

Northwestern Michigan College

Financial Report with Additional Information

June 30, 2009

Northwestern Michigan College

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Northwestern Michigan College

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Independent Auditor's Report

To the Board of Trustees
Northwestern Michigan College

We have audited the accompanying basic financial statements of Northwestern Michigan College and its discretely presented component unit as of and for the years ended June 30, 2009 and 2008, 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 audit of the basic financial statements was audited in accordance with the *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 financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College and its discretely presented component unit as of June 30, 2009 and 2008 and the respective 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 7, 2009 on our consideration of Northwestern Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions 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.

The management's discussion and analysis presented on pages 2 through 15 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.

Plante & Moran, PLLC

October 7, 2009

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Northwestern Michigan College's financial statements provide an overview of the College's financial activities for the year ended June 30, 2009. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College administration.

Using this Report

The College's financial report includes three financial statements: the balance sheet, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for 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 the financial statements, and additional information.

Financial Highlights

The College's financial position for fiscal year 2009 remained stable compared to fiscal year 2008. There was an increase in tuition and fees of approximately \$1,116,000 based on a 7.68 percent average increase in tuition and a 3.69 percent increase in contact hours. Operating property taxes increased approximately 4.0 percent and the bond millage collection increase was 3.8 percent due to property tax values. State appropriations decreased by approximately \$619,000 or 6.7 percent.

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

The balance sheet and the statement of revenue, expenses, and changes in net assets report information on the College's net assets and changes in them. 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.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Total net assets at June 30, 2009, 2008, and 2007 are \$53.4 million, \$53.3 million, and \$53.1 million, respectively. The College's balance sheet at June 30 is summarized as follows:

| Condensed Balance Sheet as of June 30 (in thousands) | | | |
|---|-------------------------|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Current assets | \$ 11,795 | \$ 9,800 | \$ 10,597 |
| Noncurrent assets | <u>77,660</u> | <u>80,433</u> | <u>81,102</u> |
| Total assets | <u>\$ 89,455</u> | <u>\$ 90,233</u> | <u>\$ 91,699</u> |
| Current liabilities | \$ 7,928 | \$ 6,809 | \$ 6,816 |
| Noncurrent liabilities | <u>28,158</u> | <u>30,117</u> | <u>31,818</u> |
| Total liabilities | <u>36,086</u> | <u>36,926</u> | <u>38,634</u> |
| Net assets: | | | |
| Invested in capital assets | 41,117 | 41,508 | 42,196 |
| Restricted - Expendable | - | - | 6 |
| Unrestricted | <u>12,252</u> | <u>11,799</u> | <u>10,863</u> |
| Total net assets | <u>53,369</u> | <u>53,307</u> | <u>53,065</u> |
| Total liabilities and net assets | <u>\$ 89,455</u> | <u>\$ 90,233</u> | <u>\$ 91,699</u> |

Balance Sheet

The primary changes in the assets and liabilities of the College between 2009 and 2008 are as follows:

- Increases in current assets include a transfer of investments from long-term to short-term investments and cash and cash equivalents.
- Capital assets, a component of noncurrent assets, decreased 2.1 million or 3.0 percent due to depreciation with no major capital additions.
- Increase in current liabilities was due to an increase in accounts payable, which included aviation lease payments and technology equipment.
- Noncurrent liabilities decreased based on the bond payment schedule which was offset by a slight increase in vacation leave accrual.

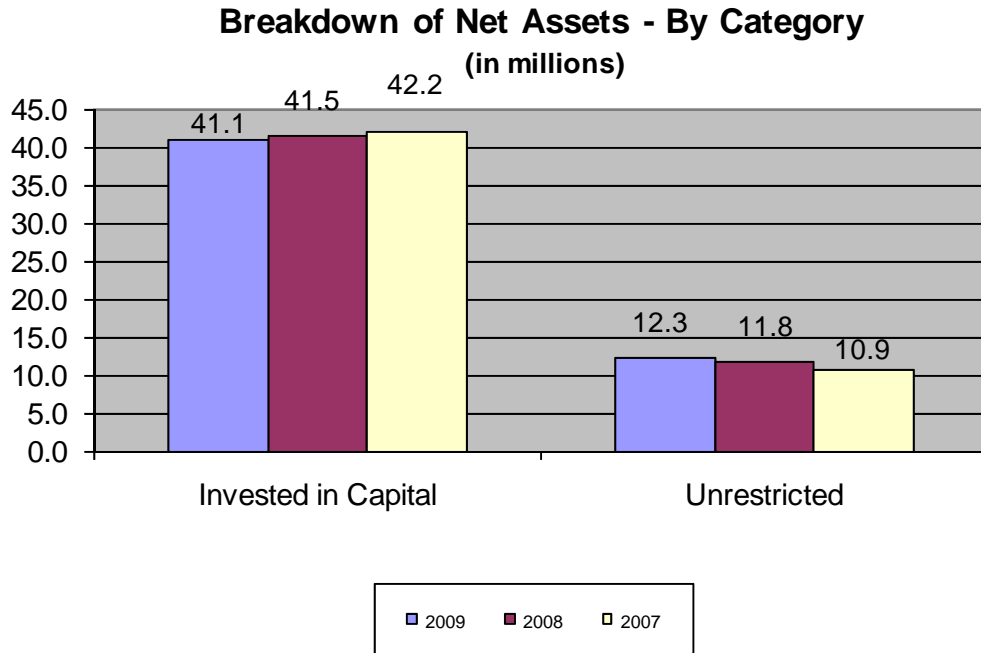
The primary changes in the assets and liabilities of the College between 2008 and 2007 are as follows:

- Decreases in current assets include a transfer of investments in short-term securities to long-term investments.
- Capital assets, a component of noncurrent assets, decreased 2.5 million or 3.4 percent due to depreciation with no major capital additions.
- Current liabilities remain consistent with last year.
- Noncurrent liabilities decreased based on the bond payment schedule which was offset by a slight increase in vacation leave accrual.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

The following chart provides a graphic breakdown of net assets by category for the fiscal years ended June 30, 2009, 2008, and 2007:



Net Assets

Fiscal year 2009 net assets increased approximately \$62,000 or .1 percent. Depreciation of \$3.6 million was offset by minor investments in capital improvements and transfers into the Plant Fund. Transfers into the Plant Fund were funded by operating and nonoperating revenue in excess of expenses in both the General Fund and Auxiliary Funds.

Fiscal year 2008 net assets increased \$242,000 or .5 percent. Depreciation of \$4.0 million was offset by minor investments in capital improvements and transfers into the Plant Fund. Transfers into the Plant Fund were funded by operating and nonoperating revenue in excess of expenses in both the General Fund and Auxiliary Funds.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Statement of Revenue, Expenses, and Changes in Net Assets

Following is a comparison of the major components of operating results of the College for the years ended June 30, 2009, 2008, and 2007:

| Operating Results for the Year Ended June 30 (in thousands) | | | |
|--|-------------------------|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Total operating revenue | \$ 21,008 | \$ 19,931 | \$ 21,006 |
| Total operating expenses | <u>47,316</u> | <u>45,244</u> | <u>43,160</u> |
| Net operating loss | (26,308) | (25,313) | (22,154) |
| Net nonoperating revenue | <u>26,370</u> | <u>25,547</u> | <u>22,327</u> |
| Income before net other revenue | 62 | 234 | 173 |
| Net other revenue | <u>-</u> | <u>8</u> | <u>678</u> |
| Increase in Net Assets | 62 | 242 | 851 |
| Net Assets - Beginning of year | <u>53,307</u> | <u>53,065</u> | <u>52,214</u> |
| Net Assets - End of year | <u>\$ 53,369</u> | <u>\$ 53,307</u> | <u>\$ 53,065</u> |

Total Revenue

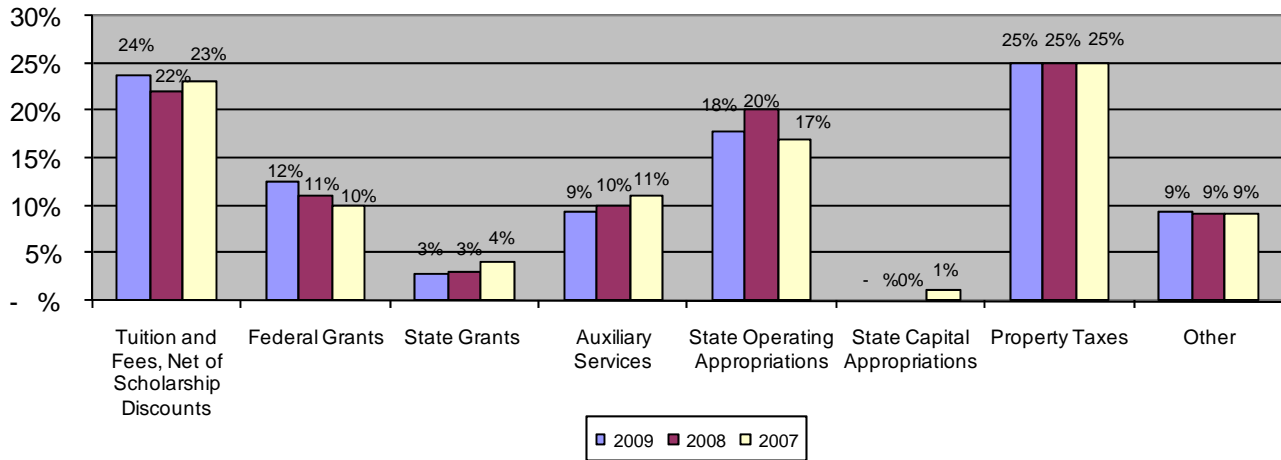
The major changes in revenue for fiscal year 2009 resulted from an increase in tuition and fees, federal grants, and property taxes. State appropriations, investment income, and student housing accounted for major decreases in revenue in 2009. The major changes in revenue for fiscal year 2008 resulted from an increase in tuition and fees, state appropriations, and property taxes. State grants and student housing accounted for major decreases in revenue in 2008. This impacted the relative percentages for all revenue.

Northwestern Michigan College

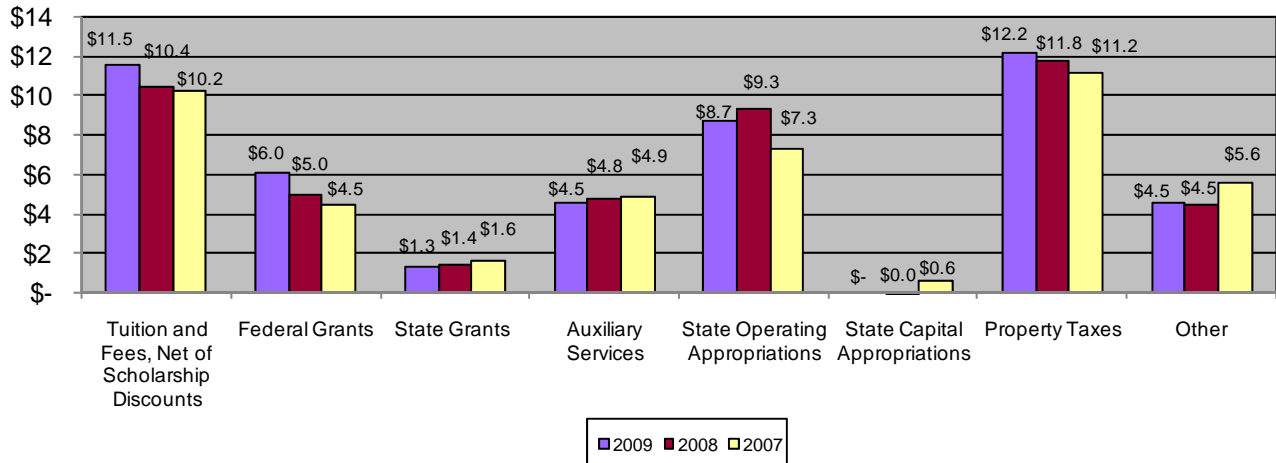
Management's Discussion and Analysis - Unaudited

The following are graphic illustrations of total revenue by source by percentage and dollars for the years ended June 30, 2009, 2008, and 2007:

Revenue Source as a Percent of Total Revenue



Revenue Source (in millions)



Northwestern Michigan College

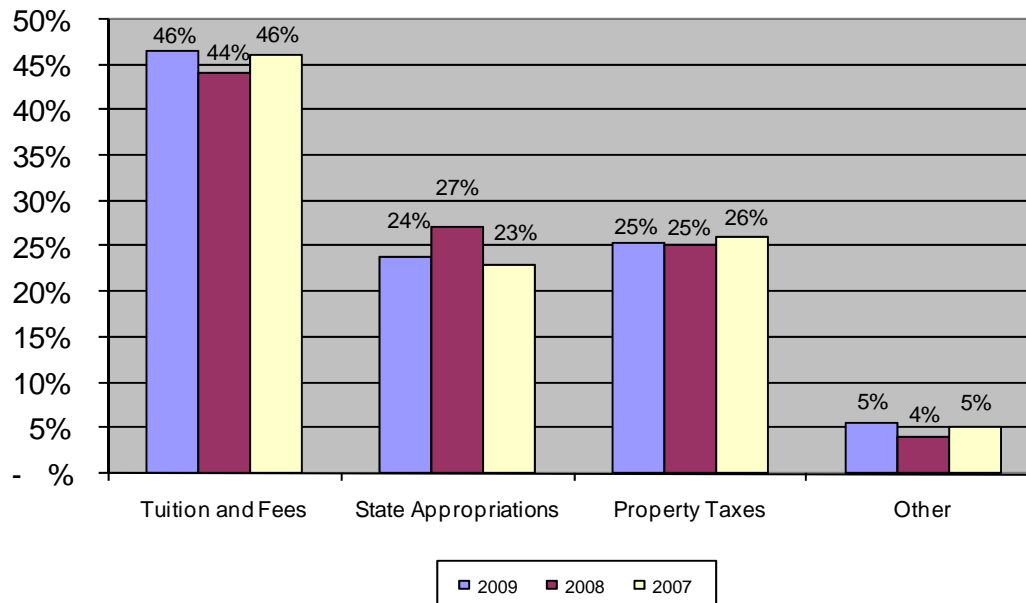
Management's Discussion and Analysis - Unaudited

General Fund Revenue

Internally, the College prepares 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 financed primarily through four sources of revenue - tuition and fees, state appropriations, property taxes, and other. For this report, these sources of revenue are classified as either operating or nonoperating.

The following are graphic illustrations of total General Fund revenue by source, by percentage and dollars, for the years ended June 30, 2009, 2008, and 2007:

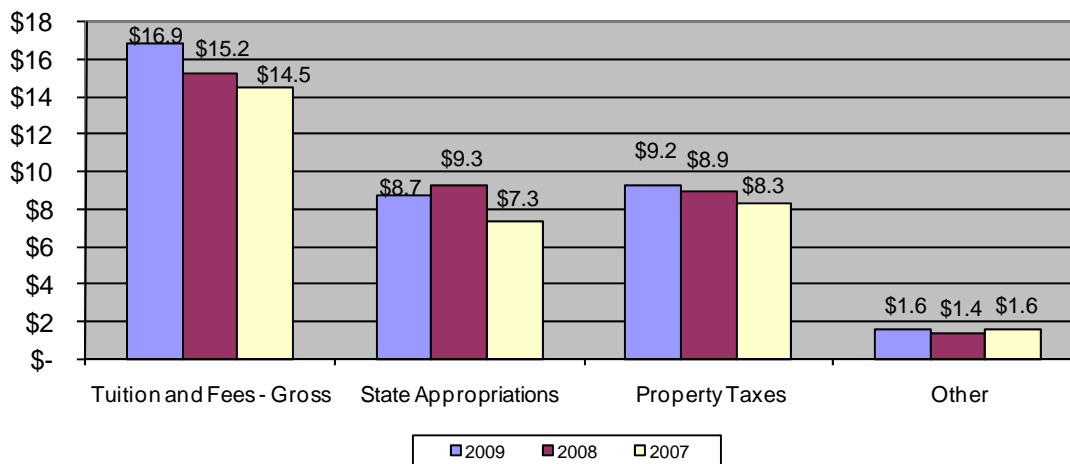
General Fund Revenue - By Source



Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

General Fund Revenue Source (in millions)



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, fees, housing, and other auxiliary operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue for the fiscal year 2009 was as follows:

- Tuition and fee revenue increased approximately \$1,116,000 based on increases of an average 7.68 percent in tuition and fees and an average increase of 3.69 percent in contact hours.
- Federal grants increased approximately \$278,000 related primarily to the completion of the Fate of the Dams project and Maritime Federal support.
- State grants decreased \$125,000 related primarily to a reduction of Student Financial Aid grants.
- Private funding decreased due to completion of water studies – Fate of the Dams study (funding included Great Lakes Fishery Trust, County, and City support) and no new major projects.
- Auxiliary revenue decreased related primarily to a decrease in occupancy rate of student housing.
- Other sources increased related to cafeteria income for equipment and off-campus offerings.

Operating revenue for the fiscal year 2008 was as follows:

- Tuition and fee revenue increased approximately \$167,000 based on increases of an average 3.45 percent in tuition and fees and an average increase of 1.65 percent in contact hours.
- Federal grants decreased \$177,000 related primarily to the completion of the Renewable Energy grants.
- State grants decreased \$184,000 related primarily to the completion of the Consortium EDJT grant and a reduction of eligible students for the Michigan Merit Award.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

- Private funding increased due to grants for water studies – Fate of the Dams study (funding included Great Lakes Fishery Trust, County, and City support).
- Auxiliary revenue decreased related primarily to a decrease in occupancy rate of student housing.
- Other sources decreased in revenue related to a decrease in the sale of capital assets (related to the sale of planes from the aviation program).

The following chart shows the amounts of these sources of operating revenues for the years ended June 30, 2009, 2008, and 2007:

| Total Operating Revenue - By Source as of June 30 (in thousands) | | | |
|---|-------------------------|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Tuition and fees | \$ 11,520 | \$ 10,404 | \$ 10,237 |
| Federal grants | 1,578 | 1,300 | 1,476 |
| State grants | 1,324 | 1,449 | 1,634 |
| Auxiliary services | 4,524 | 4,767 | 4,852 |
| Other operating | <u>2,062</u> | <u>2,011</u> | <u>2,807</u> |
| Total operating revenue - By source | <u>\$ 21,008</u> | <u>\$ 19,931</u> | <u>\$ 21,006</u> |

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Nonoperating Revenue

Nonoperating revenue is all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, Federal Pell grant funding, property taxes, gifts, and investment income.

Nonoperating revenue changes included the following factors for fiscal year 2009:

- State appropriation decreased \$619,000 or 6.7 percent. The decrease represents the 2008 receipt of the 2007 delayed payment of \$768,700 from the 2007 fiscal year, offset by an increase in base funding of \$150,000.
- Federal Pell grant increased \$773,000 or 21 percent, due to an increase in qualified students with financial need.
- Property taxes increased \$464,000 or 3.9 percent. The operating property tax increased \$355,000 or 4 percent and the bond millage property tax increased \$109,000 or 3.8 percent. Overall change resulted from an increase in local property tax values.
- Interest income decreased \$41,000 or 8.5 percent due to the decline in interest rates and market fluctuation.
- Northwestern Michigan College Foundation support includes \$991,000 for scholarships with the remaining \$1,026,000 supporting Dennon Museum, Osterlin Library, water studies, and other instructional programs.

Nonoperating revenue changes included the following factors for fiscal year 2008:

- State appropriation increased by \$2.04 million or 28.2 percent. The increase includes the 2007 delayed payment of \$768,700 from the 2007 fiscal year.
- Federal Pell grant increased \$712,000 or 23.9 percent, due to an increase in qualified students with financial need.
- Property taxes increased \$597,000 or 5.3 percent. The operating property tax increased \$515,000 or 6.2 percent and the bond millage property tax increased \$82,000 or 2.9 percent. Overall change resulted from an increase in local property tax values.
- Interest income decreased \$195,000 due to the decline in interest rates and market fluctuation.
- Northwestern Michigan College Foundation support includes \$974,000 for scholarships with the remaining \$992,000 supporting Dennon Museum, Osterlin Library, water studies, and other instructional programs.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

The following chart shows the amounts of these sources of nonoperating revenues for the years ended June 30, 2009, 2008, and 2007:

| Nonoperating Revenue - By Source as of June 30 (in thousands) | | | |
|--|------------------|-----------------|-----------------|
| | 2009 | 2008 | 2007 |
| State appropriations | \$ 8,682 | \$ 9,301 | \$ 7,258 |
| Pell grant | 4,459 | 3,686 | 2,974 |
| Property taxes | 12,215 | 11,750 | 11,154 |
| Support from Foundation | 2,018 | 1,966 | 1,965 |
| Investment income | 441 | 482 | 677 |
| Total nonoperating revenue - By source | <u>\$ 27,815</u> | <u>\$27,185</u> | <u>\$24,028</u> |

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries, benefits, utilities, supplies, services, and depreciation and are then categorized by function. Overall, total operating expenses increased \$2.1 million (4.6 percent) and \$2.1 million (4.8 percent) for fiscal years 2009 and 2008, respectively. For the purpose of the audit, operating expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Highlights of the major changes between fiscal year 2009 and fiscal year 2008 by category are as follows:

- Salaries, wages and benefits increased by \$800,000 million or 3.0 percent.
- Information technology costs increased due to a change in the replacement cycle of computers.
- Student services increased related to student capacity in the residence halls.

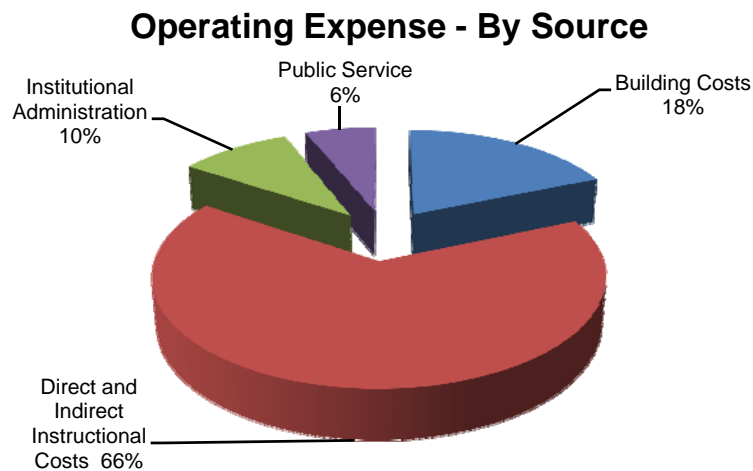
Highlights of the major changes between fiscal year 2008 and fiscal year 2007 by category are as follows:

- Salaries, wages and benefits increased \$1.8 million or 7.3 percent.
- Information technology costs decreased due to a change in the replacement cycle of computers and a server upgrade in 2007.

The following chart shows the amounts of these sources of operating expenses for the years ended June 30, 2009, 2008, and 2007:

| Operating Expenses - By Source as of June 30 (in thousands) | | | |
|--|------------------------|------------------------|------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Building costs | \$ 8,840 | \$ 9,031 | \$ 8,512 |
| Direct and indirect instructional costs | 31,032 | 28,925 | 27,651 |
| Institutional administration | 4,551 | 4,374 | 3,980 |
| Public service | <u>2,893</u> | <u>2,914</u> | <u>3,017</u> |
| Total operating expenses - By source | <u>\$47,316</u> | <u>\$45,244</u> | <u>\$43,160</u> |

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, 2009:



Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

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

| Cash Flows for the Year Ended June 30 (in thousands) | | | |
|---|------------------------|------------------------|------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Cash Provided by (Used in) | | | |
| Operating activities | \$ (22,575) | \$ (20,753) | \$ (19,812) |
| Noncapital financing activities | 24,551 | 23,145 | 21,104 |
| Capital and related financing activities | (1,881) | (1,836) | (2,436) |
| Investing activities | <u>863</u> | <u>(150)</u> | <u>2,090</u> |
| Net Increase (Decrease) in Cash | 958 | 406 | 946 |
| Cash and Cash Equivalents - Beginning of year | <u>3,372</u> | <u>2,966</u> | <u>2,020</u> |
| Cash and Cash Equivalents - End of year | <u><u>\$ 4,330</u></u> | <u><u>\$ 3,372</u></u> | <u><u>\$ 2,966</u></u> |

Major sources of funds from operations came from tuition and fees, grants, contracts, and auxiliary activities, which include student housing, the Dennon Museum, University Center, Hagerty Center and the bookstore. These sources were offset by expenditures for operations such as payments to employees and suppliers. For fiscal year 2009, there was an increase in cash due to an increase in nonoperating revenue over direct expenditures. During fiscal year 2008, the increase in cash is due to an increase in nonoperating revenue over direct expenditures.

The additional cash provided by nonoperating noncapital financing activities resulted from an increase in local property tax values and Federal Pell funding in fiscal year 2009 compared to 2008.

Cash used in capital and related financing for fiscal year 2009 increased by \$45,000 due to an increase in capital spending and principal debt payments. Cash used in capital and related financing for fiscal year 2008 decreased by \$600,000 due to a decrease in capital spending and principal debt payments.

In 2009, the increase in investment activities is related to less investment purchases. Investment activities increased for fiscal year 2008 compared to fiscal years 2009 and 2007 due to investment bonds being called early and reinvestment into long-term securities.

Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

Capital Asset and Debt Administration

Capital Assets

At June 30, 2009, the College had \$122 million invested in capital assets, net of accumulated depreciation of \$52 million. Depreciation charges totaled \$3.6 million for the current fiscal year. Details of these assets are shown below.

| Capital Assets at June 30 (in thousands) | | | |
|---|--------------------------|--------------------------|--------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Land and land improvements | \$ 9,161 | \$ 9,071 | \$ 8,837 |
| Infrastructure | 6,574 | 6,514 | 6,462 |
| Buildings and improvements | 83,244 | 82,522 | 82,147 |
| Furniture, fixtures, and equipment | 22,661 | 22,535 | 22,100 |
| Construction in progress | <u>229</u> | <u>250</u> | <u>31</u> |
| Totals | <u>\$ 121,869</u> | <u>\$ 120,892</u> | <u>\$ 119,577</u> |

Debt

The College had \$29.1 million, \$30.9 million, and \$32.6 million in debt outstanding at June 30, 2009, 2008, and 2007, respectively. The table below summarizes this amount by type of debt instrument. The College's bond rating for the 2005 Refunding Bond by Standard & Poor's and Moody's were AA and A1, respectively at June 30, 2009.

| Debt Outstanding at June 30 (in thousands) | | | |
|---|-------------------------|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Bonds | \$ 28,770 | \$ 30,465 | \$ 31,980 |
| Notes | <u>335</u> | <u>460</u> | <u>641</u> |
| Totals | <u>\$ 29,105</u> | <u>\$ 30,925</u> | <u>\$ 32,621</u> |

Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

Economic Factors That Will Affect the Future

The economic outlook for the College is tied heavily to national and state economic conditions. Although federal and state appropriations have been determined for the upcoming fiscal year, it is important to note that in times of financial constraint such funding can be adversely impacted. Due to the State of Michigan accepting American Recovery and Reinvestment Act (ARRA) funds, community colleges (including Northwestern Michigan College) must be held harmless from cuts in state appropriations for the State's 2009/2010 fiscal year.

For fiscal year 2010, the College has budgeted for a 1.0 percent decrease in state operating funding over fiscal year 2009's budget. Additionally, the FY10 budget includes: property tax revenue that contains minimal increases in taxable values, tuition and fees for Grand Traverse County residents were held flat, and the College responded to increased energy costs by implementing energy savings infrastructure.

The College has reviewed its cash flow data and reserve funds. Northwestern Michigan College is financially positioned to continue normal operations during this period of uncertainty.

Northwestern Michigan College

Balance Sheet

| | | June 30 | |
|---|--|-----------------------------|-----------------------------|
| | | 2009 | 2008 |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents (Note 3) | | \$ 4,330,695 | \$ 3,336,569 |
| Short-term investments (Note 3) | | 954,784 | 771,835 |
| Accounts receivable (Note 4) | | 4,072,546 | 3,526,662 |
| Other current assets | | <u>2,436,612</u> | <u>2,165,034</u> |
| Total current assets | | 11,794,637 | 9,800,100 |
| Noncurrent Assets | | | |
| Cash restricted for capital improvements (Note 3) | | - | 36,092 |
| Other long-term investments (Note 3) | | 6,734,460 | 7,339,814 |
| Student loans receivable | | 58,325 | 10,768 |
| Bond issuance costs | | 625,724 | 688,056 |
| Capital assets - Net (Note 5) | | <u>70,241,814</u> | <u>72,357,949</u> |
| Total noncurrent assets | | <u>77,660,323</u> | <u>80,432,679</u> |
| Total assets | | <u>\$ 89,454,960</u> | <u>\$ 90,232,779</u> |
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Accounts payable | | \$ 1,810,566 | \$ 962,578 |
| Accrued liabilities: | | | |
| Payroll and withholdings | | 2,259,058 | 2,318,557 |
| Interest | | 356,282 | 377,104 |
| Deferred revenue | | 1,191,114 | 1,007,396 |
| Long-term obligations - Current (Note 6) | | <u>2,310,500</u> | <u>2,142,796</u> |
| Total current liabilities | | 7,927,520 | 6,808,431 |
| Noncurrent Liabilities | | | |
| Long-term obligations - Net of current portion (Note 6) | | 27,712,506 | 29,652,221 |
| Deposits | | <u>445,383</u> | <u>464,881</u> |
| Total noncurrent liabilities | | <u>28,157,889</u> | <u>30,117,102</u> |
| Total liabilities | | 36,085,409 | 36,925,533 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | | 41,117,674 | 41,508,488 |
| Unrestricted (Note 1) | | <u>12,251,877</u> | <u>11,798,758</u> |
| Total net assets | | <u>53,369,551</u> | <u>53,307,246</u> |
| Total liabilities and net assets | | <u>\$ 89,454,960</u> | <u>\$ 90,232,779</u> |

Northwestern Michigan College

Statement of Revenue, Expenses, and Changes in Net Assets

| | Year Ended June 30 | |
|---|----------------------|----------------------|
| | 2009 | 2008 |
| Operating Revenue | | |
| Tuition and fees | \$ 16,937,388 | \$ 15,238,808 |
| Scholarship allowance | (5,417,392) | (4,834,967) |
| Net tuition and fees | 11,519,996 | 10,403,841 |
| Federal grants and contracts | 1,577,972 | 1,299,527 |
| State grants and contracts | 1,324,478 | 1,449,294 |
| Private gifts, grants, and contracts | 84,016 | 168,432 |
| Sales and services of auxiliary activities | 4,523,910 | 4,767,484 |
| Other sources | 1,977,732 | 1,842,103 |
| Total operating revenue | 21,008,104 | 19,930,681 |
| Operating Expenses | | |
| Instruction | 13,893,175 | 13,352,266 |
| Information technology | 2,228,283 | 1,713,229 |
| Public service | 2,893,257 | 2,913,571 |
| Instructional support | 5,941,425 | 5,769,436 |
| Student services | 8,968,669 | 8,090,595 |
| Institutional administration | 4,550,441 | 4,373,618 |
| Operations and maintenance of plant | 5,226,589 | 5,026,321 |
| Depreciation | 3,613,906 | 4,005,300 |
| Total operating expenses | 47,315,745 | 45,244,336 |
| Operating Loss | (26,307,641) | (25,313,655) |
| Nonoperating Revenue (Expenses) | | |
| State appropriations | 8,681,999 | 9,300,700 |
| Federal Pell grant | 4,458,875 | 3,685,995 |
| Property taxes (Note 2) | 12,214,609 | 11,750,503 |
| Support from component unit | 2,017,917 | 1,966,261 |
| Investment income and other interest income | 440,784 | 481,613 |
| Bond costs | (49,004) | (49,004) |
| Interest on capital asset - Related debt | (1,395,234) | (1,589,026) |
| Net nonoperating revenue | 26,369,946 | 25,547,042 |
| Income Before Other Revenue | 62,305 | 233,387 |
| Other Revenue | | |
| State capital appropriations | - | 8,869 |
| Increase in Net Assets | 62,305 | 242,256 |
| Net Assets | | |
| Beginning of year | 53,307,246 | 53,064,990 |
| End of year | <u>\$ 53,369,551</u> | <u>\$ 53,307,246</u> |

Northwestern Michigan College

Statement of Cash Flows - College

| | Year Ended June 30 | |
|---|---------------------|---------------------|
| | 2009 | 2008 |
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 11,554,144 | \$ 10,308,059 |
| Grants and contracts | 2,453,694 | 2,941,143 |
| Payments to suppliers | (24,825,948) | (23,681,672) |
| Payments to employees | (18,258,859) | (16,957,094) |
| Loans issued to students, net of repayments | (47,557) | 39,571 |
| Auxiliary enterprise charges | 4,523,910 | 4,767,484 |
| Other | 2,025,333 | 1,829,343 |
| Net cash used in operating activities | (22,575,283) | (20,753,166) |
| Cash Flows from Noncapital Financing Activities | | |
| Local property taxes | 9,215,973 | 8,860,932 |
| Gifts and contributions for other than capital purposes | 1,885,553 | 2,370,021 |
| State appropriations | 8,701,110 | 8,256,995 |
| Pell grant | 4,748,320 | 3,657,040 |
| Net cash provided by noncapital financing activities | 24,550,956 | 23,144,988 |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of capital assets | (1,549,868) | (1,365,877) |
| Principal paid on capital debt | (1,735,431) | (1,607,141) |
| Capital property tax levied | 2,998,636 | 2,889,571 |
| Capital state appropriations | - | 8,869 |
| Interest paid on capital debt | (1,594,165) | (1,761,427) |
| Net cash used in capital and related financing activities | (1,880,828) | (1,836,005) |
| Cash Flows from Investing Activities | | |
| Proceeds from sales and maturities of investments | 10,771,835 | 14,750,000 |
| Investment income | (33,330) | 588,780 |
| Purchase of investments | (9,875,316) | (15,488,341) |
| Net cash provided by (used in) investing activities | 863,189 | (149,561) |
| Net Increase in Cash and Cash Equivalents | 958,034 | 406,256 |
| Cash and Cash Equivalents - Beginning of year | 3,372,661 | 2,966,405 |
| Cash and Cash Equivalents - End of year | \$ 4,330,695 | \$ 3,372,661 |
| Statement of Net Asset Classification of Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 4,330,695 | \$ 3,336,569 |
| Noncurrent cash reserved for capital improvements | - | 36,092 |
| Total cash and cash equivalents | \$ 4,330,695 | \$ 3,372,661 |

Northwestern Michigan College

Statement of Cash Flows - College (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

| | Year Ended June 30 | |
|--|------------------------|------------------------|
| | 2009 | 2008 |
| Operating loss | \$ (26,307,641) | \$ (25,313,655) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Depreciation expense | 3,613,906 | 4,005,300 |
| Noncash revenue | 106,833 | (106,873) |
| Loss (gain) on disposal of fixed assets | 52,097 | (108,015) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (722,076) | 37,353 |
| Student loan receivable | (47,557) | 39,571 |
| Inventories, prepaids, and other assets | (271,578) | 502,254 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 847,988 | (86,425) |
| Accrued payroll and withholdings | (59,499) | 219,178 |
| Deferred revenue | 164,220 | (15,132) |
| Accrued sick leave | 48,024 | 73,278 |
| Net cash used in operating activities | <u>\$ (22,575,283)</u> | <u>\$ (20,753,166)</u> |

Northwestern Michigan College

Discretely Presented Component Unit - Foundation Balance Sheet and Statement of Activities and Changes in Net Assets

| BALANCE SHEET | | June 30 | |
|--|--|-----------------------------|-----------------------------|
| | | 2009 | 2008 |
| Assets | | | |
| Cash and cash equivalents | | \$ 2,286,075 | \$ 3,810,746 |
| Investments (Note 3) | | 19,565,785 | 23,221,712 |
| Receivables | | 682,121 | 473,031 |
| Other assets | | <u>288,288</u> | <u>229,651</u> |
| Total assets | | <u>\$ 22,822,269</u> | <u>\$ 27,735,140</u> |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accrued distributions to Northwestern Michigan College | | \$ 264,302 | \$ 236,449 |
| Other liabilities | | <u>153,075</u> | <u>161,738</u> |
| Total liabilities | | 417,377 | 398,187 |
| Net Assets | | | |
| Unrestricted | | 2,246,481 | 3,865,922 |
| Temporarily restricted | | 10,898,745 | 14,395,076 |
| Permanently restricted (Note 13) | | <u>9,259,666</u> | <u>9,075,955</u> |
| Total net assets | | <u>22,404,892</u> | <u>27,336,953</u> |
| Total liabilities and net assets | | <u>\$ 22,822,269</u> | <u>\$ 27,735,140</u> |
| STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS | | Year Ended June 30 | |
| | | 2009 | 2008 |
| Support and Revenue | | | |
| Contributions, grants, and other | | | |
| Unrestricted | | \$ 165,711 | \$ 486,399 |
| Temporarily restricted | | 1,290,139 | 2,362,542 |
| Investment loss | | <u>(4,306,484)</u> | <u>(1,214,549)</u> |
| Total support and revenue | | (2,850,634) | 1,634,392 |
| Program and Support Expenses | | | |
| Program expenses | | 1,888,787 | 1,578,227 |
| Management and general | | 93,028 | 132,646 |
| Fund-raising - Special events | | <u>245,593</u> | <u>238,372</u> |
| Total program and support expenses | | <u>2,227,408</u> | <u>1,949,245</u> |
| Loss Before Other Revenue | | (5,078,042) | (314,853) |
| Other Revenue - Additions to permanent endowments | | <u>145,981</u> | <u>159,198</u> |
| Decrease in Net Assets | | (4,932,061) | (155,655) |
| Net Assets - Beginning of year | | <u>27,336,953</u> | <u>27,492,608</u> |
| Net Assets - End of year | | <u>\$ 22,404,892</u> | <u>\$ 27,336,953</u> |

Note I - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

Reporting Entity - Northwestern Michigan College (the "College") is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and as outlined in the *State of Michigan Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

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 one component unit. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationships with the College.

Northwestern Michigan College Foundation (the "Foundation") is discretely reported as part of the College reporting entity (although it is legally separate and governed by its own board of directors) because its sole purpose is to provide support for the College. Separate financial statements of the Foundation may be obtained by contacting Northwestern Michigan College Foundation, 1701 East Front Street, Traverse City, Michigan 49686.

Significant Accounting Policies

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

Accrual Basis - The financial statements have been prepared on 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. In accordance with GASB Statement No. 20, the College is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of 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.

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 market value.

Note I - Basis of Presentation and Significant Accounting Policies (Continued)

Prepaid Expense - During the year ended June 30, 2009 and 2008, the College has recorded a \$1,739,000 and \$1,417,000 prepaid expense in other current assets, respectively, for flight time on Cessna Skyhawk aircraft.

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

Property and Equipment - Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Library books are recorded using a historically based estimated value. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land and the art collection. 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 |
| Library books | 5 years |
| Land improvements and infrastructure | 20 years |
| Furniture, fixtures, and equipment | 7-15 years |
| Docks | 24 years |

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

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 and state appropriations, is nonoperating revenue.

Deferred Revenue - Revenue received prior to year end that is related to the next fiscal period is recorded as deferred revenue. It consists of approximately \$219,000 and \$155,000 for the 2009 and 2008 fall semesters and \$789,000 and \$666,000 for the 2009 and 2008 summer semesters, respectively. Grants received prior to qualifying expenditures are also included in deferred revenue. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Compensated Absences - Compensated absences represent the accumulated liability to be paid under the College's current sick and vacation pay policy. Under the College's policy, employees earn sick and vacation time based on time of service with the College.

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Contributions and Pledges Receivable - Pledges are recorded as contributions in the year the pledge is received, if there is sufficient evidence that a promise to contribute cash or other assets in the future has been made and collection is reasonably assured. An allowance for uncollectible pledges is used to reduce pledges receivable for estimated uncollectible amounts.

Pell Grant Reimbursements - Pell grant reimbursements are classified as nonoperating revenues due to their nonexchange nature. The amounts received for 2009 and 2008 are \$4,458,875 and \$3,685,995, respectively.

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.

Unrestricted Net Assets - The College, through board action, has designated the use of unrestricted net assets as follows:

| | 2009 | 2008 |
|--|----------------------|----------------------|
| Designated for General Fund division use | \$ 4,470,515 | \$ 4,304,724 |
| Designated for maintenance and replacement | 4,948,876 | 4,015,635 |
| Designated for future expenditures | 1,605,489 | 1,885,635 |
| Designated for auxiliary expenditures | <u>1,226,997</u> | <u>1,592,764</u> |
| Total unrestricted net assets | <u>\$ 12,251,877</u> | <u>\$ 11,798,758</u> |

Reclassification - Certain prior year amounts have been reclassified to conform to the presentation used in the current year.

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 and city within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to the county, in which the district is located, for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the county's tax revolving funds. These payments are usually received within three to five months after the delinquency date.

Note 2 - Property Taxes (Continued)

During the years ended June 30, 2009 and 2008, 2.1700 mills of tax per \$1,000 of taxable property value in the community college taxing district were levied for general operating purposes on all property. Total operating property tax revenue was \$9,215,973 and \$8,860,932 for the years ended June 30, 2009 and 2008, respectively.

During both years ended June 30, 2009 and 2008, 0.70 mills of tax per \$1,000 of taxable property value in the community college taxing district were levied for debt retirement purposes. Total property tax revenue was \$2,998,636 and \$2,889,571 for the years ended June 30, 2009 and 2008, respectively, for retirement of debt related to the 1999 and 2005 bond issues.

Note 3 - Deposits and Investments

Foundation Investments Held by Trustees

The Foundation has entered into trust agreements with Huntington Bank, JP Morgan, Fifth Third Bank, National City, and Northwestern Bank, whereby the financial institutions provide trust investment and custodial services for funds of the Foundation transferred into trust accounts at the financial institutions. All investments are held by the Foundation's agent in the Foundation's name. Earnings on invested amounts are retained in the trust funds for reinvestment until such time as the Foundation authorizes delivery of all or a part of the trust funds to or for the benefit of the College.

Foundation Investment Fair Value

The following table presents information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2009, and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level I inputs use quoted prices in active markets. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value. The Foundation has investments that are valued using Level I inputs, which are obtained directly from investment statements prepared by the institution holding the investments.

Note 3 - Deposits and Investments (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets or not active markets (markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which there is little information released to the public). An example of a Level 2 input would be a price quote from a brokered market.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. However, the fair value measurement objective remains the same as it would for Level 1 and 2 inputs, in that it is based on an exit price from the perspective of a market participant that holds the asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

| | Balance at June 30, 2009 | Quoted Price (Level 1) |
|------------------------------|-----------------------------|---------------------------|
| Investments: | | |
| Corporate bond mutual funds | \$ 7,108,033 | \$ 7,108,033 |
| Stock and stock mutual funds | 12,457,752 | 12,457,752 |

College Deposits and Investments

State statutes and the College's investment policy authorize the College to make deposits in the accounts of federally insured bank, credit unions, and savings and loan associations that have offices in Michigan; the College is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The College's deposits are in accordance with statutory authority.

The College has designated Fifth Third Bank, Northwestern Bank, Huntington Bank, and Chase Bank for the deposit of its funds.

The College's cash and investments are subject to custodial credit risk, which is examined in more detail on the following page.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the College's deposits may not be returned to it. The College's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk are used for the College's deposits. As of June 30, 2009, the College's deposit balances of \$4,235,111 had \$3,235,111 of bank deposits (money markets, certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. For June 30, 2008, the College's deposit balances of \$3,348,083 had \$3,148,083 of bank deposits that were uninsured and uncollateralized. The College believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the College evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. Unsecured funds are invested in federal government backed securities.

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 policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the College will do business using the criteria established in the investment policy. All investment securities that are uninsured and unregistered are held by counterparties.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The College's policy minimizes interest rate risk 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. See the tables in the credit risk section for investment maturities.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The College's investment policy does not further limit its investment choices.

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

At June 30, 2009, the College's maturities of investments which include debt securities (other than the U.S. government) held by counterparties that possess Moody's quality ratings of Aaa, are as follows:

| | Fair Market Value | Less Than One Year | 1-5 Years | 5-10 Years | More Than 10 Years |
|---|----------------------|-----------------------|-------------------|-------------|-----------------------|
| Certificates of deposit | \$ 500,000 | \$ 500,000 | \$ - | \$ - | \$ - |
| Tennessee Valley Authority Fed BE | 869,190 | - | 869,190 | - | - |
| Federal Home Loan Mortgage Corp. Note | 1,915,260 | - | - | - | 1,915,260 |
| Federal Home Loan Bank | 454,784 | 454,784 | - | - | - |
| Federal National Mortgage Association | 976,880 | - | - | - | 976,880 |
| Federal National Mortgage Association NTS | <u>2,973,130</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,973,130</u> |
| Total investments | <u>\$ 7,689,244</u> | <u>\$ 954,784</u> | <u>\$ 869,190</u> | <u>\$ -</u> | <u>\$ 5,865,270</u> |

At June 30, 2008, the maturities of investments which include debt securities (other than the U.S. government) held by counterparties that possess Moody's quality ratings of AAA, are as follows:

| | Fair Market Value | Less Than One Year | 1-5 Years | 5-10 Years | More Than 10 Years |
|---|----------------------|-----------------------|---------------------|-------------------|-----------------------|
| Certificates of deposit | \$ 771,835 | \$ 771,835 | \$ - | \$ - | \$ - |
| Federal Home Loan Mortgage Corp. Mtn | 1,006,450 | - | 1,006,450 | - | - |
| Federal Home Loan Banks Call Step | 984,330 | - | - | 984,330 | - |
| Federal Home Loan Bank | 453,094 | - | 453,094 | - | - |
| Federal Home Loan Bank Bonds | 983,440 | - | 983,440 | - | - |
| Federal Home Loan Banks Cons Bond | 1,985,620 | - | 1,985,620 | - | - |
| Federal National Mortgage Association NTS | <u>1,926,880</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,926,880</u> |
| Total investments | <u>\$ 8,111,649</u> | <u>\$ 771,835</u> | <u>\$ 4,428,604</u> | <u>\$ 984,330</u> | <u>\$ 1,926,880</u> |

Concentration of Credit Risk

The College's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of the potential losses from any one type of security or issuer will be minimized. For the year ended June 30, 2009, more than 5 percent of the College's investments are comprised of Tennessee Valley Authority, Federal Home Loan and Federal National Mortgage Bonds; these investments account for 11 percent, 31 percent and 51 percent of the College's total investments. For the year ended June 30, 2008, more than 5 percent of the College's investments are comprised of Federal Home Loan and Federal National Mortgage Bonds; these investments account for 67 percent and 24 percent of the College's total investments.

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Accounts Receivable

Accounts receivable consist of the following:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|---------------------|---------------------|
| Student | \$ 834,957 | \$ 704,885 |
| Grants and contracts | 971,417 | 728,090 |
| State appropriations - Operating | 1,578,543 | 1,597,654 |
| Foundation | 326,687 | 194,323 |
| Third party and other | <u>829,029</u> | <u>716,453</u> |
| Total | 4,540,633 | 3,941,405 |
| Less allowance for doubtful accounts | <u>468,087</u> | <u>414,743</u> |
| Net accounts receivable | <u>\$ 4,072,546</u> | <u>\$ 3,526,662</u> |

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|----------------------|---------------------|---------------------|------------------|----------------------|
| Depreciable assets: | | | | | |
| Land improvements | \$ 4,887,609 | \$ 90,680 | \$ - | \$ - | \$ 4,978,289 |
| Infrastructure | 6,514,161 | - | - | 60,103 | 6,574,264 |
| Building and building improvements | 82,522,168 | 605,842 | - | 115,713 | 83,243,723 |
| Furniture, fixtures, and equipment | 20,042,165 | 678,299 | (572,694) | 8,800 | 20,156,570 |
| Dock | 1,842,308 | - | - | - | 1,842,308 |
| Total depreciable assets | 115,808,411 | 1,374,821 | (572,694) | 184,616 | 116,795,154 |
| Nondepreciable assets: | | | | | |
| Art collection | 650,466 | 11,623 | - | - | 662,089 |
| Land | 4,183,042 | - | - | - | 4,183,042 |
| Construction in progress | 250,190 | 163,424 | - | (184,616) | 228,998 |
| Total nondepreciable assets | 5,083,698 | 175,047 | - | (184,616) | 5,074,129 |
| Total depreciable and nondepreciable assets | 120,892,109 | \$ 1,549,868 | \$ (572,694) | \$ - | 121,869,283 |
| Accumulated depreciation: | | | | | |
| Land improvements | 3,222,714 | \$ 208,878 | \$ - | \$ - | 3,431,592 |
| Infrastructure | 5,143,347 | 111,093 | - | - | 5,254,440 |
| Building and building improvements | 21,655,347 | 2,313,864 | - | - | 23,969,211 |
| Furniture, fixtures, and equipment | 17,834,916 | 849,005 | (520,597) | - | 18,163,324 |
| Dock | 677,836 | 131,066 | - | - | 808,902 |
| Total accumulated depreciation | 48,534,160 | \$ 3,613,906 | \$ (520,597) | \$ - | 51,627,469 |
| Net capital assets | \$ 72,357,949 | | | | \$ 70,241,814 |

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2008 was as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|----------------------|---------------------|---------------------|-----------------|----------------------|
| Depreciable assets: | | | | | |
| Land improvements | \$ 4,653,596 | \$ 222,124 | \$ - | \$ 11,889 | \$ 4,887,609 |
| Infrastructure | 6,462,029 | 52,132 | - | - | 6,514,161 |
| Building and building improvements | 82,146,927 | 353,974 | - | 21,267 | 82,522,168 |
| Furniture, fixtures, and equipment | 19,613,839 | 613,010 | (184,684) | - | 20,042,165 |
| Dock | 1,842,308 | - | - | - | 1,842,308 |
| Total depreciable assets | 114,718,699 | 1,241,240 | (184,684) | 33,156 | 115,808,411 |
| Nondepreciable assets: | | | | | |
| Art collection | 643,981 | 6,485 | - | - | 650,466 |
| Land | 4,183,042 | - | - | - | 4,183,042 |
| Construction in progress | 30,506 | 252,840 | - | (33,156) | 250,190 |
| Total nondepreciable assets | 4,857,529 | 259,325 | - | (33,156) | 5,083,698 |
| Total depreciable and nondepreciable assets | 119,576,228 | \$ 1,500,565 | \$ (184,684) | \$ - | 120,892,109 |
| Accumulated depreciation: | | | | | |
| Land improvements | 3,010,633 | \$ 212,081 | \$ - | \$ - | 3,222,714 |
| Infrastructure | 4,970,820 | 172,527 | - | - | 5,143,347 |
| Building and building improvements | 19,355,436 | 2,299,911 | - | - | 21,655,347 |
| Furniture, fixtures, and equipment | 16,803,209 | 1,189,718 | (158,011) | - | 17,834,916 |
| Dock | 546,773 | 131,063 | - | - | 677,836 |
| Total accumulated depreciation | 44,686,871 | \$ 4,005,300 | \$ (158,011) | \$ - | 48,534,160 |
| Net capital assets | \$ 74,889,357 | | | | \$ 72,357,949 |

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 6 - Long-term Obligations

Long-term obligation activity during the year ended June 30, 2009 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|------------------------------------|--------------------------|-------------------|---------------------|-----------------------|------------------------|
| Bonds Payable | | | | | |
| 1999 Community College | | | | | |
| Improvement and Refunding Bonds | \$ 5,335,000 | \$ - | \$ 1,540,000 | \$ 3,795,000 | \$ 1,715,000 |
| 2002 Community College | | | | | |
| Improvement Bonds | 1,775,000 | - | 45,000 | 1,730,000 | 45,000 |
| 2002 Community College Energy | | | | | |
| Conservation Notes | 260,000 | - | 60,000 | 200,000 | 65,000 |
| 2005 Community College | | | | | |
| Refunding Bonds | <u>23,095,000</u> | <u>-</u> | <u>50,000</u> | <u>23,045,000</u> | <u>50,000</u> |
| Total bonds payable | <u>30,465,000</u> | <u>-</u> | <u>1,695,000</u> | <u>28,770,000</u> | <u>1,875,000</u> |
| Notes Payable | | | | | |
| Flight simulator | 213,889 | - | 40,431 | 173,458 | 41,571 |
| Council of Governments | <u>246,579</u> | <u>-</u> | <u>84,604</u> | <u>161,975</u> | <u>93,929</u> |
| Total notes payable | <u>460,468</u> | <u>-</u> | <u>125,035</u> | <u>335,433</u> | <u>135,500</u> |
| Other Long-term Obligations | | | | | |
| Accrued vacation and sick leave | <u>869,549</u> | <u>827,564</u> | <u>779,540</u> | <u>917,573</u> | <u>300,000</u> |
| Total long-term obligations | <u>\$ 31,795,017</u> | <u>\$ 827,564</u> | <u>\$ 2,599,575</u> | <u>\$ 30,023,006</u> | <u>\$ 2,310,500</u> |

Long-term obligation activity during the year ended June 30, 2008 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|------------------------------------|--------------------------|-------------------|---------------------|-----------------------|------------------------|
| Bonds Payable | | | | | |
| 1999 Community College | | | | | |
| Improvement and Refunding Bonds | \$ 6,700,000 | \$ - | \$ 1,365,000 | \$ 5,335,000 | \$ 1,540,000 |
| 2002 Community College | | | | | |
| Improvement Bonds | 1,815,000 | - | 40,000 | 1,775,000 | 45,000 |
| 2002 Community College Energy | | | | | |
| Conservation Notes | 320,000 | - | 60,000 | 260,000 | 60,000 |
| 2005 Community College | | | | | |
| Refunding Bonds | <u>23,145,000</u> | <u>-</u> | <u>50,000</u> | <u>23,095,000</u> | <u>50,000</u> |
| Total bonds payable | <u>31,980,000</u> | <u>-</u> | <u>1,515,000</u> | <u>30,465,000</u> | <u>1,695,000</u> |
| Notes Payable | | | | | |
| Flight simulator and copy machines | 306,030 | - | 92,141 | 213,889 | 40,431 |
| Council of Governments | <u>334,939</u> | <u>-</u> | <u>88,360</u> | <u>246,579</u> | <u>107,365</u> |
| Total notes payable | <u>640,969</u> | <u>-</u> | <u>180,501</u> | <u>460,468</u> | <u>147,796</u> |
| Other Long-term Obligations | | | | | |
| Accrued vacation and sick leave | <u>796,271</u> | <u>824,768</u> | <u>751,490</u> | <u>869,549</u> | <u>300,000</u> |
| Total long-term obligations | <u>\$ 33,417,240</u> | <u>\$ 824,768</u> | <u>\$ 2,446,991</u> | <u>\$ 31,795,017</u> | <u>\$ 2,142,796</u> |

Note 6 - Long-term Obligations (Continued)

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

Community College Refunding Bonds, 2005 - The College issued \$23,195,000 in General Obligation Refunding Bonds with an interest rate of 4.96 percent to 5.11 percent to advance refund \$23.1 million of outstanding 1999 Series Bonds with an interest rate of 4.5 percent to 5.75 percent, maturing in 2020. The net proceeds of \$25,145,801 (after payment of \$380,924 in underwriting fees, insurance, and other issuance costs, plus an additional \$750,000 in prior bond debt retirement funds, and \$1.6 million in original issue premiums) purchased securities that were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 Series Bonds. As a result, the College defeased \$23.1 million of the 1999 Series Bonds and the liability for those bonds has been removed from the balance sheet.

Community College Improvement and Refunding Bonds, 1999 - The College issued \$34,700,000 of 4.96 percent to 5.11 percent General Obligation - Unlimited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in varying amounts through 2020. Proceeds from this issuance have been used to demolish, construct, and equip a new classroom and community center on the Maritime Campus, construct and equip a new technology education building (M-TEC), various other construction, improvement, and equipment projects, and to advance refund the 1991 Community College Improvement and Refunding Bonds.

Community College Improvement Bonds, 2002 - The College issued \$2,000,000 of 4.94 percent to 5.15 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in varying amounts through 2022. Proceeds from this issuance are being used for improvements to existing College facilities.

Community College Energy Notes, 2002 - The College issued \$565,000 of 4.48 percent to 4.6 percent General Obligation - Limited Tax Notes as part of the above Community College Improvement Bonds, 2002. The notes are insured, callable at a premium, and mature in varying amounts through 2012. Proceeds from this issuance are being used for improvements to existing College facilities.

Note Payable, 2004 - During 2004, the College entered into a purchase agreement to buy a Level 6 Cessna 172 Flight Training Device for \$400,000, with an effective interest rate of 2.79 percent and monthly payments of \$11,494 through June 2013, and 30 Kyocera Mita copiers for \$250,000, with an effective interest rate of 2.79 percent and monthly payments of \$13,436 and was paid off in June 2008.

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 6 - Long-term Obligations (Continued)

Council of Governments - During 1995, the Council of Governments constructed a building based upon the College's specifications on property owned by the College. Total financing for the project was \$1,100,000 with monthly payments of \$8,200 and a variable interest rate of 1.67 percent and 3.5 percent at June 30, 2009 and 2008, respectively. The note matures in December 2010.

Accrued Vacation and Sick Leave - The College provides vacation benefits to employees, as defined by each respective labor contract and administrative policy. The liability has been recorded based on the number of days available for each employee. Additionally, the College accrues unused sick days for those union employees who have met the conditions of the plan at year end.

Debt Maturity - Total principal and interest maturities on the debt and lease obligations as of June 30, 2009 are as follows:

| | Debt Obligations | | |
|-----------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2010 | \$ 2,010,500 | \$ 1,429,533 | \$ 3,440,033 |
| 2011 | 2,145,788 | 1,350,115 | 3,495,903 |
| 2012 | 2,233,948 | 1,263,692 | 3,497,640 |
| 2013 | 2,375,197 | 1,152,551 | 3,527,748 |
| 2014 | 2,460,000 | 1,034,478 | 3,494,478 |
| 2015-2019 | 14,230,000 | 3,179,407 | 17,409,407 |
| 2020-2023 | 3,650,000 | 216,234 | 3,866,234 |
| Total | <u>\$ 29,105,433</u> | <u>\$ 9,626,010</u> | <u>\$ 38,731,443</u> |

For June 30, 2009 and 2008, interest expense was \$1,395,234 and \$1,589,026, respectively.

Defeased Debt - During fiscal year 2005, the College in substance defeased (extinguished) \$23,100,000 of principal related to the 1999 Community College Improvement and Refunding Bonds as part of the issuance of the Community College Improvement and Refunding Bonds Series 2005 discussed above.

Since the portion of the 1999 bonds refunded was in substance defeased (extinguished), neither the assets of the irrevocable trust nor the bonds are reflected in the College's balance sheet. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust and the interest earned on those funds. The College completed the advance refunding to reduce its total debt service payments over the next 15 years by \$1.6 million and to obtain an economic gain of \$1.2 million.

Note 6 - Long-term Obligations (Continued)

During fiscal year 2000, the College in substance defeased (extinguished) \$5,025,000 of principal related to the 1991 Community College Improvement and Refunding Bonds as part of the issuance of the Community College Improvement and Refunding Series 1999 discussed above.

Since the portion of the 1991 bonds refunded was in substance defeased (extinguished), neither the assets of the irrevocable trust nor the bonds are reflected in the College's balance sheet. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust and the interest earned on those funds.

Of the various bonds in substance defeased, the remaining outstanding balance is \$23,100,000 at June 30, 2009. The first principal payment to be made by the escrow agent is due April 1, 2010.

Note 7 - Line of Credit

The College entered into a line of credit on July 6, 2007 that provides for borrowing up to \$2,000,000. Interest is payable monthly at a floating rate per annum equal to 1.25 percent less than the rate of interest per annum established by lender as its prime rate. This note was renewed effective October 5, 2008. The entire principal balance, together with all accrued and unpaid interest, is due and payable in full on October 5, 2009. There was no balance on the line of credit as of June 30, 2009.

Note 8 - Retirement Plans

Defined Benefit Plan

Plan Description - The College participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the College. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the web at <http://www.michigan.gov/orschools> or by writing to MPSERS at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each college is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totaled 10.17 percent for the period from July 1, 2008 through September 30, 2008 and 9.73 percent for the period from October 1, 2008 through June 30, 2009 of the covered payroll to the plan. Basic plan members make no contributions, but member investment plan members contribute 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, 2009, 2008, and 2007 were \$1,398,203, \$1,405,270, and \$1,405,596, respectively.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage 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 coverage at the time of receiving the benefits. 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 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. The College's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2009, 2008, and 2007 were \$953,318, \$876,733, and \$845,206, respectively.

Note 8 - Retirement Plans (continued)

Defined Contribution Plan

Beginning January 1997, the College is providing a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt status employees can elect to participate with the Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF).

The TIAA-CREF plan is a defined contribution retirement plan where benefits vest immediately. The College contributes a specified percentage of employee wages and has no liability beyond its own contribution. For the years ended June 30, 2009 and 2008, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing \$523,367 and \$496,988 for the years ended June 30, 2009 and 2008, respectively, to the plan.

Note 9 - Risk Management

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

Risk Sharing Programs

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk management pool for auto, property, and liability claims and in the SET-SEG risk management pool for workers' compensation claims, errors, and omissions coverage. Both programs operate as claims servicing pools for amounts up to member retention limits and operate as common risk-sharing management programs for losses in excess of member retention amounts. Although premiums are paid annually to the pools, which the pools use to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Self Insurance

The College is self-insured for unemployment compensation and health benefits. The College estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 9 - Risk Management (Continued)

| | Unemployment Compensation | Health Benefits |
|--|------------------------------|-------------------|
| Estimated liability - July 1, 2007 | \$ 21,662 | \$ 213,632 |
| Estimated claims incurred, including changes in estimates | 11,958 | 3,583,707 |
| Less - Claim payments | <u>18,108</u> | <u>3,567,339</u> |
| Estimated liability - June 30, 2008 | 15,512 | 230,000 |
| Estimated claims incurred, including changes in estimates | 29,719 | 2,987,014 |
| Less - Claim payments | <u>19,304</u> | <u>3,030,058</u> |
| Estimated liability - June 30, 2009 | <u>\$ 25,927</u> | <u>\$ 186,956</u> |

Note 10 - Commitments and Contingencies

In the normal course of its activities, the College is a party to various legal actions. The College is of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

Northwestern Michigan College

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Dennon Museum

Dennon Museum operates as an auxiliary function of the College. Revenue and expenses for Dennon Museum for the years ended June 30, 2009 and 2008 were as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|------------------|------------------|
| Revenue | | |
| Sales and services | \$ 417,047 | \$ 432,508 |
| Federal grants and contracts | 10,500 | 10,000 |
| State grants and contracts | 17,100 | 15,600 |
| Private gifts, grants, and contracts | 322,172 | 317,393 |
| Other sources | <u>96,916</u> | <u>63,031</u> |
| Total revenue | 863,735 | 838,532 |
| Expenses | | |
| Public service | 796,967 | 774,697 |
| Operations and maintenance of plant | <u>66,768</u> | <u>63,835</u> |
| Total expenses | <u>863,735</u> | <u>838,532</u> |
| Change in net assets | - | - |
| Net Assets - Beginning of year | <u>90,022</u> | <u>90,022</u> |
| Net Assets - End of year | <u>\$ 90,022</u> | <u>\$ 90,022</u> |

Note 12 - Foundation - Donor and Board Restricted Endowments

Northwestern Michigan College Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 - Foundation – Donor and Board Restricted Endowments (Continued)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets unless otherwise specified by the donor. In accordance with UMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The long-term and short-term needs of the Foundation in carrying out its charitable purpose;
- (2) The present value and anticipated financial requirements of the Foundation;
- (3) The expected total return on investments;
- (4) Price level trends; and
- (5) General economic conditions.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$711,841 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations which occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Foundation Board of Directors. There were no such deficiencies as of June 30, 2008. Under UMIFA, the Foundation may appropriate for expenditure from the endowment fund only to the extent that the fund has accumulated net appreciation, realized and unrealized.

Note 12 - Foundation – Donor and Board Restricted Endowments (Continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Standard & Poor's 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an absolute average rate of return of 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), current yield (interest and dividends), and current fund-raising. The Foundation targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 5 years through the fiscal year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 13 - Subsequent Events

During July, 2009 the College issued \$3,750,000 of Unlimited Tax General Obligation Refunding Bonds, Series 2009. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature at varying amounts through 2020. Proceeds from this issuance are being used for the purpose of refunding the outstanding portion of the College's Community College Improvement and Refunding Bonds, Series 1999.

Note 13 - Subsequent Events (Continued)

On September 15, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the State of Michigan. The Board of Trustees of the Foundation is currently reviewing UPMIFA to determine their interpretation of the law and the impact on their policies. The impact is not yet known.

Additional Information



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Report on Additional Information

To the Board of Trustees
Northwestern Michigan College

We have audited the basic financial statements of Northwestern Michigan College for the years ended June 30, 2009 and 2008. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional 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 Northwestern Michigan College. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 7, 2009

Northwestern Michigan College

Combining Balance Sheet June 30, 2009 (with comparative totals for June 30, 2008)

| | | Current Funds | | | | | | | | | Combined Total | Combined Total |
|---|----|---------------|-----------------|----------------|------------|---------------|-------------|--------------|---------------|--------------|----------------|----------------|
| | | General Fund | Designated Fund | Auxiliary Fund | Restricted | Plant Fund | Loan Fund | Agency Fund | Combined | Eliminations | June 30, 2009 | June 30, 2008 |
| Assets | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | |
| Cash and cash equivalents | \$ | 4,030,642 | \$ - | \$ 8,860 | \$ - | \$ 290,993 | \$ - | \$ 200 | \$ 4,330,695 | \$ - | \$ 4,330,695 | \$ 3,336,569 |
| Short-term investments | | 954,784 | - | - | - | - | - | - | 954,784 | - | 954,784 | 771,835 |
| Accounts receivable | | 2,870,256 | - | 276,817 | 920,134 | 3,407 | - | 1,932 | 4,072,546 | - | 4,072,546 | 3,526,662 |
| Other current assets | | 1,907,247 | - | 526,221 | 3,144 | - | - | - | 2,436,612 | - | 2,436,612 | 2,165,034 |
| Total current assets | | 9,762,929 | - | 811,898 | 923,278 | 294,400 | - | 2,132 | 11,794,637 | - | 11,794,637 | 9,800,100 |
| Noncurrent Assets | | | | | | | | | | | | |
| Cash restricted for capital improvements | | - | - | - | - | - | - | - | - | - | - | 36,092 |
| Other long-term investments | | (762,349) | 1,660,057 | 823,860 | (621,917) | 4,648,672 | (98,604) | 1,084,741 | 6,734,460 | - | 6,734,460 | 7,339,814 |
| Student loans receivable | | - | - | - | - | - | 58,325 | - | 58,325 | - | 58,325 | 10,768 |
| Bond issuance costs | | - | - | - | - | 625,724 | - | - | 625,724 | - | 625,724 | 688,056 |
| Capital assets - Net | | - | - | - | - | 70,241,814 | - | - | 70,241,814 | - | 70,241,814 | 72,357,949 |
| Total noncurrent assets | | (762,349) | 1,660,057 | 823,860 | (621,917) | 75,516,210 | (40,279) | 1,084,741 | 77,660,323 | - | 77,660,323 | 80,432,679 |
| Total assets | \$ | 9,000,580 | \$ 1,660,057 | \$ 1,635,758 | \$ 301,361 | \$ 75,810,610 | \$ (40,279) | \$ 1,086,873 | \$ 89,454,960 | \$ - | \$ 89,454,960 | \$ 90,232,779 |
| Liabilities and Net Assets | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | |
| Accounts payable | \$ | 1,151,294 | \$ 14,289 | \$ 286,035 | \$ 300,779 | \$ 32,345 | \$ - | \$ 25,824 | \$ 1,810,566 | \$ - | \$ 1,810,566 | \$ 962,578 |
| Accrued liabilities: | | | | | | | | | | | | |
| Payroll and related liabilities | | 1,380,293 | - | - | 582 | - | - | 878,183 | 2,259,058 | - | 2,259,058 | 2,318,557 |
| Interest payable | | - | - | - | - | 356,282 | - | - | 356,282 | - | 356,282 | 377,104 |
| Deferred revenue | | 1,008,248 | - | - | - | - | - | 182,866 | 1,191,114 | - | 1,191,114 | 1,007,396 |
| Bonds and leases payable - Current | | - | - | - | - | 2,010,500 | - | - | 2,010,500 | - | 2,010,500 | 1,842,796 |
| Accrued vacation and sick leave - Current | | 300,000 | - | - | - | - | - | - | 300,000 | - | 300,000 | 300,000 |
| Total current liabilities | | 3,839,835 | 14,289 | 286,035 | 301,361 | 2,399,127 | - | 1,086,873 | 7,927,520 | - | 7,927,520 | 6,808,431 |
| Noncurrent Liabilities | | | | | | | | | | | | |
| Bonds and leases payable - Net of current portion | | - | - | - | - | 27,094,933 | - | - | 27,094,933 | - | 27,094,933 | 29,082,672 |
| Accrued vacation and sick leave | | 617,573 | - | - | - | - | - | - | 617,573 | - | 617,573 | 569,549 |
| Deposits | | 72,657 | - | 122,726 | - | 250,000 | - | - | 445,383 | - | 445,383 | 464,881 |
| Total noncurrent liabilities | | 690,230 | - | 122,726 | - | 27,344,933 | - | - | 28,157,889 | - | 28,157,889 | 30,117,102 |
| Total liabilities | | 4,530,065 | 14,289 | 408,761 | 301,361 | 29,744,060 | - | 1,086,873 | 36,085,409 | - | 36,085,409 | 36,925,533 |
| Net Assets | | | | | | | | | | | | |
| Invested in capital assets - Net of related debt | | - | - | - | - | 41,117,674 | - | - | 41,117,674 | - | 41,117,674 | 41,508,488 |
| Unrestricted | | 4,470,515 | 1,645,768 | 1,226,997 | - | 4,948,876 | (40,279) | - | 12,251,877 | - | 12,251,877 | 11,798,758 |
| Total net assets | | 4,470,515 | 1,645,768 | 1,226,997 | - | 46,066,550 | (40,279) | - | 53,369,551 | - | 53,369,551 | 53,307,246 |
| Total liabilities and net assets | \$ | 9,000,580 | \$ 1,660,057 | \$ 1,635,758 | \$ 301,361 | \$ 75,810,610 | \$ (40,279) | \$ 1,086,873 | \$ 89,454,960 | \$ - | \$ 89,454,960 | \$ 90,232,779 |

Northwestern Michigan College

Combining Statement of Revenue, Expenses and Changes in Net Assets June 30, 2009 (with comparative totals for June 30, 2008)

| | Current Funds | | | | | | | Eliminations | Combined Total | Combined Total |
|---|---------------------|---------------------|---------------------|--------------------|----------------------|--------------------|----------------------|--------------------|-----------------------------|-----------------------------|
| | General Fund | Designated Fund | Auxiliary Fund | Restricted Fund | Plant Fund | Loan Fund | Combined | | Year Ended June 30, 2009 | Year Ended June 30, 2008 |
| Operating Revenue | | | | | | | | | | |
| Expended for plant facilities | \$ - | \$ - | \$ - | \$ - | \$ 1,571,061 | \$ - | \$ 1,571,061 | \$ (1,571,061) | \$ - | \$ - |
| Tuition and fees | 16,864,981 | - | 12,988 | 59,419 | - | - | 16,937,388 | (5,417,392) | 11,519,996 | 10,403,841 |
| Federal grants and contracts | 468,400 | - | 10,500 | 1,099,072 | - | - | 1,577,972 | - | 1,577,972 | 1,299,527 |
| State grants and contracts | - | - | 17,100 | 1,307,378 | - | - | 1,324,478 | - | 1,324,478 | 1,449,294 |
| Private gifts, grants, and contracts | 6,111 | - | 3,431 | 74,474 | - | - | 84,016 | - | 84,016 | 168,432 |
| Sales and services of auxiliary activities | - | - | 4,523,910 | - | - | - | 4,523,910 | - | 4,523,910 | 4,767,484 |
| Other sources | 429,381 | - | 1,391,361 | 43,657 | 113,333 | - | 1,977,732 | - | 1,977,732 | 1,842,103 |
| Total operating revenue | 17,768,873 | - | 5,959,290 | 2,584,000 | 1,684,394 | - | 27,996,557 | (6,988,453) | 21,008,104 | 19,930,681 |
| Operating Expenses | | | | | | | | | | |
| Instruction | 13,788,229 | 138,179 | - | 249,846 | 6,388 | - | 14,182,642 | (289,467) | 13,893,175 | 13,352,266 |
| Information technology | 2,314,605 | - | - | 118,994 | - | - | 2,433,599 | (205,316) | 2,228,283 | 1,713,229 |
| Public service | 293,935 | 46,355 | 2,307,977 | 277,695 | - | - | 2,925,962 | (32,705) | 2,893,257 | 2,913,571 |
| Instructional support | 5,344,612 | 197,180 | 80,152 | 354,632 | - | - | 5,976,576 | (35,151) | 5,941,425 | 5,769,436 |
| Student services | 3,199,115 | (7,405) | 4,148,249 | 7,059,406 | 5,330 | - | 14,404,695 | (5,436,026) | 8,968,669 | 8,090,595 |
| Institutional administration | 4,077,183 | 269,541 | - | 203,685 | 62,957 | 21,967 | 4,635,333 | (84,892) | 4,550,441 | 4,373,618 |
| Operations and maintenance of plant | 4,887,045 | 240 | 175,800 | 23,203 | 1,045,197 | - | 6,131,485 | (904,896) | 5,226,589 | 5,026,321 |
| Depreciation | - | - | - | - | 3,613,906 | - | 3,613,906 | - | 3,613,906 | 4,005,300 |
| Total operating expenses | 33,904,724 | 644,090 | 6,712,178 | 8,287,461 | 4,733,778 | 21,967 | 54,304,198 | (6,988,453) | 47,315,745 | 45,244,336 |
| Operating Loss | (16,135,851) | (644,090) | (752,888) | (5,703,461) | (3,049,384) | (21,967) | (26,307,641) | - | (26,307,641) | (25,313,655) |
| Nonoperating Revenue (Expenses) | | | | | | | | | | |
| State appropriations | 8,681,999 | - | - | - | - | - | 8,681,999 | - | 8,681,999 | 9,300,700 |
| Federal Pell grant | - | - | - | 4,458,875 | - | - | 4,458,875 | - | 4,458,875 | 3,685,995 |
| Property taxes | 9,215,973 | - | - | - | 2,998,636 | - | 12,214,609 | - | 12,214,609 | 11,750,503 |
| Support from component unit | 295,980 | 6,457 | 399,038 | 1,316,442 | - | - | 2,017,917 | - | 2,017,917 | 1,966,261 |
| Investment income and other - Interest | 406,925 | - | - | - | 33,859 | - | 440,784 | - | 440,784 | 481,613 |
| Bond costs | - | - | - | - | (49,004) | - | (49,004) | - | (49,004) | (49,004) |
| Interest on capital asset - Related debt | (5,886) | - | - | - | (1,389,348) | - | (1,395,234) | - | (1,395,234) | (1,589,026) |
| Net nonoperating revenue | 18,594,991 | 6,457 | 399,038 | 5,775,317 | 1,594,143 | - | 26,369,946 | - | 26,369,946 | 25,547,042 |
| Income (Loss) Before Other Revenue | 2,459,140 | (637,633) | (353,850) | 71,856 | (1,455,241) | (21,967) | 62,305 | - | 62,305 | 233,387 |
| Other Revenue | | | | | | | | | | |
| State capital appropriations | - | - | - | - | - | - | - | - | - | 8,869 |
| Capital support from component unit | - | - | - | - | - | - | - | - | - | - |
| Total other revenue | - | - | - | - | - | - | - | - | - | 8,869 |
| Increase (Decrease) in Net Assets - Before transfers | 2,459,140 | (637,633) | (353,850) | 71,856 | (1,455,241) | (21,967) | 62,305 | - | 62,305 | 242,256 |
| Transfers In (Out) | (2,293,349) | 379,454 | (11,917) | (71,856) | 1,997,668 | - | - | - | - | - |
| Increase (Decrease) in Net Assets | 165,791 | (258,179) | (365,767) | - | 542,427 | (21,967) | 62,305 | - | 62,305 | 242,256 |
| Net Assets - Beginning of year | 4,304,724 | 1,903,947 | 1,592,764 | - | 45,524,123 | (18,312) | 53,307,246 | - | 53,307,246 | 53,064,990 |
| Net Assets - End of year | \$ 4,470,515 | \$ 1,645,768 | \$ 1,226,997 | \$ - | \$ 46,066,550 | \$ (40,279) | \$ 53,369,551 | \$ - | \$ 53,369,551 | \$ 53,307,246 |