (the "College") financial statements provides an overview of the College's financial activities for the years ended June 30, 2011, 2010, and 2009. Management has prepared the financial statements and the related note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's administration.

Using this Report

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, the 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.

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements, notes to financial statements, and supplemental information.

Financial Highlights

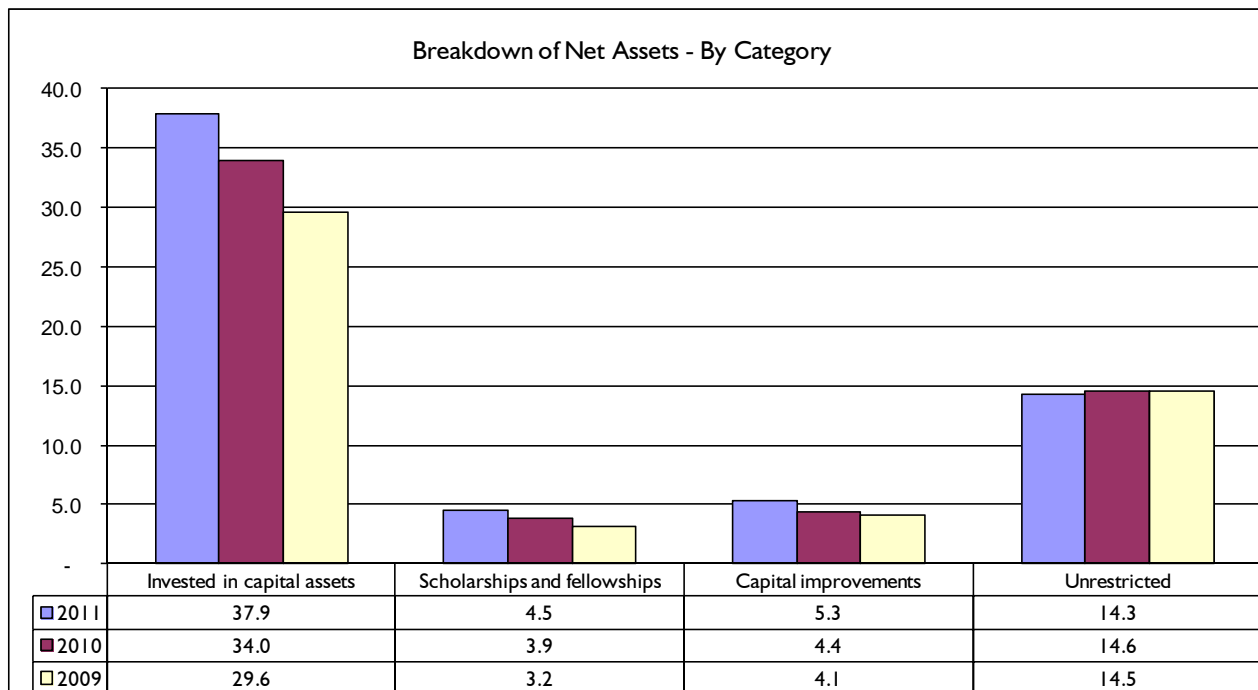
The College's financial position increased during the fiscal years ended June 30, 2011, 2010, and 2009. In 2011 and 2010, the College's net assets increased \$5.1 million (9 percent) and \$5.5 million (11 percent), respectively, from the previous year. The 2011 and 2010 increases are primarily due to continued property tax collections and debt retirements related to the College's 21st Century project initiative. Additionally, the Kellogg Community College Foundation (KCCF) had \$750,000 in contributions in 2011 and received a large bequest in 2010, as well as investment income of approximately \$900,000 and \$400,000 in 2011 and 2010, respectively, resulting in \$1 million and \$900,000 increases in net assets restricted for KCCF purposes, after expenses, in 2011 and 2010, respectively.

Operationally in 2011 and 2010, the College has experienced record levels of enrollment, resulting in 7 percent and 14 percent increases in gross tuition and fee revenue, respectively. Additionally, the College received more in state appropriations than anticipated in both years. However, some of the increases in revenue were offset by increases in expenses necessary to serve the additional students.

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2011, 2010, and 2009:



The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets

These two statements will help the reader answer the question, “Is Kellogg Community College as a whole, better or worse off as a result of the year’s activities?” The balance sheet and the statement of revenue, 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. They report the College’s net assets and their changes. One can think of net assets - the difference between assets and liabilities - as one way to measure the College’s financial health or financial position. Many other nonfinancial factors, such as the trend in admission applicants, student retention, condition of the buildings, and strength of the faculty, need to be considered to assess the overall health of the College. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year’s revenue and expenses are taken into account regardless of when cash is received or paid.

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

The following is a comparison of the major components of the balance sheet of the College for the years ended June 30, 2011, 2010, and 2009:

Balance Sheet at June 30 (in millions)			
	2011	2010	2009
Assets			
Current assets	\$ 25.1	\$ 27.4	\$ 27.4
Noncurrent assets	52.3	45.3	41.4
Total assets	<u>\$ 77.4</u>	<u>\$ 72.7</u>	<u>\$ 68.8</u>
Liabilities			
Current liabilities	\$ 10.8	\$ 9.0	\$ 8.5
Noncurrent liabilities	4.6	6.8	8.9
Total liabilities	15.4	15.8	17.4
Net Assets			
Invested in capital assets	37.9	34.0	29.6
Scholarships and fellowships	4.5	3.9	3.2
Capital improvements	5.3	4.4	4.1
Unrestricted	14.3	14.6	14.5
Total net assets	<u>62.0</u>	<u>56.9</u>	<u>51.4</u>
Total liabilities and net assets	<u>\$ 77.4</u>	<u>\$ 72.7</u>	<u>\$ 68.8</u>

Balance Sheet

The significant changes in the assets and liabilities of the College are as follows:

- Current assets decreased to \$25.1 million in 2011 due to a reduction in cash and cash equivalents offset by an increase in both short-term and long-term investments. In 2010, current assets remained at \$27.4 million, as a reduction in cash and cash equivalents was offset by an increase in accounts receivable.
- In 2011, noncurrent assets increased \$7.0 million, resulting from a \$5.3 million increase in long-term investments and a \$1.7 million increase in the value of, after depreciation, the College's facilities and equipment. In 2010, noncurrent assets increased approximately \$3 million due to the completion of the C Classroom Building renovation and an increase in the investment portfolio value of the Kellogg Community College Foundation (KCCF).
- Current liabilities increased \$1.8 million and \$500,000 in 2011 and 2010, respectively. Accounts payable increased \$2 million and deferred revenue increased \$400,000 in 2011, netted by a decrease in accrued compensation and retirements. In 2010, the College offered an early retirement incentive to its employees, resulting in a \$300,000 increase in accrued retirements. Increases in accrued compensation - related items were partially offset by a decrease in accounts payable.
- Long-term liabilities have decreased since 2009 as the College continues to make the required debt retirement payments on the outstanding capital leases and bond issuances.

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

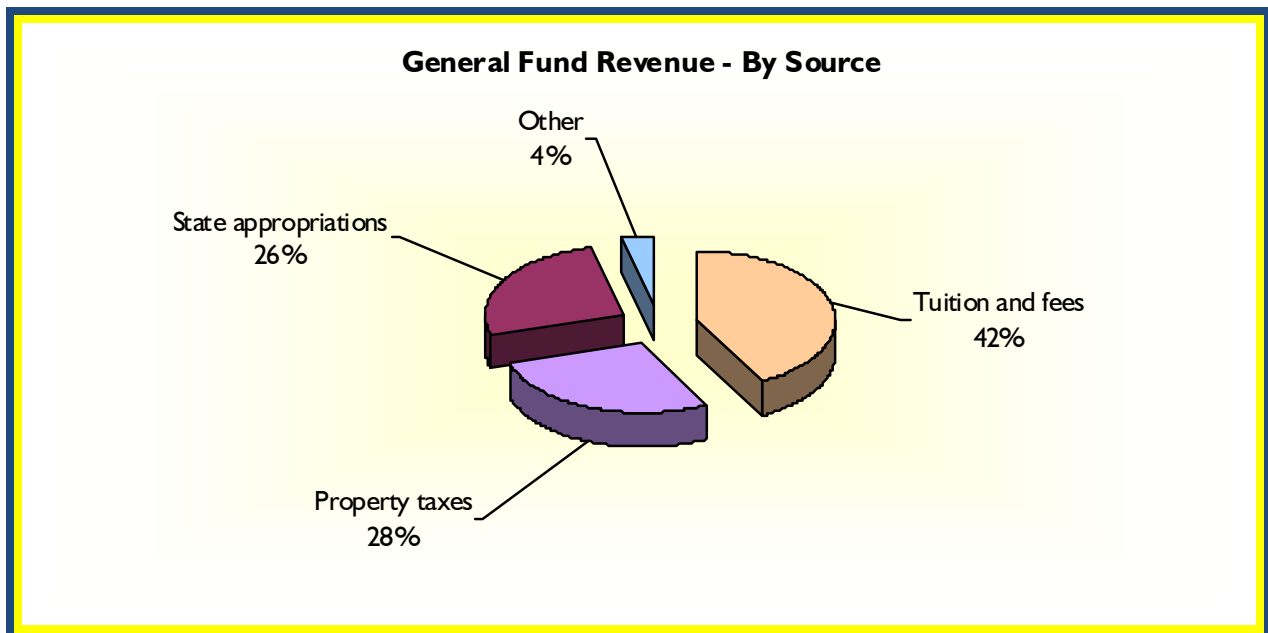
The following is the detail of the major components of operating results of the College for the years ended June 30, 2011, 2010, and 2009:

Operating Results for the Years Ended June 30 (in millions)			
	2011	2010	2009
Operating Revenue			
Tuition and fees - Net	\$ 11.6	\$ 11.5	\$ 8.7
Federal grants and contracts	2.7	2.9	2.0
State grants and contracts	0.7	0.9	1.3
Private gifts, grants, and contracts	1.7	2.3	2.5
Sales and services of auxiliary activities	3.0	3.1	2.2
Other sources	0.9	0.7	0.8
Total operating revenue	20.6	21.4	17.5
Operating Expenses			
Instruction	18.1	17.2	15.8
Public service	2.3	2.5	2.2
Instructional support	5.4	5.7	5.2
Student services	14.8	13.3	7.8
Institutional administration	4.0	4.0	3.5
Physical plant operations	4.0	4.0	3.8
Independent operations	2.1	2.2	1.9
Depreciation	1.9	1.9	1.8
Total operating expenses	52.6	50.8	42.0
Operating Loss	(32.0)	(29.4)	(24.5)
Nonoperating Revenue (Expenses)			
State appropriations	9.3	9.3	9.3
Property taxes	13.3	14.0	13.9
Federal Pell grant	13.5	10.9	6.0
Investment income (loss)	1.0	0.5	(0.3)
Interest on capital asset - Related debt	(0.2)	(0.3)	(0.4)
Net nonoperating revenue	36.9	34.4	28.5
Income Before Other Revenue	4.9	5.0	4.0
Other Revenue - Additions to permanent endowments	0.2	0.5	0.5
Increase in Net Assets	5.1	5.5	4.5
Net Assets - Beginning of year	56.9	51.4	46.9
Net Assets - End of year	<u>\$ 62.0</u>	<u>\$ 56.9</u>	<u>\$ 51.4</u>

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

Internally, the College accounts for its financial statements using fund accounting, which is then reorganized into operating and nonoperating components for the audited financial statements. The College accounts for its primary programs and operations in its General Fund. The General Fund is primarily financed through four sources of revenue - tuition and fees, state appropriations, property taxes, and other. For this report, these sources of revenue are classified as both operating and nonoperating. The following chart shows the percentage of these sources of revenue as they were reported in the General Fund for the year ended June 30, 2011.



Operating Revenue

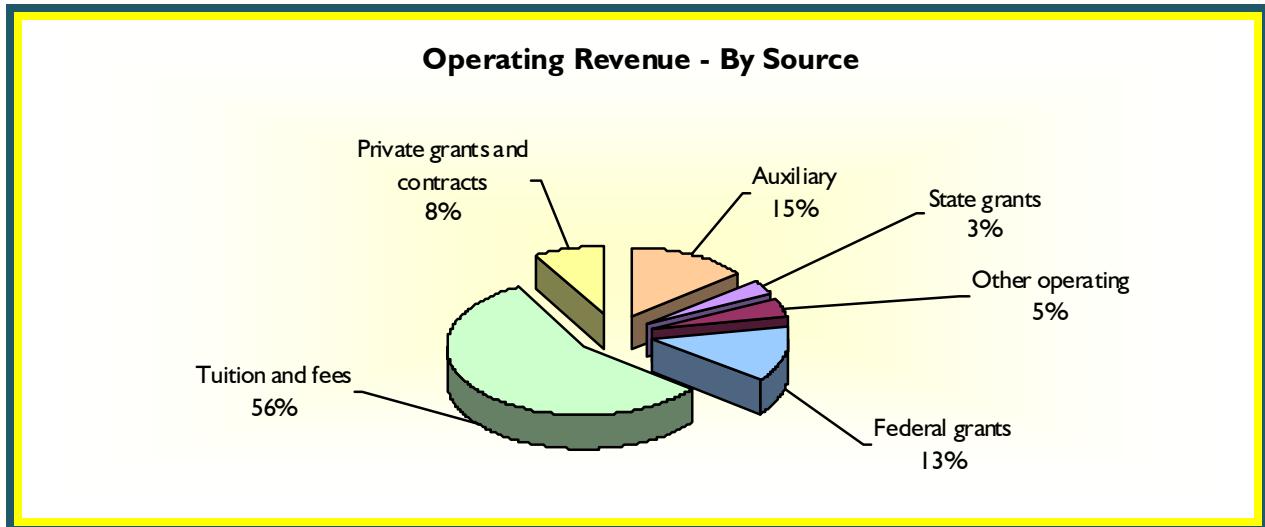
For the College as a whole, operating revenue includes all transactions that result in the sales and/or receipts from goods and services, such as tuition and fees, and other auxiliary operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital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

The College's operating revenue decreased by \$800,000, or 4 percent, in 2011 after an increase of approximately 22 percent in 2010, resulting primarily from a reduction in federal and state funding for certain grants and contracts and reductions in private contributions to KCCF. Net tuition revenue increase was relatively flat in 2011 after a 32 percent increase in 2010 due to the College experiencing record-level enrollment and modest increases in tuition rates. Gross tuition revenue actually increased approximately 8 percent in 2011; however, scholarships and certain financial aid programs paid for an additional \$1 million of tuition and fees, reducing net tuition revenue. Enrollment in 2010 was equal to approximately 4,600 full-time equivalent students (FTE), which was approximately a 17 percent increase.

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

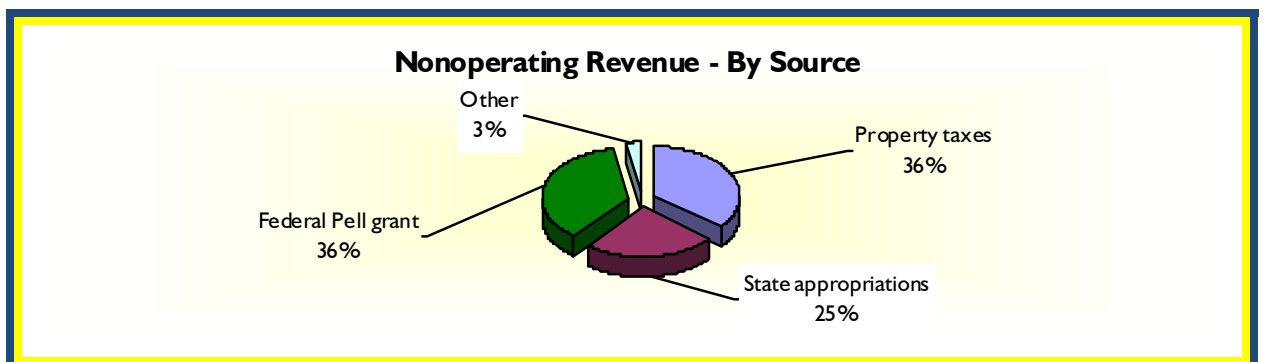
The following is a graphic illustration of operating revenue by source, including all funds of the College and KCCF:



Nonoperating Revenue

Nonoperating revenue is all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, property taxes, federal Pell grant revenue, and investment income. The \$2.5 million increase (7 percent) in 2011 was due to a \$2.6 million increase in federal Pell grants and KCCF investments earning \$500,000 more in investment income increase, offset partially by a \$700,000 reduction in property taxes due to the declining property values in the College's district, as well as the elimination of the College's Renaissance Zone property tax reimbursement by the State. Substantially all of the 21 percent increase in 2010 was due to the College being able to award approximately \$5 million more in federal Pell grants to students than in 2009. Investment income also increased to approximately \$500,000 in 2010 from a loss of \$300,000 in 2009 due to investment income from the KCCF portfolio.

The following is a graphic illustration of nonoperating revenue by source:



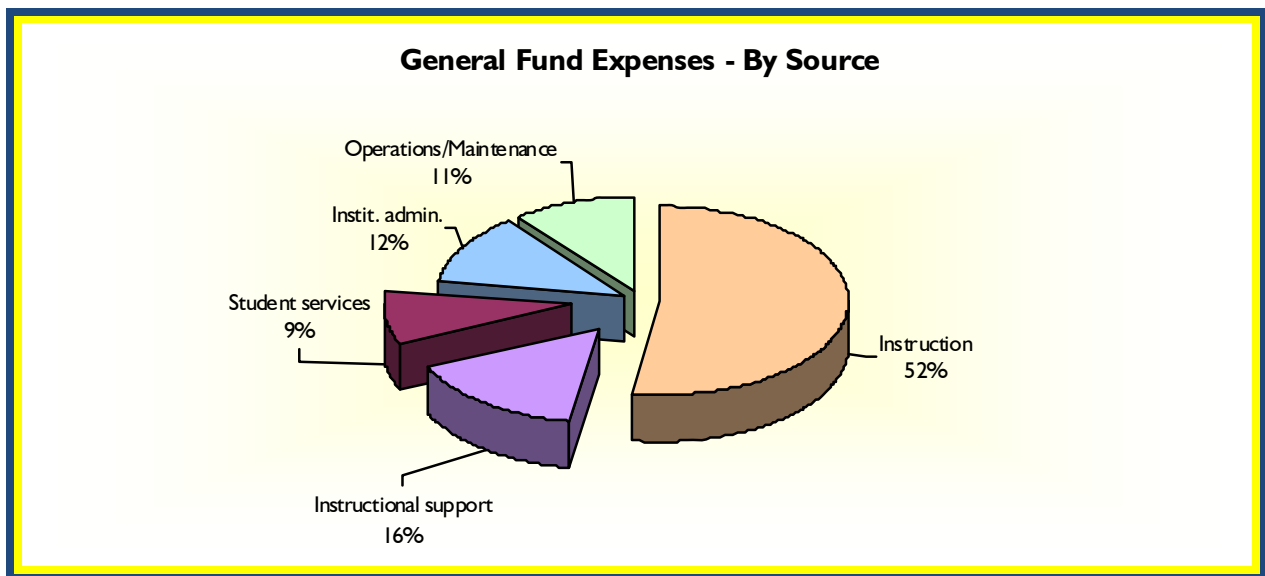
Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

Operating Expenses

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. Overall, total operating expenses increased \$1.8 million and \$8.8 million in 2011 and 2010, respectively. A large portion of the increase in both years was due to the increases in the amount of federal Pell grants that were awarded to students as well as increases in instructional and student services expenses primarily to meet the needs of the departments as a result of the increased enrollment.

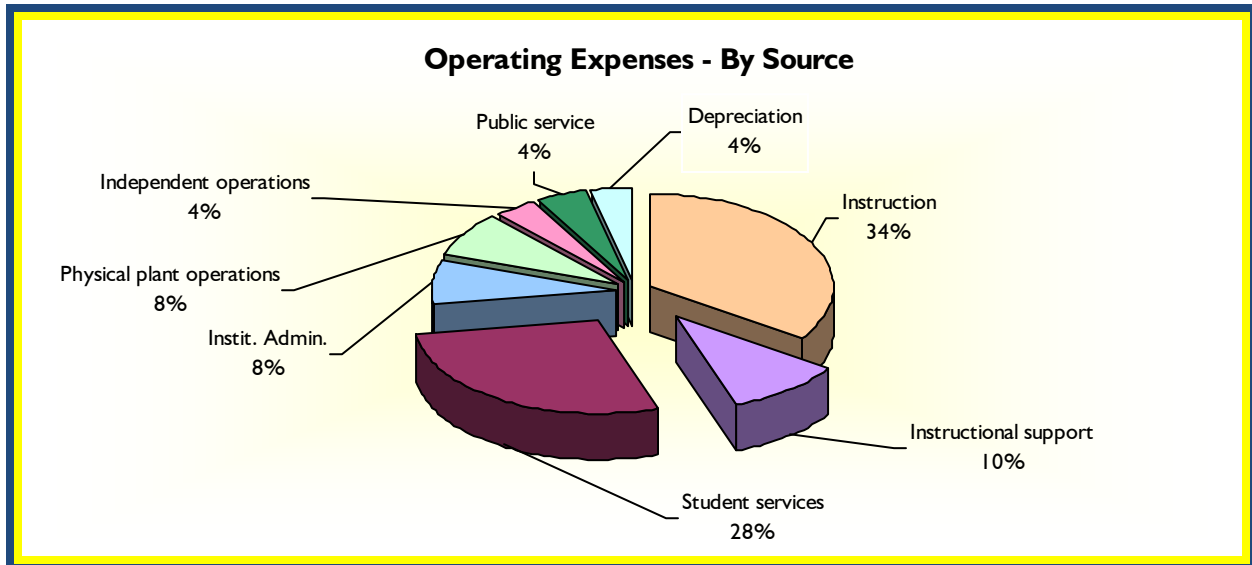
The majority of total expenses are reported internally in the College's General Fund. The College spent 68 percent of its General Fund expenditures on instruction and instructional support in 2011 and 2010, respectively. The following is a graphic illustration of operating expenses by source as reported by the General Fund for the year ended June 30, 2011:



Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

For this financial report, the different funds of the College are netted and internal expenditures are eliminated. The following is a graphic illustration of operating expenses by source for the institution as a whole at June 30, 2011:



Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments, and transfers from related entities.

In 2011, 2010, and 2009, the College, via KCCF, had approximately \$150,000, \$550,000, and \$500,000, respectively, of additions to permanent endowments.

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity 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

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

Cash Flows for the Years Ended June 30 (in millions)

	2011	2010	2009
Cash (Used in) Provided by			
Operating activities	\$ (29.0)	\$ (27.9)	\$ (22.9)
Noncapital financing activities	37.0	34.2	29.1
Capital and related financing activities	(6.0)	(6.6)	(3.8)
Investing activities	<u>(8.8)</u>	<u>(1.3)</u>	<u>13.9</u>
Net Decrease (Increase) in Cash	(6.8)	(1.6)	16.3
Cash - Beginning of year	<u>21.0</u>	<u>22.6</u>	<u>6.3</u>
Cash - End of year	<u>\$ 14.2</u>	<u>\$ 21.0</u>	<u>\$ 22.6</u>

Major sources of funds from operations came from student tuition and fees, grants and contracts, and auxiliary activities, which includes the bookstore. These sources were offset by expenditures for operations such as payments to employees and suppliers.

Some items of note on the statement of cash flows are as follows:

- The net cash used in operating activities increased \$1.1 million and \$5.0 million in 2011 and 2010, respectively. The increase in 2011 was primarily due to the increase in operating expenses combined with a decrease in operating revenue. In 2010, payments to suppliers and students (for federal Pell grants) increased approximately \$7 million, and payments to employees for salaries and fringe benefits increased \$1.4 million. Payments received from tuition and grants/contracts increased \$3.7 million in 2010.
- Cash provided by noncapital financing activities increased in 2011 and 2010 primarily due to increased Pell grants received by the College and awarded to students. Cash received from property taxes also increased approximately \$500,000 in 2010.
- Cash used in capital and related financing activities totaled \$6 million and \$6.6 million in 2011 and 2010, respectively, as the College continued to invest in its facilities and pay down its debt.
- Cash used in investing activities was \$8.8 million and \$1.3 million in 2011 and 2010, respectively, resulting from purchases of investments by the College and mutual funds by KCCF. Cash provided by investing activities was \$13.9 million in 2009, resulting mostly from liquidating the College's long-term investments in favor of more secure cash equivalent investments with similar yields.

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

Capital Assets

At June 30, 2011, the College had \$42.5 million invested in capital assets, net of accumulated depreciation of \$32.1 million. Depreciation charges totaled \$1.9 million for the current fiscal year.

Capital Assets at June 30 (in millions)

	2011	2010	2009
Land and land improvements	\$ 3.1	\$ 3.0	\$ 2.4
Buildings and improvements	56.7	56.1	52.3
Furniture, fixtures, and equipment	12.3	11.8	11.2
Construction in progress	2.5	0.1	1.2
Total	<u>\$ 74.6</u>	<u>\$ 71.0</u>	<u>\$ 67.1</u>

The College is in the process of an expansion, facility improvement, and renovation project called the 21st Century Project. The College estimates the project will run through 2013 and related total expenditures will exceed \$50 million. In 2011, the College is in the process of renovating the Lane Thomas Building, with \$2.5 million of construction in progress. In 2010, the College completed two construction projects that approximated \$5.5 million (C Classroom Building and the front entrance/ADA ramp).

Debt

At year end, the College had approximately \$4.6 million in debt outstanding. Bonds issued were used to finance early stages of the 21st Century Project. The capital leases recorded relate to two of the College's regional centers, with one capital lease being completely retired in 2010.

The table below summarizes this amount by type of debt instrument. The College's bond ratings for the 2000 and 2002 Limited Tax General Obligation Bonds are rated AA- by the Fitch Ratings agency.

Debt Outstanding at June 30 (in millions)

	2011	2010	2009
Bonds	\$ 4.3	\$ 6.3	\$ 8.2
Leases payable	0.3	0.5	0.9
Total	<u>\$ 4.6</u>	<u>\$ 6.8</u>	<u>\$ 9.1</u>

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. With state appropriations fluctuating in recent years, the College has been fortunate to have steady property tax and tuition revenue growth to keep it financially stable. Thus far, the State of Michigan has not significantly cut its operational support to community colleges for the 2012 fiscal year. However, the College will operate on \$1 million less in 2012 than what it received from the State in 2002 and in aggregate, reductions in state funding since 2002 have approximated \$10.7 million over the past decade.

The financial outlook for the State's 2012 fiscal year shows a little more stability in terms of revenue. Further, local property tax values are predicted to stabilize starting in 2013. However, as the economy begins to recover, fewer students will require upgraded skills and training to obtain jobs and maintaining record levels of enrollment will be challenging. With little growth expected in state funding and property tax revenue, which accounts for over half of the College's General Fund revenue, these uncertainties could significantly affect the College's ability to offer similar services and programs to the community on a consistent basis, keep tuition rates affordable, balance its budget, and provide its staff with reasonable wage increases and fringe benefit programs.

To counter these trends, the College has had to implement larger than normal increases in tuition and fee rates in recent years. Even with these modest increases, the College remains the most affordable option to its residents and has one of the lowest tuition rates among community colleges in the state.

The College has also seen enrollment reach unprecedented levels. While the increase in the revenue generated from students has helped, tuition only covers 42 percent of the College's General Fund budget. To date, the College has managed this enrollment well, modestly increasing expenses to be able to provide the necessary services to the increased number of students.

The College has also implemented various cost-containment measures that were initiated in prior fiscal years and were maintained through 2011. Such initiatives have included the following:

- Offering more cost-effective fringe benefit plans
- Limiting salary and wage increases
- Competitively bidding certain services
- Contracting non-core services of the College
- Offering an early retirement incentive in 2010
- Restructuring certain operational areas of the College

Kellogg Community College

Management's Discussion and Analysis - Unaudited (Continued)

There are, however, certain factors that are negatively impacting the College that are out of the College's control. The Michigan Public School Employees' Retirement System has increased the College's required contribution rate over the past decade and plans to raise that rate by 150 percent through 2013 when compared to rates in the early 2000s, pushing fringe benefit costs to over 50 percent of some employees' salaries and adding over \$800,000 of expenses to the College. Facilities maintenance and technology expenses continue to increase, making it difficult for the College to maintain the College's campus, infrastructure, and equipment at levels that are conducive to having an optimal learning environment for the students and our community.

Despite the challenging economic times the state is experiencing, the College is in sound financial condition and had a very favorable year financially. Together, with the College's board of trustees, management will continue to monitor the state and local economies and react with revenue enhancements and/or expense containment measures as necessary to ensure that the financial health and stability of the College are preserved.

Kellogg Community College

Balance Sheet

	June 30	
	2011	2010
Assets		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 14,183,584	\$ 21,077,082
Short-term investments (Note 3)	4,531,489	-
Accounts receivable - Net (Note 4)	5,286,386	5,223,874
Other current assets	1,128,557	1,098,543
Total current assets	25,130,016	27,399,499
Noncurrent Assets		
Long-term investments (Note 3)	9,784,845	4,533,806
Capital assets (Note 5)	42,453,089	40,756,279
Total noncurrent assets	52,237,934	45,290,085
Total assets	\$ 77,367,950	\$ 72,689,584
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 3,180,679	\$ 1,144,680
Accrued expenses:		
Payroll and related liabilities	1,470,615	1,889,140
Other	135,958	126,461
Deferred revenue	2,842,186	2,417,510
Capital lease payable - Current (Note 6)	265,000	245,000
Bonds payable - Current (Note 6)	2,100,000	2,000,000
Accrued retirement and compensated absences - Current (Note 6)	790,000	1,180,000
Other current liabilities	47,321	29,440
Total current liabilities	10,831,759	9,032,231
Noncurrent Liabilities		
Accrued retirement and compensated absences - Net of current portion (Note 6)	2,375,000	2,210,000
Capital lease payable - Net of current portion (Note 6)	-	265,000
Bonds payable - Net of current portion (Note 6)	2,200,000	4,300,000
Total noncurrent liabilities	4,575,000	6,775,000
Total liabilities	15,406,759	15,807,231
Net Assets		
Invested in capital assets - Net of related debt	37,888,089	33,946,279
Restricted for:		
Nonexpendable endowments	2,889,117	2,739,176
Expendable scholarships and fellowships	1,610,142	1,162,209
Capital improvements	5,334,684	4,410,144
Unrestricted	14,239,159	14,624,545
Total net assets	61,961,191	56,882,353
Total liabilities and net assets	\$ 77,367,950	\$ 72,689,584

Kellogg Community College

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	2010
Operating Revenue		
Tuition and fees - Net of scholarship allowance of \$4,511,394 and \$3,454,943 for 2011 and 2010, respectively	\$ 11,593,869	\$ 11,507,198
Federal grants and contracts	2,689,704	2,877,094
State grants and contracts	700,150	921,053
Private gifts, grants, and contracts	1,663,705	2,330,513
Sales and services of auxiliary activities - Net of scholarship allowance of \$1,218,349 and \$976,892 for 2011 and 2010, respectively	3,002,617	3,093,073
Other sources	954,498	664,326
Total operating revenue	20,604,543	21,393,257
Operating Expenses		
Instruction	18,082,183	17,256,176
Public service	2,335,723	2,541,526
Instructional support	5,425,836	5,662,393
Student services	14,775,897	13,273,942
Institutional administration	4,026,021	4,004,456
Physical plant operations	3,984,017	4,016,688
Independent operations	2,061,923	2,189,429
Distributions to beneficiaries	-	25,651
Depreciation	1,883,207	1,846,570
Total operating expenses	52,574,807	50,816,831
Operating Loss	(31,970,264)	(29,423,574)
Nonoperating Revenue (Expenses)		
State appropriations	9,311,800	9,311,800
Property taxes	13,302,406	13,994,438
Pell revenue	13,502,154	10,920,994
Investment income	989,776	463,820
Interest on capital asset - Related debt	(206,975)	(303,808)
Net nonoperating revenue	36,899,161	34,387,244
Income Before Other Revenue	4,928,897	4,963,670
Other Revenue - Additions to permanent endowments	149,941	555,470
Increase in Net Assets	5,078,838	5,519,140
Net Assets - Beginning of year	56,882,353	51,363,213
Net Assets - End of year	<u>\$ 61,961,191</u>	<u>\$ 56,882,353</u>

Kellogg Community College

Statement of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Tuition and fees	\$ 11,501,682	\$ 11,726,437
Grants and contracts	4,408,267	5,742,516
Payments to suppliers	(16,509,443)	(18,006,336)
Payments to employees	(29,077,662)	(26,985,118)
Auxiliary enterprise charges - Net	(601,778)	(404,765)
Other	1,266,789	31,674
Net cash used in operating activities	(29,012,145)	(27,895,592)
Cash Flows from Noncapital Financing Activities		
Local property taxes	13,539,161	13,899,024
Federal direct lending receipts	16,723,468	14,432,705
Federal direct lending disbursements	(16,723,468)	(14,432,705)
Private gifts for endowment purposes	149,941	555,470
Federal Pell grant	14,010,346	10,441,717
State appropriations	9,311,800	9,311,798
Net cash provided by noncapital financing activities	37,011,248	34,208,009
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(3,580,018)	(3,925,669)
Principal paid on capital debt	(2,245,000)	(2,312,405)
Interest paid on capital debt	(274,831)	(327,698)
Net cash used in capital and related financing activities	(6,099,849)	(6,565,772)
Cash Flows from Investing Activities		
Net purchases of sales and maturities of investments	(9,030,821)	(1,492,308)
Interest on investments	238,069	179,896
Net cash used in investing activities	(8,792,752)	(1,312,412)
Net Decrease in Cash and Cash Equivalents	(6,893,498)	(1,565,767)
Cash and Cash Equivalents - Beginning of year	21,077,082	22,642,849
Cash and Cash Equivalents - End of year	<u>\$ 14,183,584</u>	<u>\$ 21,077,082</u>

The Accompanying Notes are an Integral
Part of these Statements.

Kellogg Community College

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2011	2010
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (31,970,264)	\$ (29,423,574)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	1,883,207	1,846,570
Change in allowance for bad debts	(150,000)	125,000
Increase in assets:		
Accounts receivable	(657,458)	(793,285)
Inventories, prepaids, and other assets	(30,014)	(313,873)
Increase (decrease) in liabilities:		
Accounts payable	2,035,999	(268,256)
Accrued liabilities and other	(548,291)	736,834
Deferred revenue	424,676	194,992
Net cash used in operating activities	<u>\$ (29,012,145)</u>	<u>\$ (27,895,592)</u>

There were no noncash activities during 2011 or 2010.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 1 - Industry Information and Significant Accounting Policies

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

The College reports as a business-type activity, 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 Presentation - 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.

Accrual Basis - The financial statements of Kellogg Community 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.

Cash and Cash Equivalents - Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments - Investments are recorded at fair value, based on quoted market price.

Note 1 - Industry Information and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment are recorded at cost. Gifts of property are recorded at fair market value at the time gifts are received. Library books are recorded using a historically based estimated value. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land. 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:

Buildings	40 years
Land improvements and infrastructure	20 years
Furniture, fixtures, and equipment	5-15 years

Deferred Revenue - Revenue received prior to year end that relates to the next fiscal period is recorded as deferred revenue. Deferred revenue consists of approximately \$913,000 and \$957,000 for the 2011 and 2010 summer semesters, respectively, and approximately \$573,000 and \$588,000 for the 2011 and 2010 fall semesters, respectively. The remaining amount included in deferred revenue relates to grant funding received during the year that will either be spent in future years or returned to the granting agencies.

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 Foundation for endowments or donor-designated purposes were \$2,889,117 and \$2,739,176 at June 30, 2011 and 2010, respectively. The remaining restricted balance consists primarily of funds restricted for student loans, scholarships, capital improvements, and other purposes. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Operating Revenue and Expenses - Revenue and expense transactions are normally classified as operating revenue and expenses when such transactions are generated by the College's principal ongoing operations. However, most revenue that is considered to be nonexchange, such as tax revenue, federal Pell grant revenue, and state appropriations, is nonoperating revenue.

Note 1 - Industry Information and Significant Accounting Policies (Continued)

Federal Financial Assistance Programs - The College participates in federally funded Pell grants, SEOG grants, Federal Work Study, and Federal Direct Lending programs. Federal programs are audited in accordance with the Single Audit Act amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the compliance supplement.

During the years ended June 30, 2011 and 2010, the College distributed \$16,723,468 and \$14,432,705, respectively, for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures on the accompanying financial statements.

Reclassification - Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 2 - Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied.

Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to the counties in which the district is located for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the counties' tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the years ended June 30, 2011 and 2010, \$2.8636 of tax per \$1,000 of taxable property value in the College's taxing district was levied for general operating purposes on all property. Total operating property tax revenue was \$10,352,515 and \$10,799,997 for the years ended June 30, 2011 and 2010, respectively.

For capital improvement and debt retirement purposes, \$.8470 per \$1,000 of taxable property value in the College's taxing district was levied for the years ended June 30, 2011 and 2010. Total property tax revenue for the retirement of debt related to the 2000 and 2002 bond issuances and capital improvement projects was \$2,949,891 and \$3,194,441 for the years ended June 30, 2011 and 2010, respectively.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 3 - Cash and Investments

The College and the Foundation consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The College's and the Foundation's deposits and investments are included on the balance sheet under the following classifications at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$14,183,584	\$21,077,082
Short-term investments	4,531,489	-
Long-term investments	<u>9,784,845</u>	<u>4,533,806</u>
Total cash and investments	<u>\$28,499,918</u>	<u>\$25,610,888</u>

The amounts in the previous chart are classified in the following categories:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$14,178,234	\$21,071,732
Investments in securities and similar instruments	14,316,334	4,533,806
Petty cash and cash on hand	<u>5,350</u>	<u>5,350</u>
Total cash and investments	<u>\$28,499,918</u>	<u>\$25,610,888</u>

As of June 30, 2011, the College and the Foundation had the following investments and maturities:

	<u>Fair Market Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
Certificates of deposit	\$ 3,278,994	\$ 1,267,261	\$ 2,011,733	\$ -	\$ -
Mutual funds	6,516,143	-	6,516,143	-	-
Notes and bonds	2,766,827	1,509,858	1,006,856	-	250,113
Money market	<u>1,754,370</u>	<u>1,754,370</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,316,334</u>	<u>\$ 4,531,489</u>	<u>\$ 9,534,732</u>	<u>\$ -</u>	<u>\$ 250,113</u>

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 3 - Cash and Investments (Continued)

As of June 30, 2010, the Foundation had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Mutual funds	<u>\$ 4,533,806</u>	<u>\$ -</u>	<u>\$ 4,533,806</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk - The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College does invest in accordance with state law.

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 does not limit investment maturities. The Foundation is also not limited to the investing restrictions imposed on the College by state law.

Credit Risk - According to state law, the College must limit investments in commercial paper to corporations rated prime by at least one of the standard rating services. The Foundation invests in mutual funds with a long-term growth objective.

At June 30, 2011 and 2010, the Foundation's and the College's investments subject to credit risk (interest rate fluctuations) and related ratings consisted of the following:

	2011		2010	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Foundation investments:				
American Balanced Fund	\$ 558,477	AAA	\$ 543,280	AA
BlackRock Equity Dividend Fund	459,206	N/A	360,791	N/A
BlackRock Global Allocation Fund	1,737,254	AAA	1,455,723	BB
BlackRock Inflation Protected Bond Fund	194,540	AAA	54,813	AAA
BlackRock U.S. Opportunities Fund	473,546	N/A	362,122	N/A
Capital Income Builder Fund	937,968	AAA	666,922	A
PIMCO Total Return Fund	1,069,039	N/A	-	-
Ivy Funds Asset Strategy Fund	1,086,113	B	-	-
Bond Fund of America	-	-	1,090,155	BBB
College investments:				
Government National Mortgage Association Bonds	250,113	N/A	-	-
U.S. Treasury Bonds dated 12/15/12	505,538	AAA	-	-
U.S. Treasury Bonds dated 12/31/11	1,008,983	AAA	-	-
U.S. Treasury Bonds dated 07/15/13	501,318	AAA	-	-
U.S. Treasury Bonds dated 06/30/12	500,875	AAA	-	-
Total	<u>\$ 9,282,970</u>		<u>\$ 4,533,806</u>	

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 3 - Cash and Investments (Continued)

The nationally recognized statistical rating organization (NRSRO) utilized is primarily Moody's Investors Service.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be available or returned. The College does not have a deposit policy for custodial credit risk. At June 30, 2011 and 2010, the carrying amount of the College's deposits was \$13,686,324 and \$20,668,855, respectively. Of that amount, \$575,414 and \$529,537, respectively, was insured by the Federal Deposit Insurance Corporation. The remaining \$13,110,910 and \$20,139,318 at June 30, 2011 and 2010, respectively, was uninsured and uncollateralized. The College does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits.

Custodial Credit Risk of Investments - 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 or collateral securities that are in the possession of an outside party. The College's investment policy does not address custodial credit risk. All of the investments are, however, in the name of the College, and the investments are held in trust accounts with each financial institution from which they were purchased.

Note 4 - Accounts Receivable

Accounts receivable consist of the following:

	2011	2010
Student and third party	\$ 2,423,273	\$ 2,166,773
Grants and contracts	2,333,979	1,786,516
State appropriations - Operating	1,693,056	1,693,054
Other	561,078	1,152,531
Total accounts receivable	7,011,386	6,798,874
Less allowance for uncollectibles	(1,725,000)	(1,575,000)
Net accounts receivable	<u>\$ 5,286,386</u>	<u>\$ 5,223,874</u>

The College values accounts receivable at gross realizable value. All amounts deemed to be uncollectible are charged directly against income in the period that determination is made.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
Land improvements	\$ 2,668,561	\$ 114,028	\$ -	\$ 2,782,589
Building and building improvements	56,125,211	449,934	141,188	56,716,333
Furniture, fixtures, and equipment	11,781,257	494,264	8,200	12,283,721
Subtotal - Depreciable assets	70,575,029	1,058,226	149,388	71,782,643
Land	290,602	-	-	290,602
Construction in progress	159,178	2,521,791	(149,388)	2,531,581
Subtotal - Nondepreciable assets	449,780	2,521,791	(149,388)	2,822,183
Total	71,024,809	3,580,017	-	74,604,826
Less accumulated depreciation:				
Land improvements	1,558,161	74,802	-	1,632,963
Building and building improvements	19,173,533	1,208,122	-	20,381,655
Furniture, fixtures, and equipment	9,536,836	600,283	-	10,137,119
Total accumulated depreciation	30,268,530	\$ 1,883,207	\$ -	32,151,737
Capital assets - Net	\$ 40,756,279			\$ 42,453,089

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
Land improvements	\$ 2,108,950	\$ 551,421	\$ 8,190	\$ 2,668,561
Building and building improvements	52,282,880	2,797,859	1,044,472	56,125,211
Furniture, fixtures, and equipment	11,229,636	563,520	(11,899)	11,781,257
Subtotal - Depreciable assets	65,621,466	3,912,800	1,040,763	70,575,029
Land	290,602	-	-	290,602
Construction in progress	1,205,721	152,428	(1,198,971)	159,178
Subtotal - Nondepreciable assets	1,496,323	152,428	(1,198,971)	449,780
Total	67,117,789	4,065,228	(158,208)	71,024,809
Less accumulated depreciation:				
Land improvements	1,494,512	63,649	-	1,558,161
Building and building improvements	18,001,418	1,172,115	-	19,173,533
Furniture, fixtures, and equipment	8,944,679	610,806	(18,649)	9,536,836
Total accumulated depreciation	28,440,609	\$ 1,846,570	\$ (18,649)	30,268,530
Capital assets - Net	\$ 38,677,180			\$ 40,756,279

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 6 - Long-term Obligations

Long-term obligation activity during the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
2000 Community College Improvement bonds	\$ 800,000	\$ -	\$ 800,000	\$ -	\$ -
2002 Community College Improvement bonds	5,500,000	-	1,200,000	4,300,000	2,100,000
Leases Payable					
Barry County Building	510,000	-	245,000	265,000	265,000
Other Long-term Liabilities -					
Accrued retirement and compensated absences	<u>3,390,000</u>	<u>59,559</u>	<u>284,559</u>	<u>3,165,000</u>	<u>790,000</u>
Total	<u>\$ 10,200,000</u>	<u>\$ 59,559</u>	<u>\$ 2,529,559</u>	<u>\$ 7,730,000</u>	<u>\$ 3,155,000</u>

Long-term obligation activity during the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
2000 Community College Improvement bonds	\$ 1,600,000	\$ -	\$ 800,000	\$ 800,000	\$ 800,000
2002 Community College Improvement bonds	6,600,000	-	1,100,000	5,500,000	1,200,000
Leases Payable					
Branch County Building	157,405	-	157,405	-	-
Barry County Building	765,000	-	255,000	510,000	245,000
Other Long-term Liabilities -					
Accrued retirement and compensated absences	<u>2,960,000</u>	<u>573,906</u>	<u>143,906</u>	<u>3,390,000</u>	<u>1,180,000</u>
Total	<u>\$ 12,082,405</u>	<u>\$ 573,906</u>	<u>\$ 2,456,311</u>	<u>\$ 10,200,000</u>	<u>\$ 3,425,000</u>

Community College Improvement Bonds, 2000 - Bonds issued in June 2000 in the amount of \$7,500,000. Interest on the bonds is 5.20 percent and is payable semiannually in April and October. Principal is due in installments of \$800,000 through October 2011. The proceeds from the bonds were used on the 21st Century Project and were paid off during the year ended June 30, 2011.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 6 - Long-term Obligations (Continued)

Community College Improvement Bonds, 2002 - Bonds issued in March 2002 in the amount of \$11,500,000. Interest on the bonds ranges from 3.90 percent to 4.00 percent and is payable semiannually in April and October. Principal is due in installments ranging from \$2,100,000 to \$2,200,000 through October 2012. The proceeds from the bonds were used on the 21st Century Project. In connection with the above bonds, the College is levying annual ad valorem taxes to repay the bond principal and interest obligations as they become due.

Branch County Building Lease - The College is leasing the Branch County campus building from the Branch County Building Authority. The lease period ended during the year ended June 30, 2010. The Authority is conveying title of the property to the College.

Barry County Building Lease - The College is leasing the Barry County campus building from the Barry County Building Authority. The lease period extends through the year 2012, at which time the Authority shall convey title of the property to the College. The lease payment per year is \$265,000 plus interest at a rate of 3.375 percent. The related assets are included in the schedules in Note 5 at \$1,498,506 and \$1,540,828 at June 30, 2011 and 2010, respectively, which is net of accumulated depreciation.

Accrued Retirement and Compensated Absences - The College provides termination benefits upon departure from the College resulting from unused sick time and years of service and defined by each respective labor contract and administrative policy under the vesting method. Under the vesting method, the liability is accrued for employees based on the amount eligible and certain assumptions are used to determine probability of reaching the criteria required for eligibility. Included in the current portion of the accrual is earned but not used vacation and amounts to be provided to employees that will be retiring in the upcoming fiscal year. In 2010, the College offered an incentive to eligible employees to retire equal to 40 percent of the employee's base salary. Provision for this benefit for those employees that elected to retire under this plan has also been included in the accrual. Management believes these calculations accurately reflect the College's liability as a result of offering these benefits.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 6 - Long-term Obligations (Continued)

Total principal and interest maturities on the bonds and leases payable as of June 30, 2011 are as follows:

Years Ending June 30	Debt Obligations			Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 2,100,000	\$ 130,000	\$ 2,230,000	\$ 265,000	\$ 4,472	\$ 269,472
2013	2,200,000	44,000	2,244,000	-	-	-
Total	<u>\$ 4,300,000</u>	<u>\$ 174,000</u>	<u>\$ 4,474,000</u>	<u>\$ 265,000</u>	<u>\$ 4,472</u>	<u>\$ 269,472</u>

Cash Paid for Interest - Cash paid for interest was approximately \$229,000 and \$327,000 for the years ended June 30, 2011 and 2010, respectively.

Note 7 - Retirement Plans

Defined Benefit Plan

Plan Description - The College participates in the Michigan Public School Employees' Retirement System (MPERS), 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 MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPERS 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 healthcare benefit amounts on a cash disbursement basis.

Note 7 - Retirement Plans (Continued)

Retirement Benefits - The pension benefit rate totals 9.73 percent from the period from July 1, 2009 through September 30, 2009, 10.13 percent for the period from October 1, 2009 through September 30, 2010, and 12.16 percent from October 1, 2010 through June 30, 2011, of the covered compensation to the plan. Basic plan members do not make contributions, but contribute to a member investment plan 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, 2011, 2010, and 2009 were approximately \$1,457,000, \$1,276,000, and \$1,186,000, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2009 through September 30, 2009, 7.25 percent for the period from October 1, 2010 through September 30, 2010, and 8.50 percent for the period from October 1, 2010 through June 30, 2011. The College's contributions to the retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 totaled approximately \$1,097,000, \$860,000, and \$810,000, respectively.

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 and employee contributions of 10.5 percent of covered compensation for the years ended June 30, 2011 and 2010. Benefits vest immediately. Compensation covered under the plan for the years ended June 30, 2011 and 2010 was approximately \$6,045,000 and \$5,951,000, respectively, resulting in contributions of approximately \$631,000 and \$627,000, respectively, for the College and \$242,000 and \$239,000, respectively, for employees.

Kellogg Community College

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Kellogg Community College Foundation

The financial statements have been prepared incorporating totals from the Kellogg Community College Foundation (the "Foundation"). The Foundation was incorporated in 1998 and was organized to provide support exclusively for the objectives and purposes of Kellogg Community 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. Therefore, the Foundation is treated as a blended component unit of the College and the financial statements of the Foundation have been combined with those of the College.

During the year ended June 30, 2010, the College, through board approval, transferred its endowment fund to the Foundation.

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.

Note 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 has purchased commercial insurance for property loss, errors and omissions, and medical benefits provided to employees and claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Upcoming Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interest in legally separate organizations. The College is currently evaluating the impact this standard will have on the financial statements when adopted during the College's fiscal year ending June 30, 2013.

Note 10 - Upcoming Pronouncements (Continued)

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This pronouncement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The College is currently evaluating the impact this standard will have on the financial statements when adopted during the College's fiscal year ending June 30, 2013.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet of the College. The statement will be effective for the College's 2012-2013 fiscal year.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Trustees
Kellogg Community College

We have audited the basic financial statements of Kellogg Community College as of and for the year ended June 30, 2011. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Kellogg Community College. Such information for 2011 has been subjected to the procedures applied in the audit of the 2011 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.

Plante & Moran, PLLC

October 31, 2011

Kellogg Community College

	General Fund	Auxiliary Fund	Restricted Fund
Assets			
Current Assets			
Cash and cash equivalents	\$ 13,598,319	\$ -	\$ -
Short-term investments	4,531,489	-	-
Accounts receivable - Net	2,923,940	264,191	2,332,578
Other current assets	564,385	564,172	-
Due (to) from other funds	<u>(10,681,583)</u>	<u>1,073,464</u>	<u>(967,738)</u>
Total current assets	10,936,550	1,901,827	1,364,840
Noncurrent Assets			
Long-term investments	3,268,702	-	-
Capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>3,268,702</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 14,205,252</u>	<u>\$ 1,901,827</u>	<u>\$ 1,364,840</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 2,992,871	\$ 228,494	\$ -
Accrued expenses:			
Payroll and related liabilities	1,461,597	-	9,018
Other	135,958	-	-
Deferred revenue	1,526,159	-	1,025,610
Capital lease payable - Current	-	-	-
Bonds payable - Current	-	-	-
Accrued retirement and compensated absences - Current	750,000	20,000	20,000
Other current liabilities	<u>-</u>	<u>47,321</u>	<u>-</u>
Total current liabilities	6,866,585	295,815	1,054,628
Noncurrent Liabilities			
Accrued retirement and compensated absences - Net of current portion	2,375,000	-	-
Capital lease payable - Net of current portion	-	-	-
Bonds payable - Net of current portion	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>2,375,000</u>	<u>-</u>	<u>-</u>
Total liabilities	9,241,585	295,815	1,054,628
Net Assets			
Invested in capital assets - Net of related debt	-	-	-
Restricted for:			
Nonexpendable endowments	-	-	-
Expendable scholarships and fellowships	-	-	310,212
Capital improvements	-	-	-
Unrestricted	<u>4,963,667</u>	<u>1,606,012</u>	<u>-</u>
Total net assets	<u>4,963,667</u>	<u>1,606,012</u>	<u>310,212</u>
Total liabilities and net assets	<u>\$ 14,205,252</u>	<u>\$ 1,901,827</u>	<u>\$ 1,364,840</u>

Combining Balance Sheet June 30, 2011

Plant Fund	Kellogg Community College Foundation	Total	Eliminations	Combined Total
\$ -	\$ 585,265	\$ 14,183,584	\$ -	\$ 14,183,584
-	-	4,531,489	-	4,531,489
-	20,540	5,541,249	(254,863)	5,286,386
-	-	1,128,557	-	1,128,557
<u>10,575,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
10,575,857	605,805	25,384,879	(254,863)	25,130,016
-	6,516,143	9,784,845	-	9,784,845
<u>42,453,089</u>	<u>-</u>	<u>42,453,089</u>	<u>-</u>	<u>42,453,089</u>
<u>42,453,089</u>	<u>6,516,143</u>	<u>52,237,934</u>	<u>-</u>	<u>52,237,934</u>
<u>\$ 53,028,946</u>	<u>\$ 7,121,948</u>	<u>\$ 77,622,813</u>	<u>\$ (254,863)</u>	<u>\$ 77,367,950</u>
\$ -	\$ 214,177	\$ 3,435,542	\$ (254,863)	\$ 3,180,679
-	-	1,470,615	-	1,470,615
-	-	135,958	-	135,958
-	290,417	2,842,186	-	2,842,186
265,000	-	265,000	-	265,000
2,100,000	-	2,100,000	-	2,100,000
-	-	790,000	-	790,000
<u>-</u>	<u>-</u>	<u>47,321</u>	<u>-</u>	<u>47,321</u>
2,365,000	504,594	11,086,622	(254,863)	10,831,759
-	-	2,375,000	-	2,375,000
-	-	-	-	-
<u>2,200,000</u>	<u>-</u>	<u>2,200,000</u>	<u>-</u>	<u>2,200,000</u>
<u>2,200,000</u>	<u>-</u>	<u>4,575,000</u>	<u>-</u>	<u>4,575,000</u>
4,565,000	504,594	15,661,622	(254,863)	15,406,759
37,888,089	-	37,888,089	-	37,888,089
-	2,889,117	2,889,117	-	2,889,117
-	1,299,930	1,610,142	-	1,610,142
5,334,684	-	5,334,684	-	5,334,684
<u>5,241,173</u>	<u>2,428,307</u>	<u>14,239,159</u>	<u>-</u>	<u>14,239,159</u>
<u>48,463,946</u>	<u>6,617,354</u>	<u>61,961,191</u>	<u>-</u>	<u>61,961,191</u>
<u>\$ 53,028,946</u>	<u>\$ 7,121,948</u>	<u>\$ 77,622,813</u>	<u>\$ (254,863)</u>	<u>\$ 77,367,950</u>

Kellogg Community College

	General Fund	Auxiliary Fund	Restricted Fund
Operating Revenue			
Tuition and fees - Net of scholarship allowance	\$ 15,374,953	\$ 268,554	\$ 461,756
Federal grants and contracts	-	-	2,689,704
State grants and contracts	201,400	-	498,750
Private gifts, grants, and contracts	141,950	-	1,075,106
Sales and services of auxiliary activities - Net of scholarship allowance	68,798	4,152,168	-
Other sources	933,164	-	21,334
Total operating revenue	16,720,265	4,420,722	4,746,650
Operating Expenses			
Instruction	17,625,591	-	456,592
Public service	-	-	2,335,723
Instructional support	5,404,101	-	21,735
Student services	3,081,483	336,514	15,448,625
Institutional administration	3,941,041	-	-
Physical plant operations	3,589,502	-	-
Independent operations	-	3,280,272	-
Depreciation	-	-	-
Total operating expenses	33,641,718	3,616,786	18,262,675
Operating (Loss) Income	(16,921,453)	803,936	(13,516,025)
Nonoperating Revenue (Expenses)			
State appropriations	9,311,800	-	-
Property taxes	10,352,515	-	-
Pell revenue	-	-	13,502,154
Investment income	72,716	-	-
Interest on capital asset - Related debt	-	-	-
Net nonoperating revenue	19,737,031	-	13,502,154
Income (Loss) Before Other Revenue	2,815,578	803,936	(13,871)
Other Revenue - Additions to permanent endowments	-	-	-
Increase (Decrease) in Net Assets - Before transfers	2,815,578	803,936	(13,871)
Transfers	(2,764,030)	(700,000)	(37,125)
Increase (Decrease) in Net Assets	51,548	103,936	(50,996)
Net Assets - Beginning of year	4,912,119	1,502,076	361,208
Net Assets - End of year	<u>\$ 4,963,667</u>	<u>\$ 1,606,012</u>	<u>\$ 310,212</u>

Combining Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2011

Plant Fund	Kellogg Community College Foundation	Total	Eliminations	Combined Total
\$ -	\$ -	\$ 16,105,263	\$ (4,511,394)	\$ 11,593,869
-	-	2,689,704	-	2,689,704
-	-	700,150	-	700,150
-	601,015	1,818,071	(154,366)	1,663,705
-	-	4,220,966	(1,218,349)	3,002,617
-	-	954,498	-	954,498
-	601,015	26,488,652	(5,884,109)	20,604,543
-	-	18,082,183	-	18,082,183
-	-	2,335,723	-	2,335,723
-	-	5,425,836	-	5,425,836
-	575,035	19,441,657	(4,665,760)	14,775,897
-	84,980	4,026,021	-	4,026,021
394,515	-	3,984,017	-	3,984,017
-	-	3,280,272	(1,218,349)	2,061,923
1,883,207	-	1,883,207	-	1,883,207
2,277,722	660,015	58,458,916	(5,884,109)	52,574,807
(2,277,722)	(59,000)	(31,970,264)	-	(31,970,264)
-	-	9,311,800	-	9,311,800
2,949,891	-	13,302,406	-	13,302,406
-	-	13,502,154	-	13,502,154
-	917,060	989,776	-	989,776
(206,975)	-	(206,975)	-	(206,975)
2,742,916	917,060	36,899,161	-	36,899,161
465,194	858,060	4,928,897	-	4,928,897
-	149,941	149,941	-	149,941
465,194	1,008,001	5,078,838	-	5,078,838
3,501,155	-	-	-	-
3,966,349	1,008,001	5,078,838	-	5,078,838
44,497,597	5,609,353	56,882,353	-	56,882,353
\$ 48,463,946	\$ 6,617,354	\$ 61,961,191	\$ -	\$ 61,961,191

Kellogg Community College

Schedule of General Fund Expenditures Year Ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)

	Salaries and Related Expenses	Other Expenses	Equipment	2011 Total	2010 Total
Instruction					
General education	\$ 5,683,422	\$ 720,762	\$ -	\$ 6,404,184	\$ 6,062,782
Business and human services	2,864,208	520,749	-	3,384,957	3,257,570
Technical and industrial trades	1,421,606	273,460	-	1,695,066	1,655,580
Health occupations	4,017,864	664,277	-	4,682,141	4,259,846
Developmental and basic skills	1,002,579	84,538	-	1,087,117	1,092,724
Human development	-	3,752	-	3,752	19,117
Personal interest	113,159	8,144	-	121,303	119,187
Equipment	-	-	247,071	247,071	254,601
Total instruction	15,102,838	2,275,682	247,071	17,625,591	16,721,407
Instructional Support					
Instructional support	4,430,631	944,622	-	5,375,253	5,512,955
Equipment	-	-	28,848	28,848	28,944
Total instructional support	4,430,631	944,622	28,848	5,404,101	5,541,899
Student Services					
Student services programs and administration	1,713,172	280,037	-	1,993,209	1,884,385
Financial aid	403,764	537,596	-	941,360	858,068
Intercollegiate athletics	84,791	6,102	-	90,893	53,620
Equipment	-	-	56,021	56,021	9,897
Total student services	2,201,727	823,735	56,021	3,081,483	2,805,970
Institutional Administration					
Institutional administration	2,533,668	1,334,545	-	3,868,213	3,901,230
Equipment	-	-	72,828	72,828	24,455
Total institutional administration	2,533,668	1,334,545	72,828	3,941,041	3,925,685
Physical Plant Operations					
Physical plant operations	706,381	1,692,240	-	2,398,621	2,253,848
Energy services	-	764,277	-	764,277	760,474
Campus security	68,907	228,018	-	296,925	202,966
Equipment	-	-	129,679	129,679	104,066
Total physical plant operations	775,288	2,684,535	129,679	3,589,502	3,321,354
Total expenditures	<u>\$ 25,044,152</u>	<u>\$ 8,063,119</u>	<u>\$ 534,447</u>	<u>\$ 33,641,718</u>	<u>\$ 32,316,315</u>