

FINANCIAL STATEMENTS

MOTT COMMUNITY COLLEGE

FLINT, MICHIGAN

JUNE 30, 2003

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Independent Auditors' Report

The Board of Trustees
Mott Community College
Flint, Michigan

We have audited the accompanying basic financial statements of Mott Community College as of and for the year ended June 30, 2003 as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Mott Community College at June 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 10 to the financial statements, Mott Community College adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as of July 1, 2002. The College also elected to apply the provision of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units* as of July 1, 2002.

In accordance with *Government Auditing Standards of the United States*, we have also issued our report dated September 23, 2003 on our consideration of Mott Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis presented on pages 3-18 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 primarily 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information section noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

BKR Dupuis & Ryden

BKR Dupuis & Ryden
Certified Public Accountants
Flint Office

September 23, 2003

Management's Discussion and Analysis

This discussion and analysis section of Mott Community College's ("the College's") annual financial report provides an overview of the College's financial performance for the year ended June 30, 2003. This section has been prepared by management, along with the financial statements and the related footnote disclosures, and should be read in conjunction with and is qualified in its entirety by the financial statements and footnote disclosures. Responsibility for the completeness and fairness of this information rests with the College's management.

Change in Accounting and Financial Reporting Model

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 look at the entity as a whole including capitalization and depreciation of assets.

In November 1999, GASB issued statement No. 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and therefore, has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*. Michigan Community Colleges utilize the Business-Type Activities (BTA) model for reporting because of their characteristic as entities who are "financed in whole or in part by fees charged to external parties for goods or services" (GASB 34, paragraph 15).

As a result of the release of GASB 34 and 35, these financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The financial statements presented in prior years focused on the accountability of major fund groups, as well as the College as a whole; these statements instead focus on the financial condition, the results of operations and cash flows of the College as a whole.

The major changes from the fund basis financial statements presented by the College in the past, and the "comprehensive look at the entity as a whole" presentation for the current year financial statements, are as follows:

- New reporting standards – Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows
- Capitalizing all capital expenditures instead of recording as expenses, and recording depreciation expense and accumulated depreciation on the Balance Sheet

- Establishing an operating and non-operating basis of reporting whereby revenues that are charges for services are recorded as operating revenues. Essentially all revenues that are not charges for services are categorized as non-operating or other revenue
- Netting tuition and fees for scholarship allowances that were also reported as federal, state and local grant revenue
- Separately presenting current portions of long-term investments and debt

Component Unit

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

In compliance with this Statement, the Foundation for Mott Community College is reported as a component unit of the College and its financial activities are presented separately from the rest of the College's activities in the financial statements, in separate columns headed "Component Unit."

Using this Report

This annual financial report includes the report of independent auditors, this Management's Discussion and Analysis section, the basic financial statements in the format described above, and notes to financial statements. Following the basic financial statements and footnotes are additional supplementary schedules and information. This supplementary section is not required by GASB, but is provided to give additional information regarding the various funds and activities of the College that are not disclosed in the basic financial statements.

One of the most important questions asked about the College's finances is whether the College as a whole is better off or worse off as a result of the year's activities. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question.

The Balance Sheet includes all assets and liabilities of all funds of the College, with those of The Foundation for Mott Community College shown under "Component Unit" columns. The Balance Sheet is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when a service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenue, Expenses and Changes in Net Assets presents the revenue earned and the expenses incurred during the year. It includes all funds of the College, excluding activities of Agency Funds.

Activities are reported as either operating or non-operating. The financial reporting model classifies state appropriations, property taxes and gifts as non-operating revenues. Community colleges' dependency on state aid, property taxes and gifts results in an operating deficit.

The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

These two statements report the College's net assets and changes in them. Net assets are the difference between assets and liabilities, and are one way to measure the College's financial position. The relationship between revenues and expenses may be thought of as Mott Community College's operating results. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating.

Many other non-financial indicators, such as enrollment and retention trends, condition of the facilities, and quality of teaching and learning, must also be considered in assessing the overall health of the College.

Financial Highlights

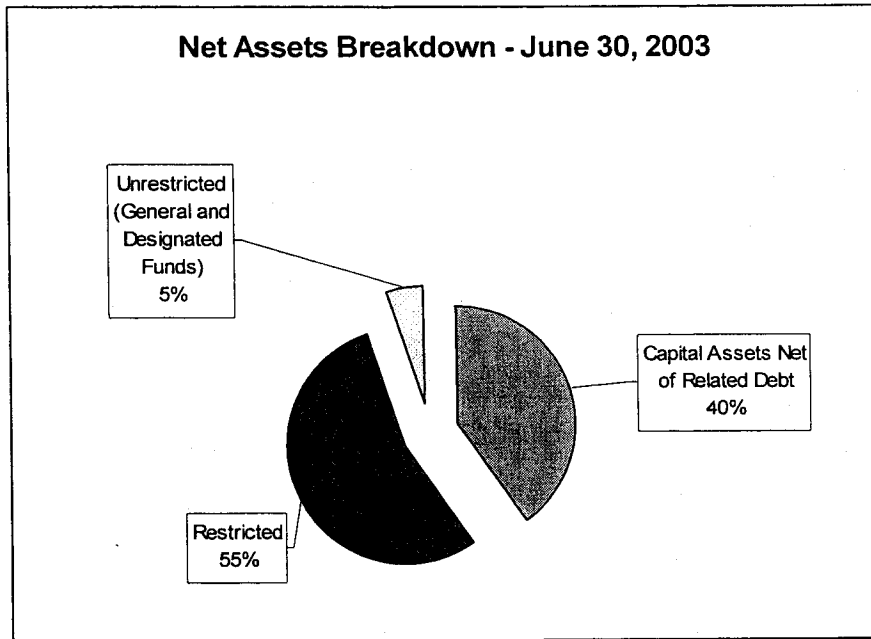
The College's financial position improved during the fiscal year 2002-03, with total assets increasing from \$147.8 million to \$154.0 million, and liabilities decreasing from \$78.7 million to \$72.8 million.

Net assets, which represent the remaining value of the College's assets after liabilities are deducted, increased from \$69.1 million to \$81.3 million, a 17.7% improvement.

While unrestricted net assets remained fairly stable at \$4.1 million at June 30, 2003 compared to \$3.9 million at June 30, 2002, the most significant increase in net assets was primarily seen in the invested in capital assets category, which increased from \$21.5 million to \$32.8 million. The \$11.3 million increase in that category represented a combination of \$7.5 million in additions to long-term assets of property and equipment, including substantial completion of the Regional Technology Center during the year, as well as a \$3.7 million decrease in liabilities for debt obligations.

In the fiscal year ended June 30, 2003, the College's revenues and other support exceeded expenses, creating an increase in net assets of \$12.2 million (compared to an \$18.8 million increase during the previous year).

The following chart provides a graphical categorization of net assets for the fiscal year ended June 30, 2003:



Balance Sheet

The Balance Sheet distinguishes between current and long-term assets and liabilities, and the format (as opposed to the net assets format) presents the accounting formula as "total assets equal liabilities plus net assets." Its purpose is to provide the College's overall financial position at the fiscal year close.

The following is a condensed version of the Balance Sheet, with analysis of the major components of the net assets of the College as of June 30, 2003 compared to June 30, 2002. This illustration includes the primary government operations of the College, and does not include its component unit, the Foundation for MCC:

Mott Community College
CONDENSED BALANCE SHEET
As of June 30, 2003 and 2002
(in millions)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current Assets	\$ 29.1	\$ 30.6	\$ (1.5)	-4.9%
Noncurrent Assets	<u>\$ 125.0</u>	<u>\$ 117.2</u>	<u>\$ 7.8</u>	<u>6.7%</u>
Total Assets	<u>\$ 154.1</u>	<u>\$ 147.8</u>	<u>\$ 6.3</u>	<u>4.3%</u>
LIABILITIES				
Current Liabilities	\$ 11.5	\$ 14.9	\$ (3.4)	-22.8%
Noncurrent Liabilities	<u>\$ 61.3</u>	<u>\$ 63.8</u>	<u>\$ (2.5)</u>	<u>-3.9%</u>
Total Liabilities	\$ 72.8 #	\$ 78.7	\$ (5.9)	-7.5%
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 32.8	\$ 21.5	\$ 11.3	52.6%
Restricted - Nonexpendable	\$ 31.5	\$ 31.2	\$ 0.3	1.0%
Restricted - Expendable	\$ 12.9	\$ 12.5	\$ 0.4	3.2%
Unrestricted	<u>\$ 4.1</u>	<u>\$ 3.9</u>	<u>\$ 0.2</u>	<u>5.1%</u>
Total Net Assets	<u>\$ 81.3</u>	<u>\$ 69.1</u>	<u>\$ 12.2</u>	<u>17.7%</u>
Total Liabilities and Net Assets	<u>\$ 154.1</u>	<u>\$ 147.8</u>	<u>\$ 6.3</u>	<u>4.3%</u>

The primary change in the Balance Sheet related to the acquisition of property and equipment which, when combined with principal payments on outstanding bond debt, increased the balance for Invested in Capital Assets, Net of Related Debt by 52.6% during fiscal year 2003.

Assets

Current Assets. Current assets are cash and other resources that are reasonably expected to be realized in cash, or sold or consumed during the College's next fiscal year. This classification includes cash, short-term investments, accounts receivable, inventories and prepaid expenses.

The College's current assets at June 30, 2003 are \$29.1 million.

The decrease in current assets from 2002 to 2003 represented the lowering of accounts receivable balances, mainly in state appropriations receivable, but the decrease was partially offset by an increase in cash and investment balances. Further analysis of the cash and investment activities and positions of the College are given in the Statement of Cash Flows and in the Notes to the Financial Statements.

Noncurrent Assets. This classification includes long-term investments, the unamortized portion of bond discounts, and property and equipment net of accumulated depreciation.

Noncurrent assets of the College total \$125.0 million at June 30, 2003, with the largest portion of this balance in property and equipment (capital assets), net of accumulated depreciation. Capital assets are recorded at historical cost and not adjusted up to market value.

At June 30, 2003, the College's capital assets at cost totaled \$146.7 million, and are shown on the Balance Sheet, net of \$53.7 million in accumulated depreciation, as property and equipment at \$93.2 million.

Liabilities

Current Liabilities. The term current liabilities designates obligations for which liquidation is reasonably expected to require the use of current assets, or the creation of other current liabilities. Current liabilities are expected to be liquidated within the College's next fiscal year.

This classification includes the current portion of the College's bond debt obligations, accounts payable and accrued payroll expenses, deposits held for outside agencies and unearned revenue. The College's unearned revenue relates to early student registration for the summer and fall semesters of 2003, which are in fiscal year 2004.

Total current liabilities at June 30, 2003 are \$11.5 million, down significantly from the \$14.9 million balance at June 30, 2002. The largest part of this -\$3.4 million decrease is seen in accounts payable, which were lowered from \$5.0 million to \$2.0 million during the fiscal year.

Noncurrent Liabilities. The long-term portion of debt outstanding on bonds issued, as well as accrued termination and vacation pay, are included in this classification because of the reasonable expectation that they will not be liquidated within the College's next fiscal year.

Total noncurrent or long-term liabilities equal \$61.3 million at June 30, 2003, and were decreased during the fiscal year, mostly due to annual payments on bond debts.

Refer to Notes to the Financial Statements in this report for more details on the College's outstanding bond debts.

Net Assets

Net assets represent the difference between the College's assets and liabilities. The net assets at June 30, 2003 are \$81.3 million.

Net assets consist of three main components: Invested in capital assets, net of related debt; Restricted (with further purpose for restrictions); and Unrestricted.

Invested in capital assets, net of related debt. This component represents the balance of capital assets cost, reduced by accumulated depreciation, and further reduced by outstanding balances of bond debt that was attributed to the acquisition and improvement of the assets. For the College, this balance at June 30, 2003 is \$32.8 million, calculated as \$146.7 million in capital assets, less \$53.7 million in accumulated depreciation, less \$60.2 million in outstanding bond debt.

Restricted net assets. When constraints are placed on net asset use, whether imposed by external sources such as legislation, debt covenants, grantors or government regulations, or by internal restriction, the assets are reported as restricted.

Nonexpendable restricted net assets of the College include permanent endowments that are required to be retained in perpetuity. This is the largest portion of the College's restricted net assets at June 30, 2003, at \$31.5 million. This balance, shown at market value, increased by \$0.3 million from \$31.2 million in the prior year.

Expendable restricted net assets include gifts and grants with specific guidelines for spending, balances of capital projects and maintenance and replacement funds to be used for capital asset acquisition and improvement, and property taxes collected from the debt levy and as such restricted for bond payments.

Unrestricted net assets represent those balances from operational activities that have not been restricted. This classification includes general fund balances as well as Board-designated funds.

The following table gives a comparative breakdown by category of the College's Net Assets at June 30, 2003 and June 30, 2002:

Net Assets by Category	2003 (In Millions)	2002 (In Millions)
Capital Assets Net of Related Debt	\$ 32.8	\$ 21.5
Restricted-Nonexpendable Endowments	\$ 31.5	\$ 31.2
Restricted-Loans, Scholarships, Awards	\$ 0.1	\$ 0.1
Restricted-Capital Projects	\$ 3.0	\$ 4.5
Restricted-Debt Service	\$ 6.0	\$ 4.8
Restricted-Maintenance & Replacement	\$ 3.8	\$ 3.1
Unrestricted (General and Designated Funds)	\$ 4.1	\$ 3.9
	\$ 81.3	\$ 69.1

The growth in Total Net Assets from 2002 to 2003, from \$69.1 million to \$81.3 million, was primarily due to the continued investment in capital assets and rapid payment schedule on the College's long-term debt. These are two indicators of financial strength, and are reflected on the Balance Sheet as an increase from 2002 to 2003 in Property and equipment, and decreases in current and long-term portions of debt obligations.

Statement of Revenue, Expenses and Changes in Net Assets

The Statement of Revenue, Expenses and Changes in Net Assets provides the overall results of the College's operations. Revenues and expenses are recorded and recognized when incurred or earned, similar to how most corporate businesses account for transactions, and are grouped into operating and non-operating classifications. When revenues and other support exceed expenses, the result is an increase in net assets—one indication that the College as a whole is better off financially as a result of the year's activities.

The following is a condensed version of the Statement of Revenue, Expenses and Changes in Net Assets, with analysis of the major components as of June 30, 2003 compared to June 30, 2002. This illustration includes the primary government operations of the College, and does not include its component unit, the Foundation for MCC:

Mott Community College
CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For Years Ended June 30, 2003 and 2002
(in millions)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Total Operating Revenues	\$ 36.5	\$ 33.2	\$ 3.3	9.9%
Total Operating Expenses	<u>\$ 74.6</u>	<u>\$ 66.1</u>	<u>\$ 8.5</u>	<u>12.9%</u>
Total Operating Loss	\$ (38.1)	\$ (32.9)	\$ (5.2)	-15.8%
Nonoperating Revenues, Net	<u>\$ 42.0</u>	<u>\$ 40.3</u>	<u>\$ 1.7</u>	<u>4.2%</u>
Income before other revenues and expenses	\$ 3.9	\$ 7.4	\$ (3.5)	47.3%
Other Revenues, Net	<u>\$ 8.3</u>	<u>\$ 11.4</u>	<u>\$ (3.1)</u>	<u>-27.2%</u>
Total Increase in Net Assets	\$ 12.2	\$ 18.8	\$ (6.6)	35.1%
Net Assets, Beginning of Year	<u>\$ 69.1</u>	<u>\$ 50.3</u>	<u>\$ 18.8</u>	<u>37.4%</u>
Net Assets, End of Year	<u>\$ 81.3</u>	<u>\$ 69.1</u>	<u>\$ 12.2</u>	<u>17.7%</u>

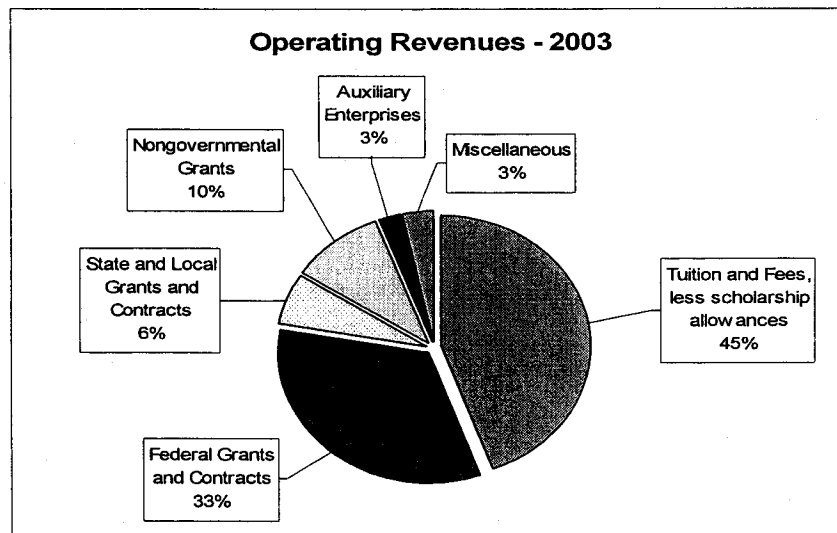
Operating Revenues

This category includes all exchange transactions such as tuition and fees, grants and contracts for services except those for capital purposes, auxiliary enterprise activities (bookstore, food service, day care), and other miscellaneous sales and rental income.

Total operating revenues increased by \$0.7 million, or 2%, from 2002 to 2003, as a result of the following:

- Tuition and fee revenue increased by approximately \$2.2 million to \$21.3 million. This was due to an 8% increase in enrollment from the prior year and a 2.78% tuition and fee rate increase effective with the fall 2002 semester, partially offset by a decline in noncredit training revenues. When the portion of this revenue covered by student financial aid is subtracted, however (as presented on the statement as “less scholarship allowances”), net tuition and fee revenue decreased by \$1.5 million.
- Grants and contracts revenues totaled \$18.1 million, representing an increase of \$2.0 million from the prior year. This increase was due primarily to an increase in student financial aid program revenues, the largest of which is the federal Pell grant award, during 2003.
- Auxiliary enterprises revenue increased by approximately \$100,000 to \$915,634. This was due to increased Bookstore revenue and vending commission, as well as the addition of a new campus day care service.
- Miscellaneous revenues also declined by approximately \$100,000.

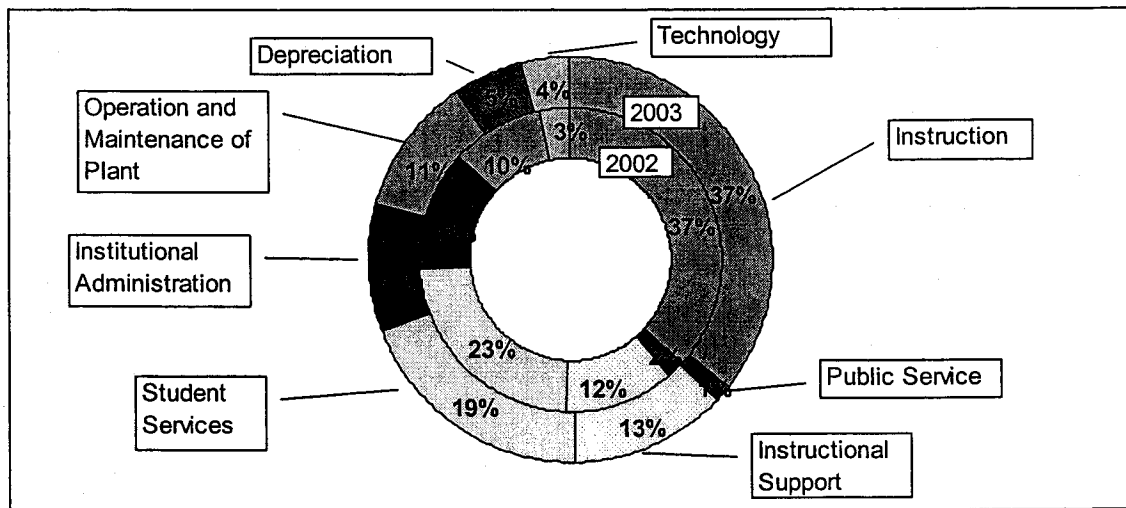
The following as a graphic illustration of operating revenues by source:



Operating Expenses

Operating expenses represent all the costs necessary to provide services and conduct the programs of the College. Operating expenses for the fiscal year ended June 30, 2003 total \$74.6 million, and consist of salaries and benefits, scholarships, utilities, contracted services, supplies and materials, and depreciation. These items are presented in a functional format in the Statement of Revenues, Expenses, and Changes in Net Assets, consistent with the State of Michigan's reporting format, currently the Activities Classification Structure (ACS) Manual.

The following chart shows the comparative allocation of operating expenses by function for years ended June 30, 2002 and 2003:



The college continues to spend the largest percentage of operating budget on instruction, with student services and instructional support making up the second and third largest proportion of operating expenses.

Depreciation was recorded for the first time during fiscal year 2002-03, as a new GASB reporting requirement for community colleges.

Nonoperating Revenues (Expenses)

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

Nonoperating expenses are also listed in the same category with nonoperating revenues. This item includes the interest paid for fiscal year 2002-03 on the College's outstanding bond debts.

Total nonoperating revenues net of expenses increased by \$2.2 million, resulting primarily from the following changes:

- State appropriations decreased by \$520,172 or 3.2% due to mid-year cuts issued by the state. The state appropriations revenue for 2003 is \$15,848,900.
- Property tax revenues are \$27.0 million, representing an increase of \$1.3 million or 5.1% from the prior year due to increased property values.
- Investment income, including realized and unrealized gains and losses, increased from \$514,694 to \$1,526,258, primarily in the Endowment Funds, due to improved market conditions.

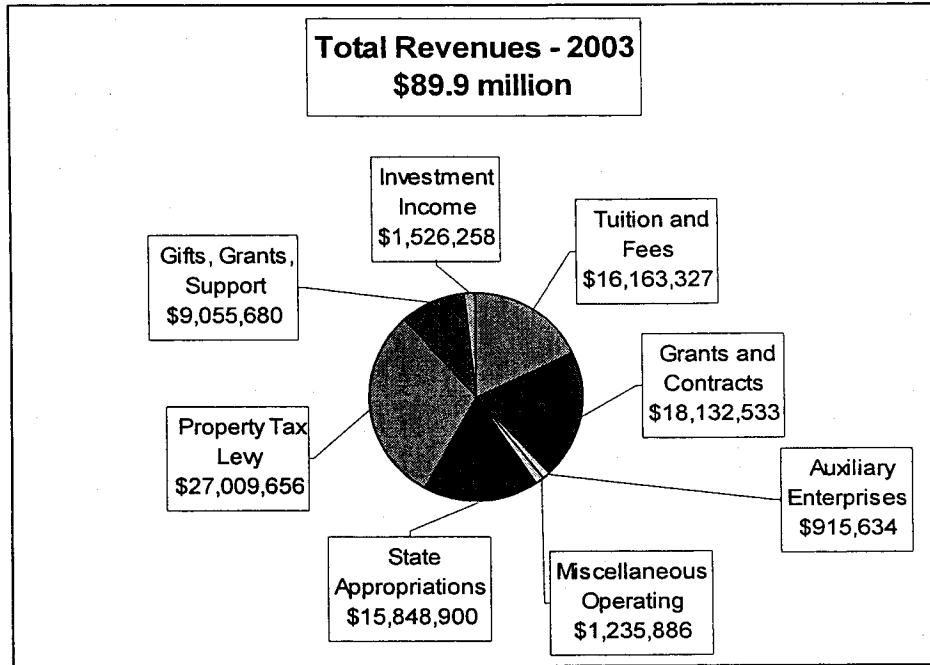
Other Revenues

Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the College. Other revenues recorded in the year ended June 30, 2003 included the following:

- State capital appropriation of \$8.3 million. This is part of a \$34 million project to construct the College's Regional Technology Center (RTC), which is funded 50% by bond proceeds obtained by the College, and 50% by the State of Michigan.
- Capital gift of \$8,679 received from a local source to assist with a technology access project.

All Revenues – Combined Picture

The following is a graphic illustration of the College's total revenues in all classifications--operating revenues, nonoperating revenues and other revenues--for the year ended June 30, 2003:



Property taxes, including operating and debt levies, account for 30% of total revenues, and are the largest single source of revenue for the College. Next are tuition and fees, shown at \$16.2 million but equaling \$21.3 million and 24% of total revenues when combined with the portion of student financial aid (included in the grants and contracts category) that is used to pay tuition and fees.

State appropriations are the third largest revenue source, comprising 18% of the total. Grants and contracts are fourth at 14% or \$13.0 million, when the portion covering tuition and fees is subtracted from the \$18.1 million shown in the chart.

Statement of Cash Flows

In addition to the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets, 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 the College during the fiscal year. The Statement of Cash Flows also helps to assess:

- The ability to generate future net cash flows
- The ability to meet obligations as they come due
- The need for external financing

The following is a condensed Statement of Cash Flows, summarizing cash receipts and cash payments by type of activity:

Mott Community College
CONDENSED STATEMENT OF CASH FLOWS - DIRECT METHOD
For the Year Ended June 30, 2003
(in millions)

Cash and Cash Equivalents provided (used) by:

Operating activities	\$ (32.3)
Noncapital financing activities	35.8
Capital and related financing activities	(2.4)
Investing activities	<u>(0.2)</u>
Net Increase (Decrease) in Cash	0.9
Cash and Cash Equivalents, Beginning of Year	<u>3.9</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4.8</u>

Net cash used for operating activities included -\$68.6 million in payments to employees and suppliers, and +\$36.3 million in cash received for tuition and fees, grants and contracts, and auxiliary enterprise activities. This negative operating cash flow was covered by state appropriations, property taxes, gifts and other support, all of which are included in the +\$35.8 million in cash from noncapital financing activities.

The net decrease of -\$2.4 million for capital and related financing activities is mostly due to the use of restricted cash on hand at the beginning of the year added to cash from capital grants received during the year to purchase capital assets (property & equipment).

Investing activities include interest received, as well as purchases, sales and maturities of investments.

The overall result of cash flows is an increase in cash of \$952,785, the major portion of which is due to the accumulation at June 30, 2003 of restricted cash from the debt (capital) property tax levy in order to make July 1, 2003 debt payments.

Economic Factors and Outlook

Capital Assets

The College had \$93.2 million invested in capital assets at June 30, 2003, net of accumulated depreciation of \$53.7 million. The following table shows the breakdown of Property and Equipment balances by category at June 30, 2003:

(in millions)	Less:		
	Cost	Accumulated Depreciation	Net
Land	\$ 0.4	\$ -	\$ 0.4
Construction in Progress	\$ 0.3	\$ -	\$ 0.3
Buildings and Improvements	\$ 132.5	\$ 46.8	\$ 85.7
Equipment and Library Books	\$ 13.4	\$ 6.8	\$ 6.7
	\$ 146.7	\$ 53.7	\$ 93.2

Major capital additions completed this year and the source of the resources that funded their acquisition included (in millions):

- Continued construction of the Regional Technology Center building, from designated reserves and state capital outlay funds: \$9.3 million
- Computer and audio-visual equipment, from Series 2002 bond proceeds: \$0.5 million
- Various other equipment and furnishings, from Series 2002 bond proceeds: \$1.9 million

The College has planned capital expenditures for the fiscal year ending June 30, 2004 at approximately \$8 million. Projects planned include the relocation of the Fine Arts and Cosmetology academic programs to main campus, which involves the renovation of the formerly named Trade-Technical Building; and the relocation of Horrigan Drive on main campus as related to the Regional Technology Center project. These projects will be funded with private grants and existing capital funds on hand.

Additional capital projects planned include life cycle replacement of computers and technology, renovation of the student life area, purchase of instructional equipment, and various other building and infrastructure improvements, all of which are expected to be funded with designated funds and capital funds existing and planned to be transferred from operating funds.

More information about the College's capital assets is presented in the Notes to the Financial Statements.

Debt

At June 30, 2003, the College had approximately \$60.4 million in debt outstanding, versus \$64.1 million the previous year. General obligation bonds payable represent the majority of this debt at \$60.3 million in 2003, decreased from \$64.1 million in 2002. The remaining portion of the 2003 balance represents a new obligation of \$58,933 for the installment purchase of an athletics department passenger bus.

No bonds were issued during fiscal year 2002-03. Payments on existing bond debts totaled \$3.6 million for the year.

The College's bond credit ratings of 'A2' and 'A' from Moody's and Standard & Poor's, respectively, have not changed from the prior year.

More detailed information about the College's long-term liabilities is presented in the Notes to the Financial Statements.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. Because of the lack of economic growth and increased demand for state resources from federal mandates, the current state budget projects a -6.7% decrease in funding to the College for the 2003-04 fiscal year. This is in addition to the -3.5% mid-year cuts enacted during the 2002-03 fiscal year. Appropriations for the 2003-04 fiscal year are budgeted at \$14.7 million, decreased from \$15.8 million in 2002-03, to reflect current legislation.

In addition, the Board of Trustees approved an increase of 9.8% for in-district tuition rates, and 13.8% for out-district and out-state tuition rates effective with the fall 2003 semester.

A new Designated Instructional Technology Fee of \$4 per contact hour was also approved by the Board of Trustees for students effective with the fall 2003 semester. The additional revenue this fee will generate is restricted in use to technology and technology support expenses that directly impact students through classroom and distance learning, as well as computer lab experience.

The College has in place a 2001-2006 five-year strategic plan for which key initiatives are developed and updated annually, and linked directly to budget allocations. These strategic planning actions are driving long-term financial and capital budget plans, and such efforts will enable it to maintain quality delivery of education and training that continues to meet community needs.

**MOTT COMMUNITY COLLEGE
BALANCE SHEET
JUNE 30, 2003
WITH COMPARATIVE FIGURES AT JUNE 30, 2002**

	Primary Government		Component Unit Foundation for Mott Community College	
	2003	2002	2003	2002
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 4,889,754	\$ 3,936,969	\$ 2,366	\$ 68,180
Short term investments	15,360,332	14,908,464	-	-
Property taxes receivable	62,343	70,356	-	-
State appropriation receivable	3,346,951	5,989,402	-	-
Accounts receivable	5,928,699	4,638,943	326,743	229,293
Less allowance for uncollectible accounts	(2,417,096)	(2,144,801)	-	-
Federal and state grants receivable	1,174,381	2,372,265	-	-
Inventories	50,027	69,147	-	-
Prepaid expenses and other assets	678,781	720,993	7,491	-
Total Current Assets	29,074,172	30,561,738	336,600	297,473
Long-term investments	31,542,104	31,281,304	2,205,491	2,263,151
Bond discount	257,024	274,686	-	-
Property and equipment	93,187,262	85,711,017	-	-
Total Assets	<u>\$ 154,060,562</u>	<u>\$ 147,828,745</u>	<u>\$ 2,542,091</u>	<u>\$ 2,560,624</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of debt obligations	\$ 2,765,148	\$ 3,830,000	\$ -	\$ -
Accounts payable	2,002,265	5,029,322	-	-
Accrued interest payable	783,479	847,476	-	-
Accrued payroll and related liabilities	3,045,816	2,873,670	-	-
Deposits held for others	453,689	524,626	-	-
Unearned revenue	2,466,052	1,794,851	-	-
Total Current Liabilities	11,516,449	14,899,945	-	-
Long-term debt obligations	57,613,786	60,320,000	-	-
Accrued termination pay	3,674,242	3,471,949	-	-
Total Liabilities	72,804,477	78,691,894	-	-
Net Assets:				
Invested in capital assets, net of related debt	32,808,329	21,484,147	-	-
Restricted for				
Nonexpendable	31,470,490	31,151,391	393,533	366,332
Expendable				
Student loans	66,165	65,904	-	-
Scholarships and awards	46,148	37,688	1,975,155	2,059,271
Capital projects	2,966,158	4,493,154	-	-
Debt service	5,965,944	4,759,378	-	-
Maintenance and replacement	3,859,036	3,123,089	-	-
Unrestricted	4,073,815	3,945,230	173,403	135,022
Total Net Assets	81,256,085	69,136,851	2,542,091	2,560,624
Total Liabilities and Net Assets	<u>\$ 154,060,562</u>	<u>\$ 147,828,745</u>	<u>\$ 2,542,091</u>	<u>\$ 2,560,624</u>

MOTT COMMUNITY COLLEGE
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2003
WITH COMPARATIVE FIGURES AT JUNE 30, 2002

	Primary Government		Component Unit Foundation for Mott Community College	
	2003	2002	2003	2002
REVENUES				
Operating Revenues				
Tuition and fees	\$ 21,301,534	\$ 19,148,496	\$ -	\$ -
Less scholarship allowances	(5,138,207)	(4,163,198)	-	-
Federal grants and contracts	12,179,007	9,530,186	-	-
State and local grants and contracts	2,363,292	2,930,717	-	-
Nongovernmental grants	3,590,234	3,600,410	-	-
Auxiliary enterprises	915,634	786,500	-	-
Gifts	-	-	560,818	665,818
Miscellaneous	1,235,886	1,342,683	-	-
Total Operating Revenues	<u>36,447,380</u>	<u>33,175,794</u>	<u>560,818</u>	<u>665,818</u>
EXPENSES				
Operating Expenses				
Instruction	26,705,052	25,419,043	-	-
Public service	1,057,783	1,392,117	-	-
Instructional support	9,341,113	7,934,143	257,498	285,410
Student services	14,506,552	13,505,850	191,574	203,860
Institutional administration	7,802,271	8,915,205	-	-
Operation and maintenance of plant	8,280,750	6,681,130	-	-
Depreciation	4,051,378	-	-	-
Technology	2,946,434	2,294,475	-	-
Foundation operations	-	-	128,620	83,352
Total Operating Expenses	<u>74,691,333</u>	<u>66,141,963</u>	<u>577,692</u>	<u>572,622</u>
Operating Loss	(38,243,953)	(32,966,169)	(16,874)	93,196
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	15,848,900	16,369,072	-	-
Property tax levy	27,009,656	25,698,782	-	-
Gifts	731,826	859,428	-	-
Investment income	320,880	1,091,651	81,669	95,654
Net realized and unrealized gain (loss) on investments	1,205,378	(576,957)	(83,328)	(62,454)
Interest on capital asset - related debt	(3,077,307)	(3,050,811)	-	-
Net Non-Operating Revenues	<u>42,039,333</u>	<u>40,391,165</u>	<u>(1,659)</u>	<u>33,200</u>
Income/(Loss) before Other Revenues and Expenses	3,795,380	7,424,996	(18,533)	126,396
OTHER REVENUES				
State capital appropriations	8,315,175	7,365,826	-	-
Capital gifts and grants	8,679	-	-	-
Proceeds from bond sale	-	4,010,000	-	-
Total Other Revenues	<u>8,323,854</u>	<u>11,375,826</u>	<u>-</u>	<u>-</u>
Increase/(Decrease) in Net Assets	12,119,234	18,800,822	(18,533)	126,396
NET ASSETS				
Net Assets - beginning of year, as restated - Note 10	69,136,851	50,336,029	2,560,624	2,434,228
Net Assets - end of year	<u>\$ 81,256,085</u>	<u>\$ 69,136,851</u>	<u>\$ 2,542,091</u>	<u>\$ 2,560,624</u>

**MOTT COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003**

	<u>Primary Government 2003</u>	<u>Component Unit 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 15,698,739	\$ -
Grants and contracts	19,670,281	-
Payments to suppliers	(35,466,127)	(128,619)
Payments to employees	(33,134,644)	-
Auxiliary enterprise charges	915,634	-
Gifts received	-	560,818
Allocations to Primary Government	-	(699,356)
Other	10,971	-
Net cash used for operating activities	<u>(32,305,146)</u>	<u>(267,157)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,011,991	-
Local property taxes	19,230,040	-
Private gifts for endowment purposes	-	-
Gifts and contributions for other than capital purposes	731,827	-
Student loan receipts	3,941,833	-
Student loan disbursements	(3,941,833)	-
Agency transactions	(149,030)	-
Net cash provided by noncapital financing activities	<u>35,824,828</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(11,468,690)	-
Principal paid on capital debt	(3,830,000)	-
Proceeds from issuance of debt	-	-
Capital grant and gift proceeds	8,315,175	-
Capital property tax levy	7,783,685	-
Interest paid on capital debt	(3,198,615)	-
Net cash used for capital and related financing activities	<u>(2,398,445)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	14,796,679	347,674
Interest on investments	270,262	81,669
Purchase of investments	(15,235,392)	(228,000)
Net cash provided by (used for) investing activities	<u>(168,451)</u>	<u>201,343</u>
NET INCREASE (DECREASE) IN CASH	952,785	(65,814)
Cash - beginning of year	<u>3,936,969</u>	<u>68,180</u>
Cash - end of year	<u>\$ 4,889,754</u>	<u>\$ 2,366</u>

**MOTT COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003**

	Primary Government 2003	Component Unit 2003
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating loss	\$ (38,243,953)	\$ (16,874)
Adjustments to reconcile operating loss to net cash provided by (used for)		
Depreciation	4,051,378	-
Amortization of bond discount	17,662	-
(Increase) decrease in assets:		
Federal and state grants receivable	1,197,884	-
Accounts receivable (net)	(874,683)	(1,128)
Inventories	19,120	-
Prepaid assets and other current assets	42,212	(7,491)
Assets held by Primary Government	-	(241,664)
Increase in liabilities:		
Accounts payable	641,886	-
Accrued payroll and other compensation	172,146	-
Unearned revenue	671,202	-
Net cash used for operating activities	\$ (32,305,146)	\$ (267,157)

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

1. Basis of Presentation and Significant Accounting Policies

Reporting Entity - Mott Community College (the "College") is a Michigan community college, with its main campus located in Flint, Michigan and satellite campuses in Genesee and Lapeer Counties. The College is governed by a Board of Trustees, whose seven members are elected for six-year overlapping terms.

The accompanying financial statements have been prepared in accordance with the criteria established by the Governmental Accounting Standards Board (GASB) for determining the various organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on the application of the criteria, the Foundation for Mott Community College is included in the College's reporting entity as a discretely presented component unit. Separate financial statements of the Foundation can be obtained by contacting the Foundation for Mott Community College, 1401 East Court Street, Flint, Michigan 48503.

Basis of presentation - The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applicable to public colleges and universities as described in GASB Statement No. 35 and the *Manual for Uniform Financial Reporting- Michigan Public Community Colleges, 2001*. The College follows the "business-type" activities model of the GASB Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Reporting for business-type activities is based on all applicable GASB pronouncements, as well as certain applicable Financial Accounting Standards Board pronouncements, unless the latter conflicts with GASB pronouncements.

Significant accounting policies followed by the College are described below:

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.

Cash and Cash Equivalents:

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

Gifts and Pledges:

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

Investments:

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

Allowance for Doubtful Accounts:

An allowance is established, when material, for doubtful accounts.

Inventories:

Inventories, including supplies, are stated at the lower of cost (first-in, first-out) or market.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

1. Basis of Presentation and Significant Accounting Policies – (continued)

Property and Equipment:

Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Property and equipment are depreciated over their estimated useful lives ranging from 5-50 years. Depreciation is computed using the straight line method. No depreciation is recorded on land or art. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. The College has a policy of capitalizing only property and equipment purchases of \$5,000 and over. Expenditures for maintenance and repairs are charged to current expenditures as incurred.

Revenue recognition:

Revenues are recognized in the period earned. Revenue recorded prior to year end that related to the next fiscal period is recorded as unearned revenue.

State appropriations for operations are recognized ratably over the state appropriation period. The appropriation period is from October 1 – June 30.

Property taxes, net of estimated refunds and uncollectible amounts, are recognized on the accrual basis in the year for which the levy was intended.

Tuition revenue is recognized as revenue in the semester during which the tuition is earned.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

The College's deposits and investments at June 30, 2003 are included on the balance sheet under the following classifications:

	<u>College</u>	<u>Component Unit</u>
Cash and cash equivalents	\$ 4,889,754	\$ 2,366
Short term investments	15,360,332	-
Long term investments	<u>31,542,104</u>	<u>2,205,491</u>
Totals	<u>\$51,792,190</u>	<u>\$2,207,857</u>

Deposits - The College's deposits consist of checking and savings accounts and cash on hand. At year-end, the carrying value of the College's deposits (excluding petty cash of \$7,660) was \$2,251,143, and the bank balance was \$577,415, of which \$159,687 is covered by federal depository insurance. Cash management (sweep) accounts (for which the underlying collateral is investments) totaling \$2,633,317 have also been classified as cash and cash equivalents for balance sheet purposes in addition to the deposits described above.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

2. Deposits and Investments - (continued)

Investments - Statutes authorize the College to invest in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and other interest bearing deposits with a financial institution, bankers acceptances, commercial paper supported by an irrevocable letter of credit issued by a bank that is a member of the Federal Deposit Insurance Corporation, commercial paper of corporations located in this state and rated prime by at least one of the standard rating services, mutual funds and repurchase agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department, or its agent, in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or by its agent but not in the College's name.

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Repurchase agreement (Sweep accounts)*	\$ -	\$ -	\$2,633,317	\$ 2,633,317	\$ 2,633,317
Common stock	139,714	-	-	139,714	139,714
Commercial paper	14,778,331	349,101	-	15,127,432	15,127,432
Other	3,482,797	-	-	3,482,797	3,482,797
Total categorized investments	<u>\$ 18,400,842</u>	<u>\$ 349,101</u>	<u>\$ 2,633,317</u>	21,383,260	21,383,260
Mutual Funds				<u>27,908,986</u>	<u>27,908,986</u>
Total Investments				<u>\$49,292,246</u>	<u>\$49,292,246</u>

* Repurchase agreements are reported in the financial statements as cash and cash equivalents.

The College's investments in mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The Endowment Fund owns 67% of investments that are in category 1 and 100% of those in category 2. Also, the Endowment Fund owns 63% of the uncategorized mutual funds.

At June 30, 2003, the Foundation for MCC had common stocks and U. S. government and agency bonds with a carrying and fair value of \$1,321,252 and \$884,239, respectively.

The College conducts business deals only with qualified and primary investment firms that adhere to specific guidelines established by industry practice.

The College has approved the following depositories: Citizens Bank, Bank One, National City, Raymond James and Smith Barney Citigroup.

MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

3. Property and Equipment

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2003 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfer/ Deletions</u>	<u>Ending Balance</u>	<u>Estimated Useful Life (in years)</u>
Nondepreciable Capital Assets:					
Land	\$ 446,395	\$ -	\$ -	\$ 446,395	
Artwork	-	6,200	-	6,200	
Construction in progress	27,837,834	308,880	(27,837,834)	308,880	
Total Nondepreciable Capital Assets	28,284,229	315,080	(27,837,834)	761,475	
Depreciable Capital Assets:					
Buildings and improvements	88,618,887	9,293,628	27,837,834	125,750,349	15 - 50
Infrastructure	6,807,752	-	-	6,807,752	10 - 50
Computer equipment	1,332,672	313,132	58,933	1,704,737	5 - 10
Audio-Visual equipment	470,023	152,531	-	622,554	5 - 10
Other equipment	7,349,862	1,326,066	-	8,675,928	5 - 20
Vehicles	763,243	27,689	-	790,932	8
Library books	1,703,918	40,564	-	1,744,482	5
Total Depreciable Capital Assets	107,046,357	11,153,610	27,896,767	146,096,734	
Total Capital Assets	135,330,586	11,468,690	58,933	146,858,209	
Less: Accumulated Depreciation:					
Buildings and improvements	38,150,583	2,751,377	-	40,901,960	
Infrastructure	5,490,829	439,952	-	5,930,781	
Computer equipment	724,190	255,821	-	980,011	
Audio-Visual equipment	180,100	68,741	-	248,841	
Other equipment	3,007,536	421,422	-	3,428,958	
Vehicles	435,633	77,153	-	512,786	
Library books	1,630,698	36,912	-	1,667,610	
Total Accumulated Depreciation	49,619,569	4,051,378	-	53,670,947	
Total Capital Assets, Net	\$ 85,711,017	\$ 7,417,312	\$ 58,933	\$ 93,187,262	

MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

4. General obligation bonds and notes payable

The College has thirteen series of general obligation bonds and notes outstanding at June 30, 2003, with a face value totaling \$60,320,000, as well as an installment purchase loan payable with a principal balance of \$58,934 outstanding as of June 30, 2003.

The following is a summary of the general obligation bonds and notes payable, as well as the installment purchase loan payable, of the College at June 30, 2003:

	Final Payment Due	Annual Interest Rate	Annual Principal Payment	Outstanding Balance June 30, 2003
Building and Improvement Bonds:				
Series 1989	July 1, 2004	4.00 - 4.15	150,000 - 155,000	\$ 305,000
Series 1990	July 1, 2005	4.00 - 4.20	230,000 - 240,000	705,000
Series 1991	July 1, 2005	4.00 - 4.20	530,000 - 545,000	1,610,000
Series 1992	July 1, 2007	4.00 - 4.30	400,000 - 425,000	2,065,000
Series 1992-B	July 1, 2007	5.15 - 5.80	425,000 - 450,000	2,225,000
Series 1993	July 1, 2009	4.90 - 6.90	155,000 - 1,020,000	3,520,000
Series 1994	July 1, 2010	5.00 - 5.75	370,000 - 575,000	4,210,000
Series 1995	July 1, 2010	5.00 - 5.70	200,000 - 925,000	4,625,000
Series 1996	July 1, 2012	5.00 - 7.00	150,000 - 750,000	5,300,000
Series 1998	July 1, 2019	4.15 - 6.25	55,000 - 320,000	3,850,000
Series 1999	July 1, 2021	4.25 - 4.80	45,000 - 210,000	2,905,000
Series 2000	May 1, 2021	5.40 - 5.50	625,000 - 1,775,000	24,000,000
Series 2002	May 1, 2011	2.50 - 3.80	425,000 - 475,000	3,585,000
Energy Conservation Notes:				
Series 1996-B	June 1, 2006	4.80 - 5.00	285,000 - 325,000	915,000
Total bonds and notes payable				60,320,000
Installment Purchase Loan:				
2002 Bus	January 27, 2007	5.48	13,576 - 15,932	58,934
Total long term debt				\$ 60,378,934

Debt service requirements on general obligation bonds, notes, and installment loans is as follows:

	Total	Principal	Interest
Year ended June 30, 2004	\$ 7,100,216	\$ 4,098,576	\$ 3,001,640
June 30, 2005	7,163,891	4,359,320	2,804,571
June 30, 2006	7,094,490	4,500,105	2,594,385
June 30, 2007	6,718,648	4,350,933	2,367,715
June 30, 2008	6,821,843	4,455,000	2,366,843
Remaining years	50,265,358	38,615,000	11,650,358
	\$ 85,164,446	\$ 60,378,934	\$ 24,785,512

MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

5. Land contract receivable

In April 1998, the College sold land and a building to the Flint Cultural Center on a ten-year land contract for \$150,000. Interest is imputed at 5% per annum, and the contract expires on July 1, 2007. The College received a \$15,000 down payment and will receive yearly installments of \$15,000 until the contract is paid in full. At June 30, 2003, the remaining unpaid balance of the land contract was \$60,000.

6. Employee benefits

Retirement Plan

Plan Description. All full-time employees participate in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer retirement system. MPSERS is a discretely presented component unit of the State of Michigan and issues a comprehensive annual financial report each year.

MPSERS members participate on a contributory basis. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. MPSERS annually issued a stand-alone Comprehensive Annual Financial Report for the year ended September 30, 2002. This report can be obtained by calling (517) 322-5103, or writing to the Office of Retirement Systems, Michigan Public School Employees' Retirement System, 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

During the year ended June 30, 1998, the College adopted Governmental Accounting Standards Board (GASB) Statements No. 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employees*.

Regular retirement benefits are payable monthly for the lifetime of a retiree and equals 1½ % of a member's final average compensation. A member may retire with an early permanently reduced pension after: (1) completing at least 15 years but less than 30 years of credited service, (2) attaining age 55, and (3) completing credited service in each of the 5 school years immediately preceding the pension effective date. The early pension is computed in the same manner as a regular pension but permanently reduced by one-half of one percent for each month between the pension effective date and the date the member will attain age 60. MPSERS also provides comprehensive group medical, hearing, dental and vision insurance coverage for retirees and beneficiaries.

A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service; at age 60 with 10 years or more of credited service; or at age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the 5 school fiscal years immediately preceding the pension effective date. A Basic Plan member may retire at age 55 with 30 or more years of credited service, or at age 60 with 10 or more years of credited service. There is no mandatory retirement age.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

6. Employee benefits – (continued)

Funding Policy. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. After December 31, 1989, membership in MIP is mandatory and members contribute at the following graduated permanently fixed contribution rate: 3% for the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions.

The College forwarded \$667,017 of MIP contributions withheld from employees during the year ended June 30, 2003.

Each MPSERS employer is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care premium amounts on a cash disbursement basis. For the year ended June 30, 2003, the College was required to pay 12.17% of eligible employees' compensation from July 1, 2002 through September 30, 2002 and 12.99% of eligible employees' compensation from October 1, 2002 through June 30, 2003. The contributions made by the College amounted to \$ 3,321,896, \$2,929,487, and \$2,698,870, for the years ended June 30, 2003, 2002 and 2001, respectively. All contributions made were equal to required contributions by the MPSERS.

The College's annual contribution represents less than 1% of the total contributions received by the MPSERS. Historical trend information showing funding progress, employer contributions and actuarial assumptions for the entire MPSERS plan is presented in the MPSERS September 30, 2002 comprehensive annual financial report.

Post-employment benefits. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premiums is paid by MPSERS, with the balance deducted from the monthly pension. Public Act 180 also authorized payments to employers as a one time \$174.5 million reduction in MPSERS reserves for health benefits, which in years prior to 1991 was pre-funded.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- (1) Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
- (2) Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially paid health benefit coverage.

Dependents are eligible for 90% employer paid health coverage.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

6. Employee benefits – (continued)

Retirement Plan – (continued)

During the year ended September 30, 2002, there were 135,277 eligible participants in the MPSERS that are eligible to receive benefits, of which, 112,357 are currently receiving benefits. Benefit expenditures for the post-employment benefits for the MPSERS as a whole were \$558,092,905 for the year ended September 30, 2002.

Defined Contribution Plan

On July 13, 1994, the Governor signed Public Act No. 296 of 1994. This legislation amended Section 2 of Act No. 156 of the Public Acts of 1967 to include 29 community colleges in the definition of higher education. This Act allows community colleges, beginning October 1, 1994, to offer to members of faculty and administrative staff on a full-time basis a defined contribution plan as an alternative to MPSERS. On December 19, 1994, the College agreed to establish such a plan. On January 23, 1995, the College approved a plan to be implemented effective February 1, 1995, of which Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) was the chosen provider. Eligibility is defined as full-time faculty, supervisors and managers. In addition, on July 28, 1997, the College approved this plan to be made available to Pro-Tech employees and Exempt Non-Management employees. Contribution requirements match those under MPSERS plus an additional 3.54%, and call for full immediate vesting. For the year ended June 30, 2003, the College was required to pay 15.71% of eligible employees' compensation from July 1, 2002 through September 30, 2002 and 16.53% of eligible employees' compensation from October 1, 2002 through June 30, 2003. Due to a rate reduction approved by the College's Board of Trustees in December 2002, for employees hired after on or after January 1, 2003, the College is required to contribute 10% of participating employees' salaries. Eligible employees are able to select an investment portfolio from seven available fund choices. Withdrawals may be made beginning at age 55. No health insurance is available under the plan. The College's covered payroll and total payroll for the year ended June 30, 2003 amounted to \$5,338,423 and \$33,731,068, respectively. Contributions made by the College during the year ended June 30, 2003 were \$872,830.

7. Contingencies and commitments

The College participates in various grant programs, both federal and state sponsored. Compliance audits in accordance with OMB Circular A-133 have been conducted and reported under a separate cover. The A-133 report has not yet been accepted by the grantor agencies. However, management expects any disallowed costs, if any, to be immaterial in relation to the financial statements taken as a whole.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

8. Employee Severance Plan

During the year ended June 30, 1998, the College implemented an employee severance plan for early retirement of employees who meet certain criteria. The plan offered three exit date options, of which the first two fell within the fiscal year ended June 30, 1998; and the final date falling within the fiscal year ending June 30, 1999. Benefits shall be paid in 96 equal monthly payments except if the employee is over age 59 at the time payments begin, then the number of monthly installments shall be reduced so that all payments will be completed by the employee's 67th birthday.

The following represents a listing of the estimated future payments to be made by the College related to this liability:

Year ended <u>June 30,</u>	
2004	\$148,788
2005	137,102
2006	121,402
Remaining years through 2007	<u>37,292</u>
	444,584
Less amount representing interest	<u>(11,898)</u>
Present value of liability at June 30, 2003	<u>\$432,686</u>

9. Leases

Main Campus:

The College annually leases space on the main campus to various entities. The lease terms are for a one-year period from July 1, 2002 to June 30, 2003. Under the 2002-2003 lease, the monthly rental payments were \$10,131, for an annual total of \$121,572.

Lapeer Branch Campus:

The College annually leases space within the Lapeer Campus, to various entities. The lease terms are for a one-year period from July 1, 2002 to June 30, 2003. Under the 2002-2003 lease, the monthly rental payment was \$8,142 for an annual total of \$97,704.

Southern Lakes Branch Campus:

The College annually leases space within the Southern Lakes Branch Campus to various entities. The lease terms are for a one-year period from July 1, 2002 to June 30, 2003. Under the 2002-2003 lease, the monthly rental payment was \$17,456 for an annual total of 209,472.

10. Construction in Progress

The College started construction on the relocation of Horrigan Drive in front of the recently completed Regional Technology Center located in Flint, Michigan, during fiscal year 2002-2003. The total contract for this project is \$758,000, with 15% of the funding being provided by grants. As of June 30, 2003 expenditures totaled \$308,880, leaving a remaining commitment of approximately \$450,000. The completion date is scheduled for the fall of 2003.

**MOTT COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

11. Accounting Changes

Effective July 1, 2002, the College implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statements No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public College and Universities*. The College also elected to apply the provisions of GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units* as of July 1, 2002.

The following is a reconciliation of the July 1, 2002 total fund balance as previously reported to the restated net asset balance for the same period to comply with GASB Statements No. 35 and 39.

Combined fund balances, as previously reported	\$ 89,552,936
Property, plant, and equipment	(20,416,085)
Foundation for Mott Community College	<u>2,560,624</u>
Combined fund balances, restated as net assets	<u>\$ 71,697,475</u>

12. Subsequent Event

In August 2003, the College completed the sale of Series 2003 General Obligation Refunding Bonds. Approximately \$14 million in outstanding bonds were refinanced with the proceeds from the new bond issue of \$10.02 million, plus a \$3.7 million contribution from debt funds currently on hand.

ADDITIONAL INFORMATION

**MOTT COMMUNITY COLLEGE
COMBINING BALANCE SHEET
JUNE 30, 2003**

	Combined Total	General Fund	Designated Fund
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 4,889,754	\$ 4,889,754	\$ -
Short term investments	15,360,332	4,607,067	21,840
Property taxes receivable	62,344	44,267	-
State appropriation receivable	3,346,951	2,798,991	-
Accounts receivable	5,928,698	5,268,181	-
Less allowance for uncollectible accounts	(2,417,096)	(2,417,096)	-
Federal and state grants receivable	1,174,381	-	-
Inventories	50,027	50,027	-
Prepaid expenses and other assets	678,781	678,781	-
Total Current Assets	29,074,172	15,919,972	21,840
Long-term investments	31,542,104	-	-
Bond discount	257,024	-	-
Property and equipment	93,187,262	-	-
Total Assets	\$ 154,060,562	\$ 15,919,972	\$ 21,840
LIABILITIES AND NET ASSETS			
Current Liabilities			
Current portion of debt obligations	\$ 2,765,148	\$ -	\$ -
Accounts payable	2,002,265	1,938,345	-
Due to (from) other funds	-	1,079,569	(339,257)
Accrued interest payable	783,479	-	-
Accrued payroll and related liabilities	3,045,816	3,045,816	-
Deposits held for others	453,689	3,230	-
Unearned revenue	2,466,052	2,444,657	21,395
Total Current Liabilities	11,516,449	8,511,617	(317,862)
Long-term debt obligations	57,613,786	-	-
Accrued termination pay	3,674,242	3,674,242	-
Total Liabilities	72,804,477	12,185,859	(317,862)
Net Assets			
Invested in capital assets, net of related debt	32,808,329	-	-
Restricted for			
Nonexpendable	31,470,490	-	-
Expendable			
Student loans	66,165	-	-
Scholarships and awards	46,148	-	-
Capital projects	2,966,158	-	-
Debt service	5,965,944	-	-
Maintenance and replacement	3,859,036	-	-
Unrestricted	4,073,815	3,734,113	339,702
Total Net Assets	81,256,085	3,734,113	339,702
Total Liabilities and Net Assets	\$ 154,060,562	\$ 15,919,972	\$ 21,840

Auxiliary Fund	Agency Fund	Expendable Restricted Fund	Student Loan Fund	Endowment Fund	Plant Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	221,668	-	11,953	337,148	10,160,656
-	-	-	-	-	18,077
-	-	-	-	-	547,960
16,966	509,893	-	4,161	129,497	-
-	-	-	-	-	-
-	-	1,174,381	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,966	731,561	1,174,381	16,114	466,645	10,726,693
-	-	-	-	31,542,104	-
-	-	-	-	-	257,024
-	-	-	-	-	93,187,262
<u>\$ 16,966</u>	<u>\$ 731,561</u>	<u>\$ 1,174,381</u>	<u>\$ 16,114</u>	<u>\$ 32,008,749</u>	<u>\$ 104,170,979</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,765,148
-	-	38,837	-	-	25,083
16,966	281,102	1,089,396	(50,051)	538,259	(2,615,984)
-	-	-	-	-	783,479
-	-	-	-	-	-
-	450,459	-	-	-	-
-	-	-	-	-	-
16,966	731,561	1,128,233	(50,051)	538,259	957,726
-	-	-	-	-	57,613,786
-	-	-	-	-	-
16,966	731,561	1,128,233	(50,051)	538,259	58,571,512
-	-	-	-	-	32,808,329
-	-	-	-	31,470,490	-
-	-	-	66,165	-	-
-	-	46,148	-	-	-
-	-	-	-	-	2,966,158
-	-	-	-	-	5,965,944
-	-	-	-	-	3,859,036
-	-	-	-	-	-
-	-	46,148	66,165	31,470,490	45,599,467
<u>\$ 16,966</u>	<u>\$ 731,561</u>	<u>\$ 1,174,381</u>	<u>\$ 16,114</u>	<u>\$ 32,008,749</u>	<u>\$ 104,170,979</u>

MOTT COMMUNITY COLLEGE
COMBINING STATEMENT OF REVENUE, EXPENSES,
TRANSFERS AND CHANGES IN NET ASSETS
JUNE 30, 2003

	Combined Total	Eliminations	General Fund
REVENUES			
Operating Revenues			
Tuition and fees	\$ 21,301,026	\$ -	\$ 21,301,026
Less scholarship allowances	(5,138,207)	(5,138,207)	-
Federal grants and contracts	12,179,007	-	-
State and local grants and contracts	2,363,292	-	-
Nongovernmental grants	3,590,234	-	6,625
Auxiliary enterprises	915,634	-	-
Expenditures for equipment and capital improvements	-	(11,468,690)	-
Miscellaneous	1,236,394	-	806,549
Total Operating Revenues	<u>36,447,380</u>	<u>(16,606,897)</u>	<u>22,114,200</u>
EXPENSES			
Operating Expenses			
Instruction	26,705,052	(214,438)	25,078,446
Public service	1,057,783	-	139,268
Instructional support	9,341,113	(126,597)	6,973,495
Student services	14,506,552	(6,542,376)	6,466,758
Institutional administration	7,802,270	(11,836,969)	8,184,809
Operation and maintenance of plant	8,280,750	(48,781)	6,746,807
Depreciation	4,051,378	-	-
Technology	2,946,435	2,162,264	-
Total Operating Expenses	<u>74,691,333</u>	<u>(16,606,897)</u>	<u>53,589,583</u>
Operating Loss	(38,243,953)	-	(31,475,383)
NON-OPERATING REVENUES (EXPENSES)			
State appropriations	15,848,900	-	15,848,900
Property tax levy	27,009,656	-	19,225,971
Gifts	731,826	-	731,826
Investment income	320,880	-	146,027
Net realized and unrealized gain (loss) on investments	1,205,378	-	-
Interest on capital asset - related debt	(3,077,307)	-	-
Net Non-Operating Revenues	<u>42,039,333</u>	<u>-</u>	<u>35,952,724</u>
Income/(Loss) before Other Revenues and Expenses	3,795,380	-	4,477,341
OTHER REVENUES			
State capital appropriations	8,315,175	-	-
Capital gifts and grants	8,679	-	-
Proceeds from bond sale	-	-	-
Total Other Revenues	<u>8,323,854</u>	<u>-</u>	<u>-</u>
Increase/(Decrease) in Net Assets	12,119,234	-	4,477,341
Transfers in (out)	-	-	(4,380,204)
Net increase in Net Assets	12,119,234	-	97,137
NET ASSETS			
Net Assets - beginning of year, as restated - Note 10	69,136,851	-	3,636,976
Net Assets - end of year	<u>\$ 81,256,085</u>	<u>\$ -</u>	<u>\$ 3,734,113</u>

Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Endowment Fund	Plant Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	12,179,007	-	-	-
-	-	2,363,292	-	-	-
-	-	3,583,609	-	-	-
-	915,634	-	-	-	-
-	-	-	-	-	11,468,690
399,337	-	508	-	-	30,000
<u>399,337</u>	<u>915,634</u>	<u>18,126,416</u>	-	-	<u>11,498,690</u>
-	-	1,551,066	-	-	289,978
-	5,745	896,964	-	-	15,806
-	-	1,612,886	-	-	881,329
700,756	689,352	12,265,060	-	886,279	40,723
65,286	-	110,832	-	-	11,278,312
-	-	974,269	-	-	608,455
-	-	-	-	-	4,051,378
-	-	-	-	-	784,171
<u>766,042</u>	<u>695,097</u>	<u>17,411,077</u>	-	<u>886,279</u>	<u>17,950,152</u>
(366,705)	220,537	715,339	-	(886,279)	(6,451,462)
-	-	-	-	-	-
-	-	-	-	-	7,783,685
-	-	-	-	-	-
-	-	11,928	261	-	162,664
-	-	-	-	1,205,378	-
-	-	-	-	-	(3,077,307)
-	-	<u>11,928</u>	<u>261</u>	<u>1,205,378</u>	<u>4,869,042</u>
(366,705)	220,537	727,267	261	319,099	(1,582,420)
-	-	-	-	-	8,315,175
-	-	-	-	-	8,679
-	-	-	-	-	-
-	-	-	-	-	8,323,854
(366,705)	220,537	727,267	261	319,099	6,741,434
398,153	(220,537)	(718,807)	-	-	4,921,395
31,448	-	8,460	261	319,099	11,662,829
308,254	-	37,688	65,904	31,151,391	33,936,638
<u>\$ 339,702</u>	<u>\$ -</u>	<u>\$ 46,148</u>	<u>\$ 66,165</u>	<u>\$ 31,470,490</u>	<u>\$ 45,599,467</u>