MANUAL FOR UNIFORM FINANCIAL REPORTING

MICHIGAN PUBLIC COMMUNITY COLLEGES

Michigan Department of Career Development

2001

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PART 1 – INTRODUCTION

Financial data has many uses including providing a historical record of financial events, providing meaningful information on which to base management decisions, and providing data for comparative measurements for a variety of purposes by management, Board of Trustees, granting agencies, funding agencies and representatives of the public.

Uniformity of accounting treatment and presentation increases the usefulness of comparative measurements of financial data and thus contributes to the overall quality of the data. Quality of financial data increases its usefulness to all users.

The Boards of Trustees, the administrative staffs and the financial staffs of the various Michigan community colleges all recognize the need for meaningful and comparable financial data and to that end have made several attempts to develop such information and have contributed time of members of their staffs to work with the State in developing a basis for reporting such financial data.

The legislature, the Executive Office, the Auditor General, the Department of Management and Budget, the Department of Education and both the House and Senate Fiscal Agencies have long recognized the desirability of meaningful and comparable financial data. During May 1967, the State Board of Education issued its Accounting Manual for Public Community Colleges ("the manual") in an attempt to outline uniform accounting policies and a standardized chart of accounts to be used for record keeping and reporting purposes.

In a further attempt to increase comparability and uniform financial reporting, the ACS (Activities Classification Structure) Task Force issued its third report outlining a reporting structure that links the activities of an institution with the organization's objectives in July 1980. In response to this, the State of Michigan Department of Management and Budget, House Fiscal Agency, Senate Fiscal Agency, Department of Education, along with representatives from eight Michigan community colleges and the international accounting and consulting firm of Ernst & Whinney revised the 1967 manual in 1981. The purpose of this revision was to provide guidance on the integration and implementation of the reporting structure developed by the ACS Task Force.

The need to update the 1981 manual became apparent with the issue of GASB Statement No.'s 34 (issued in June 1999) and 35 (issued in November 1999). These pronouncements, which are effective for Michigan community colleges for fiscal years ending June 30, 2002 through June 30, 2004, significantly change the way in which financial information is presented.

As a result, Plante & Moran, LLP, a regional accounting and management consulting firm, was engaged by the Michigan Department of Career Development to revise the 1981 manual. The primary focus of this revision is to provide guidance to the colleges on the reporting requirements for all applicable governmental reporting requirements up to and through GASB Statement No.'s 34 and 35. This manual is the product of that effort.

The manual provides guidance on implementing all GASB's through Statement No. 35 and related NACUBO position papers. Subsequent GASB statements issued after this date should be incorporated and added to the positions taken within this manual. The provisions of this manual need not be applied to immaterial items.

The steering committee believes that the revision of this manual will ultimately benefit all users of financial reports prepared by Michigan's community colleges.

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Acknowledgements and References:

During the preparation of this manual, we utilized several resources, as noted below:

- Governmental Accounting Standards Board Web Site, **http://www.gasb.org**
- *GASB 35 Implementation Guide, Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting,* NACUBO 1999-2000 GASB Statement 35 Reporting Model Implementation Workshop Faculty and PricewaterhouseCoopers LLP
- NACUBO Advisory Report 2000-5, “Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Higher Education,” **http://www.nacubo.org/public_policy/advisory_reports/archive.html**, September 8, 2000.
- NACUBO Advisory Report 2000-6 “Appropriations – Unrestricted or Restricted,” **http://www.nacubo.org/public_policy/advisory_reports/archive.html**, September 8, 2000.
- NACUBO Advisory Report 2000-7 “Federal Appropriations for Land Grant Colleges and Universities,” **http://www.nacubo.org/public_policy/advisory_reports/archive.html**, September 8, 2000.
- NACUBO Advisory Report 2000-8, “Footnote Requirement When Public Higher Education Institutions Report Natural Classifications on Their Statement of Revenues, Expenses, and Changes in Net Assets,” **http://www.nacubo.org/public_policy/advisory_reports/archive.html**, December 22, 2000.
- *Estimated Useful lives of Depreciable Hospital Assets*, American Hospital Publishing Inc., an American Hospital Association Company, 1998.
- State of Michigan Activities Classification Structure Manual

PART 2 – BASIC PRINCIPLES

PRINCIPLE 1 – THE NEW REPORTING MODEL

New Pronouncements -

In June 1999, the Governmental Accounting Standards Board issued GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments." This Statement established financial reporting standards for state and local governments. The scope of this statement excluded public colleges and universities.

In November 1999, the Governmental Accounting Standards Board issued GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities, an amendment of GASB Statement No. 34." This Statement established accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34. GASB 35 identifies the components of Statement No. 34 that are applicable to public colleges and universities. Therefore, the requirements of 'GASB 34 and 35' will be referred to throughout this manual.

GASB 35 supercedes GASB 15 "Governmental College and University Accounting and Financial Reporting Models", which allowed the use of the AICPA College Guide model. Therefore, the community colleges are now required to follow full GASB reporting. This manual incorporates those GASB pronouncements which are applicable to the "typical" community college in Michigan.

Reporting Model -

Depending on the characteristics of a public institution, the requirements of GASB 34 permit it to report as one of the following types of entities:

- Special purpose governments engaged only in business type activities (BTA);
- Special purpose governments engaged only in governmental activities;
- Special purpose governments engaged in both governmental and business type activities (GASB 35, paragraph 26)

BTAs are those financed in whole or in part by fees charged to external parties for goods or services. (GASB 34, paragraph 15)

Governmental activities generally are those financed through taxes, intergovernmental revenues, and other predominantly nonexchange revenues.

Because many two-year institutions have taxing authority, they may choose to report as special purpose governments or both governmental and BTA. (GASB 35, paragraphs 27 & 46) However, most public institutions regularly receive state appropriations, and also cover a major portion of their costs through external user charges for their services. Therefore, according to basis of conclusions paragraphs 44-47 of GASB 35 and related paragraph 67 of GASB 34, these public institutions may use BTA reporting. Paragraph 67 of GASB 34 states: "Governments should apply each of these criteria in the context of the activity's principal revenue sources." The task force has concluded to use the BTA reporting for Michigan Community Colleges, as we feel it is more reflective of the activities of the colleges (in 2000, only 1/3 of revenue was generated, on average, through property tax assessments).

The required financial statements, under BTA reporting, consist of the following:

- Management's Discussion and Analysis (MD&A)
- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows (using the direct method)
- Notes to the Financial Statements
    - Capital Assets
    - Long-term Liabilities
    - Donor-restricted Endowments
    - Segment Information (if required)

Examples of each of these financial statements are presented in the financial statement exhibit section of the manual.

Fund Accounting –

Prior to the release of GASB 34 and 35, colleges reported their financial activity using fund groups. The concept of fund balances is no longer required for external, general-purpose reporting by BTAs. The term net assets replaces fund balances. As a result, this manual will follow the guidelines of GASB 34 and 35 and will not refer to fund balances, with the exception of the transition section. The transition section of this manual provides guidance on the process of transferring fund balances to the appropriate net asset classifications.

Although fund accounting is not required for external reporting purposes, most of the colleges have structured their chart of accounts and fiscal management processes using the concepts of fund accounting. Therefore, fund accounting statements may still be required to satisfy internal reporting requirements. Additionally, community colleges in Michigan will continue to be required to comply with the Activity Classification Structure (ACS) Manual for reporting expenditures. Financial reports generated using fund accounting concepts may be issued as supplemental schedules. Examples of supplemental schedules are presented in the financial statement exhibit section of this manual.

PRINCIPLE 2 – TUITION AND FEE REVENUE

The accounts are to be maintained on the full accrual basis. Revenues and expenses are to be recorded and recognized in the period earned or incurred.

<u>Tuition and Fee Revenue –</u>

Tuition and fees assessed for a fiscal year shall be reported as operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

Revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount. (GASB 34 Footnote 41)

Adjustments for tuition and fee refunds or bad debts are to be recorded as negative or contra revenues on the presumption that no services have been rendered.

The NACUBO Advisory Report 2000-05, "Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education" provides guidance on the reporting of net tuition revenue. The position paper defines discounts and scholarship allowances for purposes of accounting for and reporting revenues net of discounts as required by GASB 34 and 35.

A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on behalf of the student.

The criteria for classification as a scholarship allowance applies to tuition and fees, housing, and meal plans, as well as to provision of educationally related supplies acquired from an institutional bookstore. Revenues from all exchange transactions should be reported net of discounts. Since amounts paid by students for institutional services are exchange transactions, they are subject to the same criteria as other exchange transactions for determining a discount.

In considering what is or is not revenue, the following guiding rule applies: amounts received to satisfy student tuition and fees will be reported as revenue only once (e.g., tuition and fees, gifts, federal grants and contracts such as Pell grants, investment income, etc.)

Transactions that are not scholarship discounts and allowances –
Tuition remission policies developed as employee benefits should be accounted for as compensation expense and not as a scholarship allowance to tuition because the tuition remission was given in exchange for services.

Payments received from a third-party payer are applied directly to satisfy the fees of a specified student. Therefore, payments made by third-party payers are neither gift nor grant revenue to the institution, nor a scholarship allowance to gross tuition, because the purpose of the payment is to pay the fees that the student would otherwise have to pay.

Governmental grants and other programs of financial assistance

A Pell grant used to satisfy a student's fees and charges is a scholarship allowance; any excess aid disbursed to the student would be a student aid expense. To report a scholarship allowance from a Pell grant, colleges would record a transfer from the current operating restricted accounts to the current operating unrestricted accounts where tuition revenue is reported. SEOG's should also be treated as a scholarship allowance to tuition and fee revenue, including the institutional matching portion since these are institutional funds.

Examples –

The most common scholarship allowances illustrated in the NACUBO position paper are presented below. Please refer to the NACUBO position paper for additional examples.

Academic scholarship from unrestricted funds

Student E is awarded an "academic achievement" scholarship. This is a scholarship from unrestricted funds for 60 percent of tuition for credit courses and is awarded to students who achieve a specified high score on admissions examinations and fulfill other requirements.

1)	Student accounts receivable	$10,000	
	Tuition revenue		$10,000

To record tuition revenue for a student.

2)	Scholarship allowance	$ 6,000	
	Student accounts receivable		$ 6,000

To record the scholarship.

These entries can be combined or recorded as shown, depending on the College's systems and student receivable subledger.

Scholarship including tuition, meals and housing (with and without institutional housing and meals)

Student G is awarded a scholarship from general institutional funds. The combination need-based and academic scholarship is for tuition, institutional housing, and one-half the cost of a full meal plan. Since the student is using institutional housing and a meal plan, the scholarship will be treated as an allowance.

1)	Student accounts receivable	$14,000	
	Tuition revenue		$10,000
	Housing revenue		3,000
	Meal plan revenue		1,000

To record student charges for tuition, housing and meal plan.

2)	Scholarship allowance	$10,000	
	Scholarship allowance	3,000	
	Scholarship allowance	500	
	Student accounts receivable		$13,500

To record the scholarship.

3)	Cash	$ 500	
	Student accounts receivable		$ 500

To record payment from the student for one-half of the meal plan.

If the student did not use institutional housing and meals:
1) same as above

2)	Scholarship allowance	$10,000	
	Financial aid expense (housing)	3,000	
	Financial aid expense (meal plan)	1,000	
	Student accounts receivable		$14,000

To record the scholarship.

3)	Student accounts receivable	$ 3,500	
	Cash		$ 3,500

To record payment to the student for the credit balance, which equals the amount provided for housing and meals. The cost of housing and meals will be a financial aid expense.

Scholarship funded from an outside source (with and without student selected by outside source)

Student J is awarded the annual Griffen County scholarship. This scholarship is funded by annual contributions to the institution from a resident of Griffen County, and is given to a student from Griffen County selected by the college. The scholarship amount is equal to tuition. The institution is located in Griffen County and more than 1,000 students from the county are enrolled.

1)	Cash	$10,000	
	Contribution revenue		$10,000

To record registered gifts for the scholarship fund.

2)	Student accounts receivable	$10,000	
	Tuition revenue		$10,000

To record tuition revenue for a student who is a Griffen County resident.

3)	Scholarship allowance	$10,000	
	Student accounts receivable		$10,000

To record the scholarship allowance. To account for cash, $10,000 of restricted cash will be transferred to unrestricted when the scholarship allowance is posted.

Had the county identified the student recipient, the receipt would have been a third-party payment, and no allowance or gift revenue would have been recognized.

Pell Grant

Student I is awarded a Pell Grant of $2,000. The federal program provides that the grant is to assist students with the current cost of education, but the institution cannot require students to use any or all of the grant for any particular component of their expenses. Tuition for the semester is $5,000, and the student requests $1,000 of the Pell Grant.

1)	Student accounts receivable	$ 5,000	
	Tuition revenue		$ 5,000

To record tuition revenue.

2)	Scholarship allowance – Pell Grant	$ 1,000	
	Student accounts receivable		$ 1,000

To record the Pell grant and credit it to the student's account.

3)	Accounts receivable – Pell	$ 2,000	
	Federal grants and contracts – Pell		$ 2,000

To record the receivable – letter of credit.

4)	Student aid expense – Pell	$ 1,000	
	Cash		$ 1,000

To record payment to the student, as requested.

5)	Cash	$ 4,000	
	Student accounts receivable		$ 4,000

To record payment received for the student's account receivable balance.

Federal Work Study

Student S qualifies to participate in the Federal Work Study (FWS) program and is employed part-time by the college under the program. This example does not involve tuition.

1)	Salaries/wages – institutional share	$ 300	
	Salaries/wages – federal share	700	
	Fringe benefit on behalf withheld		$ 150
	Cash		850

To record payment to the student for hours worked.

2)	Accounts receivable – FWS	$ 700	
	Grants and contracts – FWS		$ 700

To record the grants receivable – letter of credit.

3)	Cash	$ 700	
	Accounts receivable – FWS		$ 700

To record payment received from grantor.

Supplemental Education Opportunity Grant (SEOG)

Student T is awarded a scholarship of $10,000 from the institution's SEOG award. The SEOG scholarship is funded by the annual federal appropriations to the institution for students selected by the institution.

1)	Accounts receivable – federal SEOG	$ 2,000	
	Grants and contracts- SEOG		$ 2,000

To record the SEOG grant to the institution.

2)	Student accounts receivable	$ 2,000	
	Tuition revenue		$ 2,000

To record tuition revenue.

3)	Scholarship allowance	$ 2,000	
	Student accounts receivable		$ 2,000

To record the SEOG scholarship.

Scholarships from Foundations

Student U receives a scholarship from the institution's component unit foundation. If the foundation's award is truly a foundation award, the payment is considered a third-party payment by the institution and no scholarship allowance is recognized. Any overpayment would be recognized as an expense. However, if the resources to fund the scholarship are part of a disbursement to the institution, the disbursement is recognized by the institution as revenue at the time of receipt and a scholarship allowance for the amount of the student's accounts receivable paid by the resources. Any overpayment would be recognized as an expense.

If the component unit disburses directly to the student, the component unit has a student aid expense. If an outside entity is not a component unit and provides a scholarship, the outside entity is treated as any other third party. If the funds are remitted to the institution and the institution selects the recipient, then the institution has operating revenue and a scholarship allowance. If the outside entity selects the student recipient, the amount is either a third-party receipt on behalf of a student or a direct receipt from the student.

Student Loans

Student V receives a student loan (either through a commercial lender or the Direct Lending program). There is no scholarship allowance or student aid expense associated with the loan. The loan is an exchange transaction and the institution serves only as a conduit. There is no revenue to the institution related to the loan programs; these are balance-sheet only transactions. Satisfaction of fees from loan proceeds are reported as other payments made directly by the student from the student's own resources.

Merit Scholarship

Student X is a National Merit Scholarship recipient. The institution pays an amount to the National Merit Scholarship program for participation in the program. Student X is provided a scholarship by the National Merit Scholarship program and pays fees at the college. The payments made by the college are an expense (not a student aid expense), and the receipt of fees by the college is treated as any other third-party payments on behalf of a particular student. The fact that the amounts paid by the college may be exactly the same amount as the scholarship awarded to the student does not change the financial reporting. The reporting follows the flow of the funds.

Michigan Grants (Merit, Michigan Competitive Scholarships, and TIP)

For these State of Michigan grants, the state has predetermined the recipients of this aid. The college receives a roster of the students and the related award amounts directly from the state. Therefore, these are treated as a third-party payment and no allowance will be recognized. These payments will be handled as credits to accounts receivable.

Michigan Grants (MEOG, MAPTG, and PASS)

For these programs, the College determines the recipients and therefore, they are recorded in the same manner as SEOG (see example on previous page). Funds from these grants are used to satisfy a student's fees and charges as a scholarship allowance; any excess aid disbursed to the student would be a student aid expense.

PRINCIPLE 3 – NONEXCHANGE TRANSACTIONS

GASB 33 – "Accounting and Financial Reporting for Nonexchange Transactions" will affect the recognition of revenue for college's nonexchange transactions, such as state appropriations, property tax assessments, gifts and grants. Therefore, this manual will provide a brief overview of the significant concepts and terms of this statement.

GASB 33 establishes accounting and financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources.

It is recommended that the college establish a policy to define exchange transactions.

In a nonexchange transaction, the college gives (or receives) value without directly receiving (or giving) equal value in return. There are four classes of nonexchange transactions based on shared characteristics that affect the timing of recognition:

1. Derived tax revenues, which result from assessments imposed on exchange transactions (for example tax revenues, which result from assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption)
   <u>Revenue recognition</u> – not applicable to community colleges.
2. Imposed nonexchange revenues, which result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines)
   <u>Revenue recognition</u> – recognized in the period when use of the resources is required or first permitted by time requirements.
3. Government-mandated nonexchange transactions, which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform)
   <u>Revenue recognition</u> – recognized when all applicable eligibility requirements (see below) are met or resources are received whichever is first.
4. Voluntary nonexchange transactions, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).
   <u>Revenue recognition</u> - recognized when all applicable eligibility requirements (see below) are met or resources are received whichever is first.

Eligibility requirements for government-mandated and voluntary nonexchange transactions comprise one or more of the following:

1. Required characteristics of recipients. The recipient (and secondary recipients, if applicable) has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)
2. Time requirements. Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used [sold, disbursed, or consumed] or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)

3. Reimbursements. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
4. Contingencies (applies only to voluntary nonexchange transactions). The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the recipient is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.)

Property Taxes

Property taxes are classified as imposed nonexchange revenues. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is imposed by that government on an act committed by the provider (such as property ownership) that is not an exchange transaction (GASB 33 paragraph 7(b)).

The critical dates for property taxes are: 1) assessment date – the date the tax becomes a liability for the taxpayer, 2) levy date – the date the taxpayer is invoiced or billed for the tax (generally within one year after assessment) and 3) payment date – the date the taxpayer must pay taxes or be billed for interest (generally 2 ½ months after billing).

Revenue from property taxes, net of estimated refunds and estimated uncollectible amounts, is to be recognized in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period (GASB 33 paragraph 18).

The gross property tax assessment is to be recorded as revenue in unrestricted expendable net assets, unless the property taxes are levied for a specific purpose. Purpose restrictions specify the purpose or purposes for which the resources are required to be used. Purpose restrictions do not affect the timing of recognition of property taxes. Rather, the college should report resulting net assets as restricted until the resources are used. The tax assessment should be determined based upon the approved millage rate adopted by the Board of Trustees times the taxable value as determined by the County assessor and/or the primary taxing authorities within the college's district. The impact of tax abatements, TIFA districts and Commercial Facility Taxes/Industrial Facility Taxes should be determined by each college individually based upon known and available information. The impact of tax appeals to the State should be recorded by the College once amount is known and available (consider footnote disclosure under contingent liability requirements).

Property taxes can also be levied with time restrictions. Time requirements specify the period or periods when resources are required to be used or when use may begin. Property tax revenue with timing restrictions should be recognized in the period when the resources are required to be used or when use is first permitted. Resources received before that period should be reported as deferred revenues. When recorded, property tax revenue is to be included in unrestricted unexpendable net assets, unless the property taxes are levied for a specific purpose.

If a provision is needed to recognize an allowance for uncollectible tax assessments, it should be recorded as an expense in the period in which it is determined uncollectible.

All property tax revenue, whether restricted or not, is to be reported as nonoperating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

State and Other Governmental Appropriations

Appropriations for general operating are classified as voluntary nonexchange revenue. These appropriations are typically restricted for use during a time period (generally, the state's fiscal year). Therefore, the related revenue is recorded in the period when the resources are required to be used or when use is first permitted. Because there are no purpose restrictions, resulting net assets should be unrestricted.

Appropriations for capital projects are classified as voluntary nonexchange revenue. The revenue is recognized when all applicable eligibility requirements are met or resources are received, whichever is first. Because of the purpose restriction, resulting net assets should be restricted until capital costs are incurred.

Appropriations for general operating and capital projects are to be reported as nonoperating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

If a reduction or an increase in an appropriation is made *(i.e. a negative appropriation, supplemental appropriation),* the college should reduce receivables and revenues for the amount cancelled, in the period the reduction was made.

Examples:

State appropriations – general operations
On June 15, 2001, the state approved a general operating appropriation for $120,000 for the college's fiscal year beginning July 1, 2001, to be paid in equal installments of $30,000 on 9/1/01, 12/31/01, 3/31/02, and 6/30/02. On January 1, 2002, the state cancelled the portion of the appropriation that it had intended to pay to the college in the last quarter of the year.

On July 1, 2001:

Cash	$30,000	
State appropriation receivable	90,000	
State appropriation revenue		$120,000

To record state appropriation revenue (when the time restriction was met).

On December 31, 2001 and March 31, 2002:

Cash	$30,000	
State appropriation receivable		$ 30,000

To record the receipt of state appropriation revenue.

On January 1, 2002:

State appropriation revenue	$30,000	
State appropriation receivable		$ 30,000

To record the cancellation of the fourth quarter state appropriation payment.

State appropriations – capital project *(without matching requirement)*
On June 15, 2001, the state approved $500/FTE student, in funding to the college to be used solely for capital outlays, effective for the college's fiscal year beginning July 1, 2001. The amount provided is based on student population. Amounts not used within three years are to be returned to the state. There is no requirement that the college first incur allowable costs under the state's program in order to qualify for the resources.

On July 1, 2001:

State appropriation (capital) receivable	$1,000,000	
State appropriation (capital) revenue		$1,000,000

To record the capital appropriation ($500 X 2,000 FTE students).

On November 30, 2001:

Construction in process	$250,000	
Accounts payable		$250,000

To record construction costs on the new student center building.

Transfer to Invested in capital assets (net assets, unrestricted)	$250,000	
Transfer from restricted net assets		$250,000

To release restricted net assets, as the purpose restriction was fulfilled.

State appropriations – capital project (with matching requirement)

On June 15, 2001, the state approved $1,000,000 in funding to the college to be used solely for a building project, effective as of the college's fiscal year beginning July 1, 2001. The college must first incur $1,000,000 of allowable costs under the state's program in order to qualify for the resources.

On November 30, 2001:

Construction in process	$500,000	
Accounts payable		$500,000

To record construction costs on the new student center building.

On January 15, 2002:

State appropriation (capital) receivable	$150,000	
Construction in process	650,000	
Accounts payable		$650,000
State appropriation (capital) revenue		150,000

To record construction costs on the new building project and capital appropriation revenue for the costs of construction greater than college's match.

State appropriation (capital) receivable	$850,000	
State appropriation (capital) revenue		$850,000

To record the remaining capital appropriation ($500 X 2,000 FTE students) less that amount already recognized. (NOTE – consider recording a conservative estimate of the total state receivable since the State is not required to spend the entire amount allocated to the project.)

State appropriations – at-risk appropriation, passed before year end

On June 25, 2001, the state passes a bill awarding a $100,000 at-risk appropriation for the state's fiscal year ended September 30, 2001.

On June 25, 2001:

State appropriation receivable	$ 75,000	
State appropriation revenue		$ 75,000

To record the at-risk appropriation – 75% (9 months/12 months).

On July 1, 2001:

State appropriation receivable	$ 25,000	
State appropriation revenue		$ 25,000

To record the remaining at-risk appropriation – 25% (3 months/12 months).
(Note that to the extent that at-risk appropriations have purpose restrictions, they are to be recorded as expendable restricted.)

State appropriations – at-risk appropriation, passed after year end
On August 15, 2001, the state passes a bill awarding a $100,000 at-risk appropriation for the state's fiscal year ended September 30, 2001. However, since passed after year end, the appropriation would be recorded in the college fiscal year beginning July 1, 2001

On August 15, 2001:

State appropriation receivable	$100,000	
State appropriation revenue		$100,000

To record the at-risk appropriation.

Governmental Grant and Contract Revenue

Governmental grants and contracts are classified as either exchange, government-mandated or voluntary nonexchange transactions.

Exchange transactions involve a transfer of value between two or more entities in which each participant both receives and gives value. For exchange transactions, revenue is recognized when the exchange takes place. When a contract or grant is considered to be an exchange transaction, it generally will be for program activities and should be treated as operating revenue.

The majority of governmental grants and contracts are classified as government mandated or voluntary nonexchange transactions. The criteria for revenue recognition is the same for both of these nonexchange classifications. Revenue is recognized when all applicable eligibility requirements are met or resources are received, whichever is first. These grants typically have purpose restrictions. Because of this, resulting net assets should be restricted until capital costs are incurred. Nonexchange receipts are treated as nonoperating revenues. The revenue for grants and contracts should be classified by the governmental level (i.e. federal, state, or local) on the Statement of Revenue, Expenses and Changes in Net Assets.

Examples:
On June 15, 2001, the state approved a grant to the college for spending on programs to educate students about preventing drug and alcohol abuse. The money is allocated to the college based on enrolled student population ($50 per student FTE). The applicable period for the resources from the state to the college begins on the first day of the state's fiscal year (October 1, 2001).

On October 1, 2001:

Grant receivable	$100,000	
Grant revenue		$100,000

To record grant revenue ($50 X 2,000 FTE students).

On October 1, 2001:		
Cash	$ 20,000	
Grant receivable		$ 20,000
To record the receipt of grant money.		

On November 30, 2001:		
Expense	$ 10,000	
Accounts payable		$ 10,000
To record expenses related to the establishment of the drug/alcohol prevention program.		
Transfer to unrestricted net assets	$ 10,000	
Transfer from restricted net assets		$ 10,000
To release the net assets from restriction, as the related purpose restriction was fulfilled.		

Private Gifts, Grants and Contract Revenue

Private gifts, grants and contract revenue are recorded under the same set of criteria as governmental gifts, grants and contracts.

Examples:

Private gift with eligibility requirement
On June 15, 2001, an individual promises in writing to give $1 million to the college for the construction of a new addition to the campus library, provided that the college raises an equal amount of donations from others. On March 31, 2002, the college has raised the entire $1 million for the library addition.

On March 31, 2002:		
Pledge receivable	$1,000,000	
Private gift revenue		$1,000,000
To record the pledge receivable, as eligibility requirements were fulfilled.		

On June 1, 2002:		
Construction in process	$ 100,000	
Accounts payable		$ 100,000
To capitalize the costs incurred on the construction of the new library addition.		
Transfer to Invested in Capital	$ 100,000	
Transfer from restricted net assets		$ 100,000
To release the assets from restriction that have fulfilled the purpose restriction.		

Private gift, no eligibility requirement
In the above example, had the donor not required the matching funds be raised:

On June 15, 2001:		
Pledge receivable	$1,000,000	
Private gift revenue		$1,000,000
To record the pledge receivable.		

Other journal entries would be the same.

Private gift, purpose restriction

On June 15, 2001, the college received a check for $10,000 from an individual donor requesting the money be used for scholarships.

<u>On June 15, 2001:</u>		
Cash	$ 10,000	
Private gift revenue		$ 10,000
To record the receipt of a gift.		
<u>On September 1, 2001:</u>		
Scholarship allowance	$ 10,000	
Student accounts receivable		$ 10,000
To record the disbursement of the scholarship funds to the awarded students.		
Transfer to unrestricted net assets	$ 10,000	
Transfer from restricted net assets		$ 10,000
To release the assets from restriction that have fulfilled the purpose restriction.		

Private gift with a permanent time restriction

On June 15, 2001, the college received a $1,000,000 gift, with the stipulation that the college establish an endowment, invest the gift, and maintain it (the principal) intact in perpetuity. The investment income is to be used for scholarships for underprivileged students majoring in business.

<u>On June 15, 2001:</u>		
Cash	$1,000,000	
Gift revenue		$1,000,000
To record the receipt of the gift.		
<u>On December 31, 2001:</u>		
Cash	$ 100,000	
Investment income		$ 100,000
To record investment income.		
Transfer to restricted – expendable – scholarships	$ 100,000	
Transfer from restricted – nonexpendable – scholarships		$ 100,000
To transfer the investment income to expendable net assets.		
<u>On January 15, 2002:</u>		
Scholarship allowance	$ 100,000	
Student accounts receivable		$ 100,000
To record the disbursement of the scholarship funds to the awarded students.		
Transfer to unrestricted net assets	$ 100,000	
Transfer from restricted – expendable - net assets		$ 100,000
To release the assets from restriction that have fulfilled the purpose restriction.		

Multi-Year Pledge with Eligibility Requirement -

An individual pledges $500,000 to the college to further its mission of providing education to the community. The donor's letter specifies that she will pay $100,000 per year over the next five years and that each installment should be used in the year it is paid.

Assuming the college believes that the installments are probable of collection, the college should recognize a receivable and revenue of $100,000 in each of the five years.

Multi-Year Pledge without Eligibility Requirement -

Using the same facts, as discussed above, except that the donor does not specify that each installment is required to be used in the year it is paid. There is no eligibility requirement. Assuming the college believes that the installments are probable of collection, it should recognize a receivable and revenue for the discounted present value of the five installments in the period when the donor's pledge is received. Subsequent accruals of the interest element should be reported as revenues.

PRINCIPLE 4 – OTHER REVENUE AND EXPENSES

Contributions for Endowments

Additions to permanent and term endowments are reported as other revenue in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Net Assets. The gift is included in nonexpendable restricted net assets on the Statement of Net Assets.

The notes to the financial statements for donor restricted endowments should include the following information:

- Amount of net appreciation on donor restricted investments that is available for use
- How reported in net assets
- State law regarding the ability to spend net appreciation
- Policy in place for spending this income – spending rate or total return

Capital Contributions

Capital contributions will be accounted for as described under Principle 3 (GASB 33) of this manual. Capital contribution revenue is reported as other revenue in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Net Assets.

Investment Income

All investment income, including changes in the fair value of investments, should be recognized as nonoperating revenue in the statement of revenues, expenses, and changes in net assets. If the college uses a spending rate (see discussion on next page), the income is still classified as nonoperating. However, the college may differentiate between amounts related to the spending rate and amounts in excess of the rate by displaying these amounts as separate nonoperating line items.

When identified separately as an element of investment income, the change in the fair value of investments should be captioned net increase (decrease) in the fair value of investments. Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements, except that realized gains and losses may be separately displayed in the separate reports of governmental external investment pools.

The college should make the following disclosures in the notes to the financial statements (GASB 31, paragraph 15):

a. The methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.
b. The policy for determining which investments, if any, are reported at amortized cost
c. For any investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool and whether the fair value of the position in the pool is the same as the value of the pool shares.
d. Any involuntary participation in an external investment pool.
e. If an entity cannot obtain information from a pool sponsor to allow it to determine the fair value of its investment in the pool, the methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate.
f. Any income from investments associated with one fund that is assigned to another fund.

The college may disclose realized gains and losses in the notes to the financial statements computed as the difference between the proceeds of the sale and the original cost of the investments sold. External investment pools that elect to report--and other entities that disclose--realized gains and losses should also disclose that:

a. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.
b. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Spending Rate

A spending rate is the portion of total return on investments used for fiscal needs of the current period, usually used as a budgetary method of reporting returns on investments. It is usually measured in terms of an amount or a specified percentage of a moving average market value. Typically, the selection of a spending rate emphasizes (a) the use of prudence and a systematic formula to determine the portion of cumulative investment return that can be used to support fiscal needs of the current period and (b) the protection of endowment gifts from a loss of purchasing power as a consideration in determining the formula to be used.

The Uniform Management of Institutional Funds Act (UMIFA) in the State of Michigan does allow flexibility for organizations to determine a spending rate on endowment income. In other words, to maintain the purchasing power of the endowment, the college may choose to spend only a portion of the endowment's investment income and to reinvest the remainder as a quasi-endowment. Therefore, a portion of investment income may be maintained as nonexpendable restricted net assets if the college has a policy in place to maintain the purchasing power of its endowment.

All investment income is reported as nonoperating. However, an institution may differentiate between amounts related to the spending rate and amounts in excess of the spending rate by displaying these amounts as separate nonoperating line items.

Departmental Revenue

Revenue from sales and services of departments to outside organizations are classified as exchange transactions and should be recorded as operating revenue in the period in which the transaction is completed or services are performed.

Expenses

Expenses are to be charged when materials have been received or services have been rendered.

GASB 34 and 35 allow expenses to be presented on the Statement of Revenues, Expenses, and Changes in Net Assets in either the functional (i.e. instruction, academic support, etc) or natural format (salaries, depreciation, etc.) However, the State of Michigan requires expenses to be presented in the functional format. The allocations of costs to each of the functional categories are outlined in detail in the State's ACS manual.

If an expense is incurred for a purpose for which both unrestricted and restricted net assets are available, it is management's decision as to which resource is utilized first. In other words, there is no required priority on the use of resources. For example, if the college has assets restricted for the purpose of providing scholarships to business students and the business department has unrestricted assets as well, management has the option to choose whether to use the restricted scholarship money or the department's available money.

PRINCIPLE 5 – DEPRECIATION

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible (such as land). An asset's estimated useful life is the time the college intends to use the asset, and varies depending on factors such as the college's maintenance policy and obsolescence of the asset.

Depreciation should be calculated using the straight-line method of depreciation. This method allocates an equal share of the total estimated amount an asset will be depreciated during its service life to each accounting period in that life. When straight-line depreciation is used, the cost of the asset minus its estimated salvage value is divided by the estimated number of accounting periods in the asset's service life. For example, if a unit of furniture costs $5000, has an estimated service life of five years, and no salvage value, its depreciation per year by the straight-line method is $1000 ($5000 divided by 5 years).

Each college should establish estimated useful lives for all significant classifications of assets. This manual will not prescribe such lives, but recommends American Health Association's Estimated Useful Lives of Depreciable Hospital Assets, as a guide. Following is a table with the asset class lives as listed in the AHA Depreciation Guide:

ASSET CLASS	Estimated Useful Lives in Years
Land	N/A
Land Improvements	5 to 25
Infrastructure	5 to 25
Buildings	10 to 40
Building Improvements	5 to 20
Furniture and Fixtures	5 to 20
Equipment (Computerized)	3 to 5
Library Materials	5 to 7
Capitalized Collections	5 to 15

Construction in process should be capitalized, but is not depreciated until the asset is placed into service. Assets are considered to be placed in service when they are usable for their designated purpose.

Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. (GASB 34, paragraph 29).

Colleges may choose to itemize and depreciate assets individually or by grouping bulk purchases. Bulk purchases should be capitalized and depreciated based on the individual capitalization and life policies but should be considered within the college's capitalization policy.

Example-
The college purchases 300 desks for $500 per desk or $150,000. Normally, the college would expense the purchase of desks since they tend not to last for a significant time and the individual purchase price is less than the capitalization policy of $1,000. In addition, this purchase was not in conjunction with a building construction or renovation project, therefore, the college would expense the above purchase.

Depreciation expense should be reported as a separate line item on the Statement of Revenues, Expenses and Changes in Net Assets and is not required to be allocated along functional categories (NACUBO Advisory Report 2000-8).

Prior to GASB 34 & 35, colleges were not required to record depreciation. Therefore, the adoption of these pronouncements will result in a restatement of beginning net assets. The effect on the beginning net asset balance will be the difference between the depreciation related to capitalized assets and the expense recorded for the initial purchase of those assets. This should result in an increase to net assets. See the transition section of the manual for further guidance.

Maintenance and repair costs that do not add to the life of the asset, should be expensed as incurred.

Infrastructure assets may be accounted for under a modified approach. This approach allows the college to record actual expenditures made for those assets (except for additions and improvements) as expenses in the period incurred, rather than recording depreciation. This manual does not recommend the use of the modified approach of accounting for infrastructure assets, as the requirements for using this method (as discussed in GASB 34 paragraphs 23 – 26) appear to be more cumbersome than the efforts necessary to record the related depreciation. This manual assumes that the colleges will not utilize the modified approach for reporting infrastructure and has not discussed the related disclosure requirements (as discussed in GASB 34 paragraph 115e) and required supplementary information (as discussed in GASB 34 paragraph 132).

PRINCIPLE 6 – INTERDEPARTMENTAL TRANSACTIONS

For reporting purposes, the income from interdepartmental transactions, such as the sales of general stores, services of internal service departments, and the transfer of equipment from one department to another, shall be offset against expenses of the selling departments so that the totals of revenues and expenses will not be inflated when combining the transactions of all departments. If revenue is recorded in the selling department, it must be eliminated upon consolidation of all departments.

Example – revenue is recorded:
The printing center costs are allocated to various departments as follows:

<u>Printing Center:</u>		
Receivable – business office	$100	
Receivable – math dept	100	
Receivable – science dept	100	
Printing revenue		$300
<u>Business office, math and science depts:</u>		
Printing expense	$100	
Payable – printing center		$100

Note – this transaction has resulted in the college grossing up revenue and expense, and as a result, the following eliminating entry would be required:

Revenue	$300	
Printing expense		$300

Example – expenses are allocated:
The printing center costs are allocated to various departments as follows:

<u>Printing Center:</u>		
Receivable – business office	$100	
Receivable – math dept	100	
Receivable – science dept	100	
Printing expense		$300
<u>Business office, math and science depts:</u>		
Printing expense	$100	
Payable – printing center		$100

Note – this transaction has not resulted in the college grossing up revenue and expense, and as a result, an eliminating entry would not be necessary.

Internal service operations should include all operations that deliver significant services to other departments. Each college should determine which service departments should be treated as internal service departments. Generally, they would include, but are not limited to the following services:

- Printing/Copying
- Motor pool
- General stores

PRINCIPLE 7 – CLASSIFICATIONS OF REVENUES AND EXPENSES

The college should establish a policy that defines operating revenue and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using GASB 9. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income (GASB 34, paragraph 102).

The Statement of Revenues, Expenses and Changes in Net Assets should distinguish between operating and nonoperating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

Nonoperating revenues and expenses should be reported after operating income. Revenues from capital contributions and additions to the principal of permanent and term endowments; special and extraordinary items; and transfers should be reported separately, after nonoperating revenues and expenses. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence are special items.

Expenses are to be classified in the same functional category for financial statement purposes, as those required by ACS.

Revenues and expenses should be grouped into the following classifications for the Statement of Revenues, Expenses and Changes in Net Assets:

Operating Revenue:

- Tuition and fees
- Federal grants and contracts (if grant/contract is for operating purpose)
- State and local grants and contracts (if grant/contract is for operating purpose)
- Nongovernmental grants and contracts
- Sales and service fees

Operating Expenses:

- Instruction
- Public service
- Instructional support
- Student services
- Institutional administration
- Physical plant operations
- Independent operations
- Depreciation

Nonoperating Revenue (Expenses):

- Federal grants and contracts (if grant/contract is for nonoperating purpose)
- State and local grants and contracts (if grant/contract is for nonoperating purpose)
- State appropriations
- Property tax revenue
- Investment income
- Private gifts and grants
- Interest income on student loan fund
- Interest expense on debt

Other Revenue:

- State capital appropriations
- Capital gifts and grants
- Additions to permanent endowments
- Transfers to/from related entities

A significant portion of the college's revenue sources are now required to be shown on the face of the Statement of Revenues, Expenses and Changes in Net Assets as nonoperating income. This includes state appropriations, property tax revenue and investment income. As a result, all community colleges will present a loss from operations on the Statement of Revenues, Expenses and Changes in Net Assets.

To obtain the true picture of the college's financial position, the focus should be placed on the **Net Increase (Decrease) in Net Assets**" line of the Statement of Revenues, Expenses and Changes in Net Assets. This amount represents the true income or loss that was generated by the college during the year.

PRINCIPLE 8 – BALANCE SHEET

The college may use either a net assets format (assets less liabilities equal net assets) or a balance sheet format (assets equal liabilities plus net assets). *This manual recommends using the balance sheet format.*

Assets and liabilities should be presented in a classified format to distinguish between current and long-term assets and liabilities.

The term current assets is used to designate cash and other assets or resources which are reasonably expected to be realized in cash, or sold or consumed during the normal operating cycle of the business.

The term current liabilities is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually twelve months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, and agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons.

Typically, the balances will be classified as follows:

Current –	
Cash and cash equivalents	Accounts payable
Short-term investments	Accrued liabilities (including payroll, vacation and sick pay)
Receivables	Student deposits
Prepaids	Deferred revenue
Inventory	Current portion of long-term debt
Noncurrent –	
Restricted cash	Noncurrent portion of long-term debt
Investments	Compensated absences (long term portion)
Capital assets	Capital lease obligations

Cash

Cash with a contractual or donor imposed restriction that limits the use to long-term purposes (including investment in capital assets) should be reported as long-term. For example, cash held in a separate account that can be used to pay principal and interest only (as required by the debt covenant) and that cannot be used to pay other current liabilities should be reported as restricted assets in the noncurrent section of the balance sheet.

Please note that because restricted assets may include temporarily invested debt proceeds or other resources that are not generated through operations (such as customer deposits), the amount reported as restricted assets will not necessarily equal restricted net assets.

The significant accounting policy disclosure should include the definition of cash equivalents. Cash equivalents generally are readily convertible to cash, have an insignificant risk of change in value, and have an original maturity of three months or less.

Investments

Under GASB 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments should be recorded at fair value on the balance sheet. Investments covered by this statement include interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities (including unit investment trusts and closed-end mutual funds), option contracts, stock warrants, and stock rights that have readily determinable fair values.

Michigan community colleges are restricted in the types of investments in which they can invest. As defined in the Enrolled Senate Bill No. 234, these include:

- Bonds, bills, or notes of the United States, or of an agency or instrumentality of the United States, or obligations of this state
- Negotiable certificates of deposit, savings accounts, or other interest-earning deposit accounts of a financial institution.
- Bankers' acceptances that are issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Commercial paper that is supported by an irrevocable letter of credit issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Commercial paper of corporations rated prime by at least one of the standard rating services.
- Mutual funds, trusts, or investment pools composed entirely of instruments that are eligible collateral.
- Repurchase agreements against eligible collateral, the market value of which must be maintained during the life of the agreements at levels equal to or greater than the amounts advanced. An undivided interest in the instruments pledged for these agreements must be granted to the community college.
- Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a community college.

Student Receivables

Student receivables should be recorded for tuition, fees, and other services, net of any allowance for doubtfully collectible accounts, in the period in which the related revenue was earned. If the related revenue has been deferred to another period, a receivable should not be recorded.

Company Receivables

Company receivables result when a company is either individually paying for an employee's tuition, (for example, through a tuition reimbursement benefit program) or a company has contracted with the college to facilitate a course, in which the employees will attend. This receivable is treated similarly to the student receivables. If the service has been delivered, a receivable should be recorded. If the related revenue has been deferred to another period, a receivable should not be recorded.

Pledges and Grants Receivable

As discussed under Principle 3 (GASB 33) of this manual, pledges receivable for gifts and grants are recorded when all applicable eligibility requirements are met. Eligibility requirements include: 1) required characteristics of recipients (i.e. entity must be a governmental entity to receive gift/grant), 2) time requirements (funds are restricted for use in a certain period), 3) reimbursements (if on a reimbursement basis, when allowable costs are incurred), and 4) contingencies (i.e. when the college raises $1 million, a gift of $1 million will be made).

In summary, when the college has been contacted by a donor or grantor regarding a pledged contribution or grant, the college records a receivable when the eligibility requirements have been met, the promise is deemed to be verifiable, measurable, and probable of collection. Purpose restrictions do not have an effect on the timing of the recording of the related pledge. See examples under Principle 3.

Prepaids

Prepaid assets should be recorded for all payments made in advance of receipt of the related service or goods. Balances in this account may be recorded in conjunction with deferred liabilities. For example, if summer tuition is being deferred at year end, the related expenses for summer semester should be recorded as prepaid expenses.

Inventory

Inventory typically consists of bookstore merchandise, internal store supplies, and computer supplies. Inventory should be recorded at the lower of cost or market, using the first in, first out method (FIFO) method of determining inventory cost (LIFO is allowed, but not recommended by this manual).

Capital Assets

Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Acquired capital assets should be stated at acquisition cost, including all costs necessary to bring the asset to its location in working condition. Thus, the cost of a capital asset should include the asset's purchase price, sales tax, freight, installation costs, and direct and indirect costs (including non-bond related interest) incurred by an entity in constructing its own assets. It generally should not include routine repairs and maintenance costs that do not add to the utility of the asset. Capital assets that were purchased should not be written up to reflect appraisal, market, or current values that are above cost. Capital assets that were donated should be recorded at market value.

Capital Assets (continued)

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets should be valued at estimated historical cost and depreciated over their useful lives. The college should make an effort to value all major assets and systems.

It may be difficult to differentiate infrastructure items from land improvements. To assist with this process, the following examples are provided:

<u>Infrastructure</u>
- Roads, streets, highways
- Alleys, sidewalks
- Curbs and culverts
- Traffic lights/signals
- Street signage/lighting
- Bridges/guard rails
- Trestles
- Sanitary/Storm sewer collection piping
- Water distribution piping
- Drainage ditches/systems
- Irrigation systems/Tunnels
- Dams/sea walls/piers/docks
- Gas distribution system
- Electric distribution system
- Water walls
- Fire hydrants

<u>Land Improvements</u>
- Parking lots
- Yard lighting
- Fencing and gates
- Paths
- Bleachers
- Parking barriers
- Septic systems
- Fountains
- Landscaping
- Retaining walls
- Athletic fields
- Swimming pools
- Tennis courts
- Golf courses

A capitalization policy should be adopted by every college so that all capital assets over a specific dollar amount are capitalized and accounted for. At a minimum, the asset should have a useful life in excess of one year. The individual capitalization minimum cannot exceed $5,000 under the current federal guidelines and regulations in effect.

The balances of major capital assets should be disclosed by category on the face of the balance sheet or in the notes to the financial statements. These categories may include (based on significance of balance), land and improvements, buildings and improvements, infrastructure, equipment, and library books.

The notes to the financial statements for capital assets should include the following information:
- Beginning and end of year balances, with accumulated depreciation presented separately from historical cost
- Capital acquisitions
- Sales and other dispositions
- Current year depreciation expense

Collections

Capitalization of collections, such as works of art, historical treasures, or similar assets is encouraged, but is not required, if the following criteria are met:

(a) held for public exhibition, education, or research in furtherance of public service rather than financial gain,
(b) protected, kept unencumbered, cared for, and preserved, and
(c) subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

If these items are not capitalized for the reasons noted above, this policy must be disclosed in the notes to the financial statements.

If the college chooses to capitalize the collections, they are to be disclosed as part of capital assets and depreciated.

Accounts Payable

Accounts payable should include expenses for goods or services received prior to the college's year end. This account is included as a current liability on the balance sheet.

Construction and Retainage Payables

As construction projects are typically long-term in nature, it is likely that a project will be in process at the college's year end. The college should review its construction billing documentation to determine the amount that is due to contractors for materials used and services rendered through the last day of the year. This amount should be recorded as a liability.

Additionally, the amount of the retainer in relation to the construction contract that is owed to the contractor(s) should be recorded as a liability.

Accrued Liabilities

Accrued expenses include incurred expenses other than those trade expenses included in accounts payable. These are typically recorded as a current liability.

- <u>Accrued wages</u>
  The most significant accrued liability is for the salary and related benefits and withholdings earned through year end, but paid after year end including faculty salaries earned during the semesters taught but paid over a different term (ie, teach classes over 19 weeks and receive pay over 26 weeks – unpaid portion should be accrued).

- <u>Accrued vacation leave and other compensated absence with similar characteristics (GASB 16)</u>
  Vacation leave and other compensated absences with similar characteristics (i.e. paid time off is not contingent on a specific event outside the control of the employer and employee), should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Benefits that have been earned but that are not yet available for use as paid time off or as some other form of compensation because employees have not met certain conditions (for example, a minimum service period for new employees) should be accrued to the extent it is probable that the employees will meet the conditions for compensation in the future. However, benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability.

- Accrued sick leave and other compensated absences with similar characteristics (GASB 16):

  A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches:

1. A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement. Therefore, an accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. The sick leave liability generally would be an estimate based on a college's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination payment policy and other current factors.

2. Alternatively, a college should estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.

- Accrued sabbatical leave (GASB 16)

The accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of the leave or, instead, for past service. Some employers permit sabbatical leave from normal duties so that employees can perform research or public service or can obtain additional training to enhance the reputation of or otherwise benefit the employer. In this situation, the sabbatical constitutes a change in assigned duties and the salary paid during the leave is compensation for service during the period of the leave. Therefore, the nature of the sabbatical leave is restricted. Accordingly, the sabbatical should be accounted for in the period the service is rendered; a liability should not be reported in advance of the sabbatical. Sometimes, however, sabbatical leave is permitted to provide compensated unrestricted time off. In this situation, the salary paid during the leave is compensation for past service. A liability should be accrued during the period(s) the employees earn the right to the leave if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

- Accrued early retirement incentives
  Colleges frequently offer faculty the opportunity to retire early with a buyout purchase of their contract for a lump sum amount. The liability for the buyout should be recorded once the faculty member accepts the offer.

- Accrued health care costs
  The estimated costs for claims incurred (reported and unreported) during the reporting period should be accrued *if the college is self insured*. Estimation may be required to record claims incurred but not reported (IBNR). Typically, the use of historical information, such as the typical lag time between when a claim occurs and is reported to the insurance administrator, is used to estimate this liability.

  The amount recorded as a liability should not exceed amounts covered by insurance. For example, if the college has insurance that covers annual claims exceeding $500,000 and has incurred $450,000 of claims in the period, the related liability should not exceed the remaining $50,000.

Deferred Tuition and Fees

Student tuition and fees are to be recorded as a receivable at registration; however, recognition as revenue is determined when services are rendered. Tuition and fees should be recorded as revenue when the specific course (the academic semester or term to which the tuition and fees apply) occurs.

If tuition and fees are recorded for registration for future academic periods then deferred revenue accounts should be set up until the period the service is delivered (i.e. when the courses that are provided to the students are in process).

Spring and summer session's tuition and fees should be reported as revenue in the same period as the related expenditures. The revenue and expenses for a summer session should be split between the two fiscal years, with appropriate amounts being recognized in the accounting period in which they are earned or incurred and become measurable. When measuring the amount of summer and spring sessions to record as revenue at year end, it should be determined based upon the number of days in the traditional academic term that occur prior to and after June 30th of each year.

Debt

The amount of principal due on loans from financial institutions and bond issues should be recorded in the balance sheet as a current or noncurrent liability based on the related maturity of the debt. Principal payments that are payable within the next year, should be recorded as current. The remaining principal balance should be recorded as noncurrent.

The notes to the financial statements for long-term liabilities should include the following information:

- Beginning and end of year balances
- Increases and decreases
- Amounts due in less than one year

Debt Refunding

Refundings involve the issuance of new debt whose proceeds are used to repay previously issued debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advanced refunding). An advanced refunding may result in the in-substance defeasance of the old debt, provided that certain criteria are met (GASB 23, footnote 1).

For current refundings and advance refundings resulting in defeasance of debt, it is required that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the deferred amount should be reported as a deduction from or an addition to the new debt liability (GASB 23 summary).

Please refer to GASB Statement No. 23 for examples of the application of this requirement.

Leases

The criteria of FASB Statement No. 13, "Accounting for Leases," as amended and interpreted, should be the guidelines for accounting and financial reporting for lease agreements, except for operating leases with scheduled rent increases, which is covered under GASB 13.

Leases (from the lessee perspective) are classified as follows:

- Capital leases (leases that meet one or more of the criteria set forth below),
- Operating leases (all other leases).

If at its inception a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease by the lessee. Otherwise, it shall be classified as an operating lease.

a. The lease transfers ownership of the property to the lessee by the end of the lease term.

b. The lease contains a bargain purchase option.

c. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

d. The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by him. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. A lessor shall compute the present value of the minimum lease payments using the interest rate implicit in the lease. A lessee shall compute the present value of the minimum lease payments using his incremental borrowing rate, unless (i) it is practicable for him to learn the implicit rate computed by the lessor and (ii) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both of those conditions are met, the lessee shall use the implicit rate.

If determined to be a capital lease, then the college should record the asset and the related debt on the balance sheet.

If determined to be an operating lease, the college will expense the lease payments and not record an asset or related liability.

Net Assets

Net assets should be displayed in three components – invested in capital assets; net of related debt, restricted (distinguishing major categories of restrictions); and unrestricted.

Invested in capital assets, net of related debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds – for example, restricted for capital projects. (GASB 34, paragraph 33).

Restricted Net Assets

Net assets should be reported as restricted when constraints placed on net asset use are either:

a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of governments
b) Imposed by law through constitutional provisions or enabling legislation (such as legislated spending rates).

Examples of transactions that would be classified as restricted include:

- A contribution to the college to be used to provide scholarships to students
- A contribution to the college to be used for capital improvements
- A contribution received by the college in response to a fund raiser, in which the proceeds from the event are to be used for capital improvements
- A grant to the college to perform research

Examples of transactions that would be classified as unrestricted include:

- A contribution to the college received without documentation
- A contribution received by the college in response to a fund raiser, which did not denote what the proceeds of the event were to be specifically used for
- A contribution to the college for general operating purposes

When permanent endowments are included, “restricted net assets” should be displayed in two additional components – expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity. (GASB 34, paragraphs 34 – 35)

Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of “re
“invested in capital assets, net of related debt.”

Net assets that are internally designated should not be reported on the face of the statement of net assets. They may be disclosed in the notes to the financial statements. (GASB 34, paragraphs 36 – 37)

Quasi – Endowments (funds functioning as endowments)

Quasi-endowments are unrestricted net assets earmarked by a college’s governing board, rather than restricted by a donor or other outside agency, to be invested to provide income for a long but unspecified period. A board-designated endowment, which results from an internal designation, is not donor-restricted and is classified as unrestricted net assets. The governing board has the right to decide at any time to expend the principal of such funds. This designation may be disclosed in the notes to the financial statements, but is prohibited from being disclosed or presented on the face of the financial statements.

PRINCIPLE 9 – MANAGEMENT'S DISCUSSION & ANALYSIS

Management's discussion and analysis (MD&A) should introduce the basic financial statements and provide an analytical overview of the college's financial activities. Although it is required supplementary information, colleges are required to present MD&A before the basic financial statements.

MD&A is management's analysis, and therefore, should reflect what management believes to be the unique and distinctive features of the annual financial activity and the activity's relationship to the institution's mission.

MD&A should provide an objective and easily readable analysis of the college's financial activities based on currently known facts, decisions, or conditions. The use of charts, graphs, and tables are encouraged to enhance the understandability of the information. MD&A requirements are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include:

a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in financial statements or provide additional information. This should include discussions of positive and negative trends.

b. Condensed financial information derived from financial statements comparing the current year to the prior year. At a minimum, colleges should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:

   - Total assets, distinguishing between capital and other assets
   - Total liabilities, distinguishing between long-term liabilities and other liabilities
   - Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
   - Program revenues, by major sources
   - General revenues, by major source
   - Total revenues
   - Program expenses, at a minimum by function
   - Total expenses
   - Excess (deficiency) before contributions to term and permanent endowments, special and extraordinary items, and transfers
   - Contributions
   - Special and extraordinary items
   - Transfers
   - Change in net assets
   - Ending net assets

c. An analysis of the college's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year, should be discussed.

d. A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

e. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Paragraph 138a of GASB 34 indicates that MD&A requirements apply only to the extent applicable. Therefore, a budgetary analysis is not required under BTA reporting.

Nonfinancial data may be included in MD&A. However, the nonfinancial data should be relevant to the requirements of MD&A that are supported by individually verifiable information. Examples of optional data to include:

- Input measures
  - Number of faculty
  - Instructional expenditures
- Ouput measures
  - Number of degrees and certificates awarded
  - Number of FTE students
  - Retention and graduation rates
- Efficiency measures
  - FTE students to FTE faculty
  - Benchmarks to other institutions

In the year of implementation, comparative information is encouraged, but not required to be presented in the MD&A.

PRINCIPLE 10 - CASH FLOWS

Colleges are required to present a statement of cash flows. The primary guidance for preparation of the statement of cash flows is based on GASB 9.

The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used.

The purpose of the statement of cash flows is to identify the ability to meet obligations, used to determine if the institution needs external financing, and can be used to project future cash flows.

The statement is to be classified between four categories of cash flow uses/sources:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

<u>Operating Activities (GASB 35 Implementation Guide)</u>
Operating activities include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities.

Some activities that may fall within the operating inflows are:

- Cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising fom those sales
- Receipts for services, such as tuition and fees, auxiliary enterprises and store operations
- Sales and services of educational activities
- Outsourced services revenues
- Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government (a grant arrangement of this type is essentially the same as a contract for services)
- Certain federal appropriations – operating, noncapital (only if they are a contract for services)
- Certain grants and contracts – operating, noncapital (only if they are a contract for services)
- Perkins loan payments (principal and interest)
- Student program loan repayments
- All other cash receipts that do not result from transactions defined as a capital and related financing, noncapital financing, or investing activities.

Some activities that fall within the operating outflows are:

- Payments to employees for salaries and fringe benefits
- Payments for services to vendors and suppliers
- Program loans and advances to students
- Cash payments to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods
- Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government
- Noncapital grants and contract disbursements (see GASB 9, paragraph 22c)
- Cash payments for taxes, duties, fines and other fees or penalties

- Institutional foundation management fees
- Fringe benefit disbursements
- All other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities

Noncapital Financing Activities (GASB 35 Implementation Guide)

Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other intergovernmental receipts and payments:

Some examples of noncash financing activity cash inflows are:
- Proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets
- Cash receipts from grants or subsidies except those specifically restricted for capital purposes and those for specific activities that are considered to be operating activities of the grantor government
- Grants and contracts – nonoperating
- Gifts
- Endowment
- Annuity and life income
- State appropriations
- Federal appropriations (non operating)
- School land funds
- Cash received from property and other taxes collected for public university and not specifically restricted for capital purposes
- Institutional foundations – noncapital gifts
- Alumni or other booster organizations – noncapital gifts
- Unrestricted gifts – noncapital
- Agency transactions, including funds received from direct lending programs

Cash outflows for noncapital financing activities include:
- Repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets
- Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets
- Cash paid as grants or subsidies to other governments or organizations, except those for specific activities of the grantor government
- Grant and contract (subcontracts or pass through)
- Annuity payments
- Life income payments
- Agency transactions, including funds disbursed from direct lending programs
- Return of funds held for others, the disbursement of direct lending monies, and other resources held as an agent

Capital and Related Financing Activities

Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit.

Some examples of financing cash inflows are:

- Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction or improvement of capital assets
- Receipts from capital grants awarded to the college
- Grant and contract resources for capital purposes
- Receipts from contributions made by other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets
- Capital appropriations
- Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed
- Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets

Cash outflows for capital and related financing activities include:

- Payments to acquire, construct, or improve capital assets
- Purchases of capital assets
- Payments to contractors for construction or acquisition of capital assets
- Repayment or refunding of amounts borrowed specifically to acquire, construct or improve capital assets
- Principal paid on capital debt and leases
- Deposits with capital debt payment trustee
- Interest paid on capital debt and leases

Investing Activities (GASB 35 Implementation Guide)

Investing activities include making and collecting loans (except program loans, as discussed in GASB 9, paragraph 19) and acquiring and disposing of debt or equity instruments.

Examples of investing cash inflows include:

- Receipts from collections of loans (except program loans) made by the college and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the college
- Institutional loan repayments from other than faculty, staff and students
- Receipts from sales of equity and debt instruments and from returns of investment in those instruments
- Sales and maturities of investments
- Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools
- Interest on investments
- Withdrawals from investment pools that the college is not using as demand accounts

Cash outflows for investing activities include:

- Disbursements for loans (except program loans) made by the college and payments to acquire debt instruments of other entities (other than cash equivalents)
- Loans to other state agencies
- Loans made as investing activities
- Payments to acquire equity and debt instruments
- Purchase of investments
- Deposits into investment pools that the college is not using as demand accounts

Significant noncash transactions (such as purchase of an asset through a capital lease obligation) should be excluded from the statement of cash flows and disclosed at the bottom of the statement or in the notes to the financial statements.

Gross and net cash flows –

Generally, information about the gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amount.

Items that qualify for net reporting because their turnover is quick, their amounts are large, and their maturities are short are cash receipts and payments pertaining to:

- Loans receivable
- Investments (other than cash equivalents)
- Debt

The original maturity of the assets/liabilities noted above must be three months or less. Additionally, investment income may be netted against the related management fees.

PRINCIPLE 11 – SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified.

For example, a bond issue funded construction of a single student resident facility. The net revenues of the facility are pledged to repay the bonded debt. This one facility would be a separate segment. If the related bond was defeased by a general obligation bond (releasing the related pledge of revenue from the facility), the segment reporting would no longer be required. The most recent pledge in a series establishes the segment.

Segment disclosure requirements should be met by providing condensed financial statements in the notes:

a. Type of goods or services provided by the segment.
b. Condensed statement of net assets:
    - Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.
    - Total liabilities—distinguishing between current and long-term amounts.
    - Total net assets—distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.
c. Condensed statement of revenues, expenses, and changes in net assets:
    - Operating revenues (by major source).
    - Operating expenses. Depreciation (including any amortization) should be identified separately.
    - Operating income (loss).
    - Nonoperating revenues (expenses)—with separate reporting of major revenues and expenses.
    - Capital contributions and additions to permanent and term endowments.
    - Special and extraordinary items.
    - Transfers.
    - Change in net assets.
    - Beginning net assets.
    - Ending net assets.
d. Condensed statement of cash flows:
    - Net cash provided (used) by:
        - Operating activities.
        - Noncapital financing activities.
        - Capital and related financing activities.
        - Investing activities.
    - Beginning cash and cash equivalent balances.
    - Ending cash and cash equivalent balances.

PART 3 – TRANSITION TO GASB 34 AND 35

Effective Date

The requirements of GASB Statements 34 and 35 are effective in three phases for public institutions that are not component units of another reporting entity based on a public institution's total annual revenues in the first fiscal year ending after June 15, 1999 (reporting year June 30, 2000):

- Phase 1 institutions—with total annual revenues of $100 million or more—should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2001.

- Phase 2 institutions—with total annual revenues of $10 million or more but less than $100 million—should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2002.

- Phase 3 institutions—with total annual revenues of less than $10 million—should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2003.

For purposes of identifying the appropriate implementation phase, revenues include all revenues of the primary institution (excluding additions to investment in plant or other financing sources, and extraordinary items).

Since the colleges are reporting as BTA's, infrastructure must be reported at the date of implementation of GASB 35.

Disclosures

The significance of the new reporting model warrants consideration of a footnote similar to the following in financial statements issued in years leading up to the year of implementation:

New Accounting Pronouncements – In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" – an amendment to GASB Statement 34. As originally issued, Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supercedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements – the model contained in the 1973 AICPA Industry Audit Guide, Audits of Colleges and Universities (AICPA College Guide model), or the governmental model.

Under the provisions of GASB standards, the institution is permitted to report as a special purpose government engaged only in BTA. BTA reporting will require the institution to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis (MD&A), a statement of net assets or a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial information is not required for BTA reporting.

Statement 34 will also require the institution to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads, bridges, etc.) in the statement of net assets, and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the institution's financial

Restatement of financial statements

Adjustments resulting from a change to comply with GASB 35 should be treated as adjustments of prior periods and financial statements presented for the periods affected should be restated. If restatement of the financial statements for prior periods is not practical, the cumulative effect of applying GASB 34 should be reported as a restatement of beginning net assets (GASB 35, paragraph 12).

In the year of implementation it is recommended by the steering committee to report single year statements with the beginning net assets restated for the cumulative effect of applying GASB 34 and 35. Subsequent year financial statements should be issued as comparative financial statements.

Implementation Issues

There are five areas where the colleges will need to spend significant time in order for the implementation to occur smoothly as follows:

Capital Assets

The colleges have not traditionally been recording depreciation and accumulated depreciation. They also have not been recording infrastructure assets. Throughout the manual, guidance has been provided related to class lives and assets that are infrastructure. Instead of recording capital outlay as an expense throughout the year, capital additions and disposals should be recorded through balance sheet accounts with depreciation on capital being recorded as an expense.

In order to transition to a proper reporting of capital assets, we recommend the following steps:

1. Establish a capitalization policy that includes useful lives and asset classes. The policy should also take into consideration decisions on bulk purchases and betterment (repairs that increase the useful life).
2. Determine software package that will be used to maintain capital asset records by location and/or class of asset – 3 choices – appraisal company, existing system, separate software program.
3. Conduct an inventory of all capital assets at historical cost as of implementation date. Use data that already exists, appraisal companies, or other estimations.
4. For infrastructure, most of the items are included as part of building or land improvements due to significant renovation or building project. Review through old construction project documentation to determine the infrastructure components.
5. Compute net book value and depreciation expense using values determined in #4, useful lives as per capitalization policy and estimated purchase date.

6. Determine the amount that should be recorded as capital assets, accumulated depreciation, and depreciation expense for the year of implementation. The difference between what was reported for capital assets and the above calculation will be considered a change in accounting.

Scholarship Allowances

All tuition and fees should be reported net of scholarship allowances. Guidance has been provided throughout the manual. However, we recommend the following steps:

1. Identify sources of scholarships as reported in the restricted fund. If possible have information available by semester – Fall, Winter, Spring/Summer session.
2. Determine who awards the scholarships – the college or a third party. If a third party, it's a payment; if the college, it's a scholarship.
3. Once amount is determined, identify how to record against tuition, housing, or bookstore revenues. If system provides this information, use directly. If system does not provide, determine a method of allocation that appears reasonable such as based on gross revenues of the three sources. Another option would be to determine how many students received book vouchers times an average voucher amount. Use this amount for the bookstore allowance. The remaining balance could then be the allowance against the tuition and fees.

Summer Session Reporting

In the past, colleges had the option of deferring the spring/summer session. When this was the case, the college deferred the revenue and prepaid the faculty salaries for the session that began usually in May or June prior to year end. This allowed for a clean break between when semesters would fall and the fiscal year end of the college. However, under full accrual accounting, revenues and expenses are recorded as earned. Therefore, summer session will no longer be deferred but instead will be split between fiscal years. There are several issues with the summer session – such as industrial trade programs, weekend courses, open entry/open exit, and tele-courses. However, all of these courses, while the time frame is different, would normally have to be started and completed during the traditional summer term. We recommend the college spread the summer revenue based on number of days in the traditional term that have been completed. Faculty salary expense related to this should also be spread based on the days worked in the term.

This amount would need to be determined for the year of implementation and for the year prior to implementation. The amount that was considered a prepaid and a deferral in the prior year would be part of the change in accounting to beginning net assets.

Fund Balance to Net Asset Transition

The colleges have historically used fund balance – restricted, unrestricted, invested in physical properties, and designated as the correct classifications. With GASB 34 and 35, fund balance is not referred to as net assets and the beginning fund balance needs to be restated to the correct net asset classifications.

A suggestion would be to take the fund balances as originally reported and categorize between net asset classifications. It is important to understand the differences and record in the correct category. After the beginning fund balances are shifted by net asset classification, then the changes in accounting need to be incorporated – the two primary pieces will be the capital asset changes and the summer session changes.

Management's Discussion and Analysis

This component will most likely take significant time at the end of the audit in year of transition. The college should do the following in the year of transition:

1. Review the sample MD&A in this manual and identify areas of significant change from the prior year for the college. A suggestion would be to type in the college's information from the prior year. While the MD&A is not required to be comparative in the year of transition, capital assets are the only significant impact on a fully comparative MD&A.
2. Identify any changes that appear unusual and have no apparent explanation – research the difference and determine if an error in reporting or the correct explanation to include in the MD&A.

Working on these five areas during the year of implementation should save time during the audit and reporting.

In addition, there are other areas that need to be identified and the eliminating entry properly identified:

1. Capital assets that were expensed in the current year – entry will need to be reversed (See consolidating statement of changes in revenues, expenses, and net assets).
2. Internal service charges will need to be eliminated (see guidance on page 23 and page 72.

ACS Reporting Issues

The publication of this manual provides reporting guidance for the college as a whole using BTA reporting. However, the State of Michigan currently provides the Activities Classification Structure (ACS) Manual which is used for reporting expenditures and credit hours by general fund. The State will be reviewing the impact of this reporting manual on the current ACS manual and working on an appropriate course of action. It is anticipated that the ACS Manual will be revised for the reporting year beginning July 1, 2004. Until that time, primarily through the phase in transition of this Manual, the college's financial statements through the year ending June 30, 2004 will be required to include in the additional information section the following two schedules:

- Consolidating Balance Sheet
- Consolidating Statement of Changes in Revenues, Expenses, Transfers and Net Assets

During this timeframe – from July 1, 2001 through June 30, 2004 – the community colleges will also continue to complete the ACS report on an annual basis.

Affiliated Organizations." This proposed statement would establish standards to determine whether an organization should be classified as an affiliated organization and, if so, would establish criteria to determine whether that affiliated organization is a component unit of a primary government's reporting entity. This proposed statement also would establish reporting requirements for an affiliated organization. An affiliated organization would be included in the primary government's financial reporting entity by discrete presentation.

GASB has continued to work with this proposed statement and is planning to issue a revised exposure draft during 2001.

The brief summary of the proposed statement included here was obtained from the original exposure draft. The revised exposure draft may include significant changes.

An organization that meets all of these criteria is considered to be an affiliated organization:

a. The organization has separate legal standing, where neither direct association through appointment of a voting majority of the organization's governing body nor fiscal dependency exists.
b. The affiliation with a specific primary government is set forth in the organization's articles of incorporation—for example, by reference to the name of the primary government in describing the purposes for which the organization was established.
c. The affiliation with a specific primary government is set forth in the organization's application to the Internal Revenue Service for exemption from payment of federal income tax pursuant to Internal Revenue Code (IRC) 501(c)(3)—for example, by reference to the name of the primary government in response to any of the questions contained in the exemption application—and the organization has been granted that exemption.

An affiliated organization, as defined above, should be reported as a component unit of the primary government if the primary government has the ability to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government (Statement 14, paragraphs 27–33).

The primary government financial reporting entity and affiliated organizations that issue financial statements should apply the related organization disclosure requirements provided in Statement 14, paragraph 68, for affiliated organizations that do not meet the component unit criteria.

Examples –

College fund-raising foundation

Facts: A fund-raising foundation was created as a legally separate not-for-profit 501(c)(3) organization. The foundation's articles of incorporation specify that its purpose is to provide financial support to a specific government college. The college does not appoint the majority of the foundation's board of trustees; however, the management of the foundation are college employees. The college does not approve the foundation's budget, nor does it directly participate in the foundation's daily operations. All contributions to the foundation, net of expenses, will be given to the college.

Conclusion: The fund-raising foundation meets the definition of an affiliated organization and is a component unit of the college because it can impose its will through the appointment of the foundation's management and because its stated purpose is to provide specific financial benefits to the university. The fund-raising foundation should be included in the college's financial reporting entity by discrete presentation.

College research park

Facts: A research park was created as a legally separate not-for-profit 501(c)(3) organization. The park's articles of incorporation specify that its purpose is to conduct research for a specific government college. The college does not appoint the majority of the park's board of trustees or the management of the park. The college does not approve the park's budget, nor does it directly participate in the park's daily operations. The college does not provide any subsidies to the park.

Conclusion: The research park meets the definition of an affiliated organization but does not meet the criteria of imposition of will or financial benefit or burden. Unless it is determined that the college's financial statements would otherwise be misleading or incomplete by excluding the research park, it should be disclosed in the notes of the college's financial statements as a related organization.

Note Disclosures –

In June 2000, GASB issued an exposure draft titled "Certain Financial Statement Note Disclosures." The proposed statement establishes and modifies disclosure requirements related to:

- The summary of significant accounting policies
- Actions taken to address violations of significant finance-related legal and contractual provisions
- Debt and lease obligations
- Short-term debt
- Disaggregation of balances
- Interfund balances and transfers

The final version of this proposed statement is expected to be released in 2001 and would be applicable upon adoption of GASB 34.

State Building Authority Issues

Currently, at the State of Michigan Building Authority and the Michigan Office of the Auditor General discussions are ongoing regarding how to appropriately handle buildings on college campuses financed in part by the State Building Authority. Currently, 100% of the buildings are recorded as assets on the College's financial statements and the debt is recorded at the State Building Authority through the outstanding bond issue. The State of Michigan approves an appropriation to pay the annual principal and interest payments on the bonds to the State Building Authority of behalf on the colleges.

Due to the adoption of GASB 34, the current process will most likely change. It appears the colleges will record the outstanding debt on their financial statements reducing net assets invested in capital assets. Annually, the college will record a state capital appropriation equal to the annual principal and interest payments on the debt financed through the State of Michigan Building Authority.

It is premature at this time to conclude that this is how the debt will be handled, however, as a decision is made all parties involved will be notified on the appropriate treatment.

PART 5 – ILLUSTRATIVE FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The financial statements, including the management's discussion and analysis section contained in this next section, are intended to illustrate:

- Accounting principles outlined in this manual
- Classifications of assets, liabilities, revenues, expenses and net assets
- General format for the financial statements and other financial information
- Information to be included in the notes to the financial statements

Those items that are not applicable should be omitted and if more detail within a classification is desired it may be given.

Management's Discussion and Analysis

The discussion and analysis of XYZ Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2002. 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's management.

Using this Report

In December 1998, the Governmental Accounting Standards Board (GASB) released Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", which modified the reporting of property tax revenue. The difference would increase the amount recorded as a receivable at year end. In June 1999, GASB released statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public , 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*.

The major changes from the fund basis financial statements presented by the College in the past and the "one-line look at the entity as a whole" are as follows:

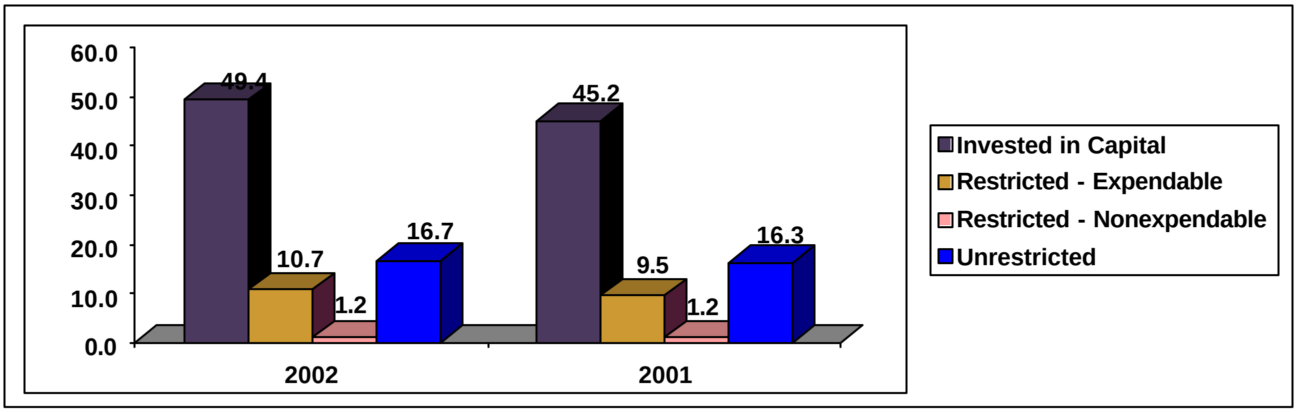
- New reporting standards – Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows
- Recording of depreciation expense and accumulated depreciation on the Statement of Net Assets
- Capitalizing all capital expenditures on the Statement of Net Assets instead of recording as an expense
- Elimination of internal service charges and related expenses such as copy charges and maintenance fees
- Allocation of Summer School revenues and expenses between fiscal years instead of deferring the entire session
- Establishing an operating and non-operating basis of reporting whereby revenues that are charges for services are recorded as operating revenues. Essentially all other types of revenue are non-operating or other revenue
- Netting tuition and fees for scholarship allowances that were also reported as federal and state grant revenue

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

Financial Highlights

The College's financial position increased slightly during the fiscal year ended June 30, 2002. The current assets decreased \$.7 million or 3.9% from the prior year. However, at the same time, new debt was incurred related to a new building project which is discussed later in this section. In total, the College's net assets increased \$5.8 million or 8.0% from the previous year. The increase in net assets resulted from timing differences on the building project and a slight increase in state operating appropriations and property tax revenues.

The following chart provides a graphical breakdown of net assets by category for the fiscal year ended June 30, 2002:



In the fiscal year ended June 30, 2002, the College's revenues and other support exceeded expenses, creating an increase in net assets of \$5.8 million (compared to a \$3.1 million increase from the previous year).

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is the XYZ College as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets 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. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as XYZ College's operating results.

These two statements report the XYZ College's net assets and changes in them. You can think the difference between assets and liabilities – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in college applicants, student retention, condition of the buildings, and strength of the faculty, to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2002:

Net Assets
as of June 30
(in millions)

	2002	2001	Increase (Decrease)	Percent Change
Current Assets	$ 18.3	$ 19.1	$ (0.8)	(4.2%)
Non-Current Assets:				
Capital Assets, Net of Depreciatic	52.4	45.1	7.3	16.2%
Other	21.2	16.1	5.1	31.7%
Total Assets	$ 91.9	$ 80.3	$ 11.6	14.4%
Current Liabilities	$ 2.9	$ 2.2	$ 0.7	31.8%
Long Term Liabilities	11.0	5.9	5.1	86.4%
Net Assets:				
Invested in Capital Assets	49.4	45.2	4.2	9.3%
Restricted - Expendable	10.7	9.5	1.2	12.6%
Restricted - Nonexpendable	1.2	1.2	-	- %
Unrestricted	16.7	16.3	0.4	2.5%
Total Net Assets	78.0	72.2	5.8	8.0%
Total Liabilities and Net Assets	$ 91.9	$ 80.3	$ 11.6	14.4%

The primary change in the Statement of Net Assets relates to the issuance of new debt that was unspent at year end and is included in investments. In addition, several construction projects have begun at the College that are being funded through current operating funds.

Operating Results for the Year
(in millions)

	2002	2001	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and Fees	$ 4.6	$ 4.7	$ (0.1)	(2.1%)
Grants and Contracts	4.2	3.9	0.3	7.7%
Auxiliary Services	2.4	2.7	(0.3)	(11.1%)
Other	0.1	-	0.1	100.0%
Total Operating Revenues	11.3	11.3	-	- %
Operating Expenses				
Instruction	9.7	8.7	1.0	11.5%
Public Service	1.9	1.5	0.4	26.7%
Instructional Support	3.9	4.4	(0.5)	(11.4%)
Student Services	5.9	6.5	(0.6)	(9.2%)
Institutional Administration	4.4	5.0	(0.6)	(12.0%)
Operation and Maintenance of Pl	1.5	1.2	0.3	25.0%
Depreciation	3.6	3.0	0.6	20.0%
Total Operating Expenses	30.9	30.3	0.6	2.0%
Net Operating Loss	(19.6)	(19.0)	(0.6)	3.2%
Nonoperating Revenues				
State Appropriations	10.1	9.1	1.0	11.0%
Property Taxes	13.2	12.0	1.2	10.0%
Other Nonoperating Revenues	1.4	0.8	0.6	75.0%
Net Nonoperating Revenues	24.7	21.9	2.8	12.8%
Other Revenues				
Capital Appropriations	0.6	-	0.6	100.0%
Capital Grants and Contracts	0.1	-	0.1	100.0%
Additions to Permanent Endowm	-	0.1	(0.1)	(100.0%)
Total Other Revenues	0.7	0.1	0.6	600.0%
Increase in Net Assets	5.8	3.0	2.8	93.3%
Net Assets - Beginning of Year	72.2	69.1		
Net Assets - End of Year	$ 78.0	$ 72.1		

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and bookstore 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.

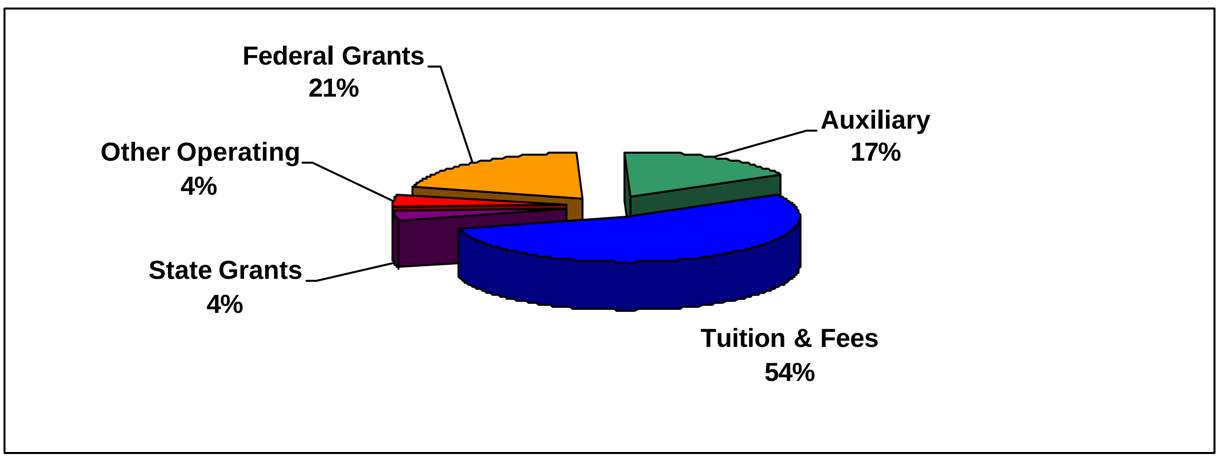
Operating revenue changes were the result of the following factors:

- Student tuition and fee revenue increased from the Board-approved tuition increase of 3%. This increase affected all students (in-district, out-of-district, out-of-state). The mix of out-of-district students decreased 20%, down 5% from 2001, resulting in an overall decrease in tuition and fees of 2%.

- Grants and contracts revenues increased across the board in job training areas. A significant increase in state funded job training grants along with additional programs funded by federal and private sources resulted in an additional $.4 million in revenue.

- Auxiliary services revenue decreased due to bookstore volumes declining 11% from prior year. Most of the manuals and instructional material can be purchased from other sources by the students and the bookstore is facing competitive challenges that are being reviewed for the upcoming year.

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



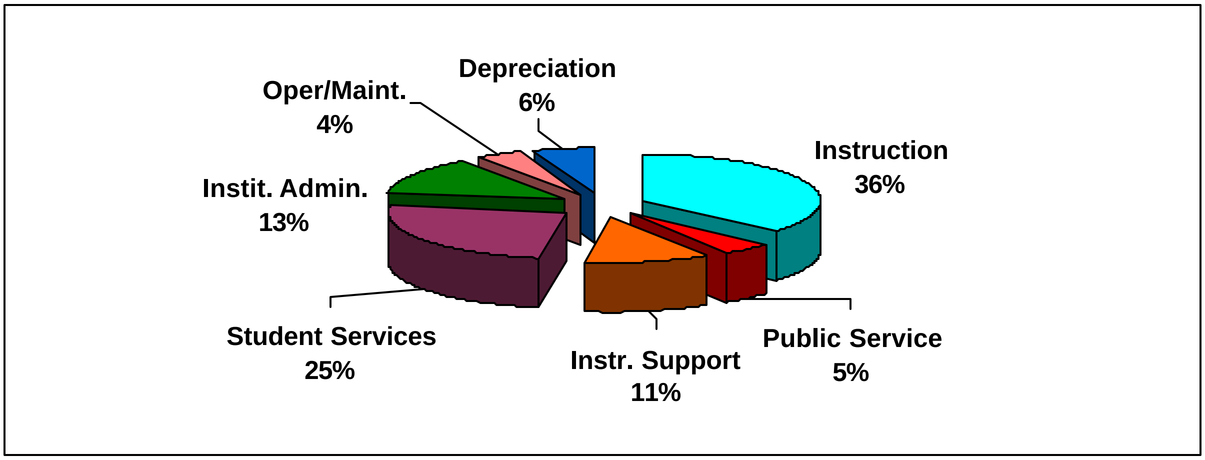
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. The operating expense changes were the result of the following factors:

- Instruction costs increased 3% due to union related cost of living raises for faculty
- Instruction costs increased 2% due to increases in state mandated retirement plan contributions
- Student service costs were reduced through administrative restructuring, a mid year hiring freeze, and a renegotiated supply contract

- Operations and maintenance costs were increased due to higher energy costs related to a heavy winter season
- Auxiliary enterprise costs decreased due to reduced supply costs in the bookstore

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



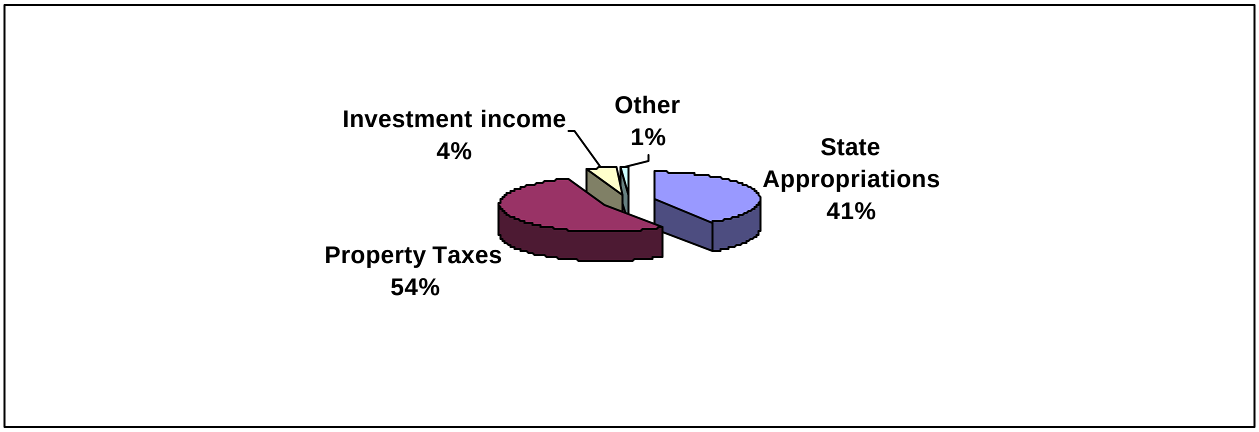
Nonoperating Revenues

Non operating revenues are all revenue sources that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Non operating revenue changes were the result of the following factors:

- Increased state appropriation of 10.9% or $1 million, in accordance with the state funding formula
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of $1.2 million
- Investment income increased due to unspent bond proceeds that were on hand during the year

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



Other Revenue

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

Other revenue changes were the result of the following factors:

- State capital appropriation for $.6 million recorded in the year ended June 30, 2002. This is part of a $5 million project that is funded 50% by the College and 50% by the State of Michigan.
- Grant received from a local source to assist with the capital building project of $.1 million.

Statement of Cash Flows

Another way to assess the financial health of a College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a 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
(in millions)

	2002	2001	Increase (Decrease)	Percent Change
Cash Provided (Used) by:				
Operating Activities	$ (15.7)	$ (16.5)	$ 0.8	(4.8%)
Noncapital Financing Activities	21.9	19.5	2.4	12.3%
Capital and Related Financing Activi	(3.1)	2.1	(5.2)	(247.6%)
Investing Activities	(4.1)	(3.8)	(0.3)	7.9%
Net Increase (Decrease) in Cash	(1.0)	1.3	(2.3)	(176.9%)
Cash - Beginning of Year	12.1	10.8	1.3	12.0%
Cash - End of Year	$ 11.1	$ 12.1	$ (1.0)	(8.3%)

The College's liquidity improved during the year. The following discussion amplifies the overview of cash flows presented above.

Cash used by operating activities decreased approximately $.8 million over the prior year. This was due in part to increases in amounts received from accounts receivable and less money paid out for inventory and prepaid expenses. Major sources of funds came from student tuition and fees ($4.7 million), grants and contracts ($4.3 million) and bookstore receipts ($2.4 million). These revenue sources had slight increases and/or decreases due to relatively flat enrollment from the prior year.

State appropriations increased by approximately $1.2 million and property tax revenue for operations also increased $1.1 million during the current year which resulted in the increase in noncapital financing sources. Cash used by capital and related financing activities amounted to $3.1 million, primarily the result of capital assets acquired during the year ($10.3 million) offset by proceeds from capital debt ($5.5 million) and capital property tax levy ($2.0 million). The favorable market conditions continued during the current year which resulted in a slight increase in cash provided by investing activities, which represents the excess of investment income from marketable securities over investment expenses.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, the College had some $52 million invested in capital assets, net of accumulated depreciation of $35 million. Depreciation charges totaled $3 million for the current fiscal year compared to $2.5 million last year. Details of these assets for the past two years are shown below.

	2002	2001	Increase (Decrease)
Land, Land Improvements, and Infrastructure	$ 2.8	$ 3.0	$ (0.2)
Buildings and Improvements	25.2	20.1	5.1
Furniture, Fixtures, and Equipment	18.2	16.6	1.6
Library Materials	0.8	0.9	(0.1)
Capitalized Collections	4.2	4.5	(0.3)
Construction in Progress	1.2	-	1.2
Total	$ 52.4	$ 45.1	$ 7.3

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

• Upgrade of the College's computer system, from designated reserves	$ 1.0
• Addition to the Campus Library, from state funds and private donations	5.5
• Replacement of the Campus telephone system with a new campus-wide Telecommunications network, from revenue bond proceeds	1.5
Total major additions	$ 8.0

The College has planned capital expenditures for the fiscal year ending June 30, 2003 at approximately $5 million. Projects planned include the new science building, the first phase of the athletic center, and renovations to the student services building. Issuance of the $5.5 million in revenue bonds, together with private gifts, is expected to finance the construction. More detailed information about the College's capital assets is presented in the footnotes to the financial statements.

Debt

At year-end, the College had some $10.5 million in debt outstanding versus $5.2 million the previous year. The table below summarizes these amounts by type of debt instrument.

	2002	2001	Increase (Decrease)
General Obligation Bonds	$ 8.5	$ 3.0	$ 5.5
Facility Revenue Bonds	1.5	1.7	(0.2)
Lease Obligations	0.5	0.6	(0.1)
Total	$ 10.5	$ 5.3	$ 5.2

The College completed one bond sale during the year – a $5.5 million revenue bond issued to finance the capital remodeling and building discussed in the capital asset section of this analysis. Also, debt repayments of $.3 million were made. The College's revenue bond rating of X+ has not changed from the prior year. More detailed information about the College's long-term liabilities is presented in the footnotes to the financial statement.

Economic Factors That Will Affect The Future

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state budget projects only an inflationary increase in funding to the College in the next year. Appropriations for the upcoming fiscal year are set at $10.5 million, an increase of 2.5% from the year just completed. In addition, the Board of Trustees approved an increase of 3% in tuition rates for the upcoming fiscal year.

The College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services.

Balance Sheet

	June 30 2002	June 30 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 2	$ 11,217,000	$ 12,125,000
Short term investments - Note 2	2,000,000	1,900,000
Property taxes receivable	650,000	575,000
State appropriation receivable	2,250,000	1,900,000
Accounts receivable	1,268,000	1,350,000
Federal and state grants receivable	450,000	500,000
Inventories	455,000	625,000
Prepaid expenses and other assets	20,000	75,000
TOTAL CURRENT ASSETS	18,310,000	19,050,000
LONG-TERM INVESTMENTS - Note 2	20,911,000	15,850,000
STUDENT LOANS RECEIVABLE	200,000	185,000
BOND ISSUANCE COSTS	100,000	100,000
PROPERTY AND EQUIPMENT - Note 3	52,400,000	45,067,000
TOTAL ASSETS	$ 91,921,000	$ 80,252,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of debt obligations - Note 6	$ 500,000	$ 250,000
Accounts payable	757,000	452,000
Accrued interest payable	27,500	15,000
Accrued payroll and other compensation - Note 8	1,150,000	985,000
Deposits	21,000	15,000
Unearned revenue	460,000	435,000
TOTAL CURRENT LIABILITIES	2,915,500	2,152,000
LONG-TERM DEBT OBLIGATIONS - Note 6	10,000,000	5,000,000
ACCRUED SICK LEAVE - Note 6	1,000,000	950,000
TOTAL LIABILITIES	13,915,500	8,102,000
NET ASSETS		
Invested in capital assets, net of related debt	49,400,000	45,200,000
Restricted for:		
Nonexpendable scholarships	1,200,000	1,185,000
Expendable scholarships	350,000	250,000
Instructional department uses	145,000	50,000
Loans	202,000	202,000
Capital projects	10,000,000	9,000,000
Unrestricted	16,708,500	16,263,000
TOTAL NET ASSETS	78,005,500	72,150,000
TOTAL LIABILITIES AND NET ASSETS	$ 91,921,000	$ 80,252,000

The accompanying notes are an integral part of these statements.

Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30 2002	2001
REVENUES		
Operating Revenues		
Tuition and fees (Net of scholarship allowances of $2,900,000)	$ 4,600,000	$ 4,700,000
Federal grants and contracts	3,010,000	3,125,000
State and local grants and contracts	1,000,000	500,000
Nongovernmental grants	260,000	250,000
Auxiliary enterprises (Net of scholarship allowances of $100,000)	2,400,000	2,725,000
Miscellaneous	55,000	40,000
Total Operating Revenue	11,325,000	11,340,000
EXPENSES		
Operating Expenses - Note 7		
Instruction	9,725,000	8,735,000
Public service	1,870,000	1,500,000
Instructional support	3,900,000	4,350,000
Student services	5,854,000	6,500,000
Institutional administration	4,410,000	5,000,000
Operation and maintenance of plant	1,515,000	1,203,000
Depreciation	3,600,000	2,950,000
Other expenditures	30,000	22,000
Total Operating Expenses	30,904,000	30,260,000
Operating Loss	(19,579,000)	(18,920,000)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	10,100,000	9,100,000
Property tax levy	13,200,000	12,000,000
Gifts	560,000	350,000
Investment income	1,109,500	750,000
Interest on capital asset - related debt	(250,000)	(300,000)
Net Nonoperating revenues	24,719,500	21,900,000
Income before other revenues and expenses	5,140,500	2,980,000
OTHER REVENUE		
State capital appropriations	600,000	-
Capital gifts and grants	100,000	-
Additions to permanent endowments	15,000	100,000
Total Other Revenues	715,000	100,000
Increase in Net Assets	5,855,500	3,080,000
NET ASSETS		
Net Assets - Beginning of year	72,150,000	69,070,000
Net Assets - End of year	$ 78,005,500	$ 72,150,000

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

	Year Ended June 30 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 4,600,000	$ 4,700,000
Grants and contracts	4,270,000	3,875,000
Payments to suppliers	(13,906,800)	(13,617,000)
Payments to employees	(16,997,200)	(16,643,000)
Loans issued to students	(25,000)	(15,000)
Collection of loans from students	10,000	20,000
Auxiliary enterprise charges	2,400,000	2,725,000
Other	55,000	40,000
Net cash used in operating activities	(19,594,000)	(18,915,000)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local property taxes	11,125,000	10,020,000
Private gifts for endowment purposes	15,000	100,000
Gifts and contributions for other than capital purposes	560,000	350,000
William D. Ford direct lending receipts	4,000,000	3,875,000
William D. Ford direct lending disbursements	(4,000,000)	(3,875,000)
PLUS loan receipts	150,000	125,000
PLUS loan disbursements	(150,000)	(125,000)
Student organization agency transactions	6,000	(2,000)
State appropriations	10,200,000	9,000,000
Net cash provided by noncapital financing activities	21,906,000	19,468,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(10,333,000)	767,000
Principal paid on capital debt	(250,000)	(275,000)
Proceeds from issuance of debt	5,500,000	-
Capital grant and gift proceeds	100,000	-
Capital appropriations	150,000	-
Capital property tax levy	2,000,000	1,950,000
Interest paid on capital debt	(237,500)	(301,000)
Net cash used by (provided for) capital and related financing activities	(3,070,500)	2,141,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	7,240,000	7,675,000
Interest on investments	1,109,500	750,000
Purchase of investments	(12,401,000)	(12,237,000)
Net cash used in investing activities	(4,051,500)	(3,812,000)
NET INCREASE (DECREASE) IN CASH	(4,810,000)	(1,118,000)
CASH - Beginning of year	12,125,000	10,800,000
CASH - End of year	$ 11,217,000	$ 12,125,000

The accompanying notes are an integral part of these statements.

Statement of Cash Flows (continued)

	Year Ended June 30	
	2002	2001
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	$ (19,579,000)	$ (18,920,000)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	3,000,000	2,500,000
Amortization of bond issuance costs	-	50,000
Other noncash activity		
(Increase) decrease in assets:		
Federal and state grants receivable	50,000	(175,000)
Accounts receivables (net)	82,000	150,000
Inventories	170,000	(25,000)
Prepaid assets and other current assets	55,000	105,000
Loans to students	(15,000)	5,000
Increase (decrease) in liabilities:		
Accounts payable	305,000	(48,000)
Accrued payroll and other compensation	215,000	51,000
Unearned tuition and fees	25,000	(165,000)
Net cash used in operating activities	$ (15,692,000)	$ (16,472,000)

The accompanying notes are an integral part of these statements.

Note 1 – Basis of Presentation and Significant Accounting Policies

Reporting Entity - XYZ Community College is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles outlined in the *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 no component units.

Significant accounting policies followed by XYZ Community 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 expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

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

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

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Property and Equipment – Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Library books are recorded using a historically based estimated value. Depreciation is provided for physical properties on a straight-line basis of the estimated useful life of the assets.

Deferred Revenues – Revenues received prior to year end that are related to the next fiscal period are recorded as deferred revenues. These consist of $360,000 for the fall semester and $100,000 of unearned revenue on the summer semester which began on May 15, 2001 and ends on August 15, 2001.

Accounts Receivable – Accounts receivable are recorded net of allowance of uncollectible accounts of approximately $150,000.

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

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

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

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.

Collections – In addition to the Museum Collection which is capitalized and depreciated (Note 3), the College has other collections that it does not capitalize, including its rare book collection and art collection. These collections adhere to the College's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

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

Designated for future capital outlay	$ 5,000,000
Designated for encumbrances	5,000,000
Designated for future spending rate uses	5,000,000
Unrestricted and unallocated	1,708,500
Total Unrestricted Net Assets	$ 16,708,500

Note 2 - Deposits and Investments

The College's deposits and investments are included on the balance sheet under the following classifications:

Cash and cash equivalents	$ 11,217,000
Investments	22,911,000
Total	$ 34,128,000

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	$ 9,850,000
Investments in securities and similar vehicles	24,273,000
Petty cash and cash on hand	5,000
Total	$ 34,128,000

Deposits - The above deposits at June 30, 2002 were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at $13,000,000. Of this amount, $6,000,000 was covered by federal depository insurance and $7,000,000 was uninsured and uncollateralized for the year ended June 30, 2002.

The College believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the College evaluates each institution it deposits College funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The College is authorized by Michigan Public Act 331, as amended through 1997, and by resolution of the Board of Trustees to invest surplus monies in U.S. Treasury bonds, bills and notes, mutual funds, certain commercial paper and investment pools that are composed of authorized investment vehicles.

The College's investments are categorized below to give an indication of the level of risk assumed by the College at June 30, 2002. Risk Category 1 includes those investments that meet any one of the following criteria:

a. Insured
b. Registered

Note 2 - Deposits and Investments (continued)

c. Held by the College or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterpart's trust department (or agency) in the College's name. Category 3 includes investments held by:

a. The counterpart or
b. The counterpart's trust department (or agent) but not in the College's name

Investments at fair value at June 30, 2002 are categorized as follows:

	Category	2002
Corporate securities	2	$ 4,273,000
Commercial paper	2	10,000,000
U.S. treasury securities	2	10,000,000
Total		$ 24,273,000

Note 3 – Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2002 as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets:				
Land and land improvements	$ 1,700,000	$ -	$ -	$ 1,700,000
Infrastructure	1,650,000	50,000	100,000	1,600,000
Building and improvements	55,100,000	500,000	600,000	55,000,000
Furniture, fixtures and equipment	19,500,000	1,500,000	1,000,000	20,000,000
Library materials	1,350,000	50,000	-	1,400,000
Capitalized collections	6,500,000	-	-	6,500,000
Construction in progress	-	1,200,000	-	1,200,000
Total Capital Assets	85,800,000	3,300,000	1,700,000	87,400,000
Less Accumulated Depreciation:				
Land improvements	700,000	300,000	-	1,000,000
Infrastructure	800,000	400,000	100,000	1,100,000
Building and improvements	23,700,000	1,000,000	600,000	24,100,000
Furniture, fixtures and equipment	4,500,000	1,500,000	1,000,000	5,000,000
Library materials	790,000	10,000	-	800,000
Capitalized collections	2,610,000	390,000	-	3,000,000
Total Accumulated Depreciation	33,100,000	$ 3,600,000	$ 1,700,000	35,000,000
Capital Assets, Net	$ 52,700,000			$ 52,400,000

Note 4 – Spending Rate Policy

If a donor has not provided specific instructions, the Board of Trustees is authorized to spend the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the College's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Board chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 5 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2002, net appreciation of $6,000,000 is available to be spent, of which $5,000,000 is restricted to specific purposes.

Note 5 - Retirement Plans

Defined Benefit Pension 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 most 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 may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the System result from the effects of implementing 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 totals 00.00 percent of covered compensation for the period July 1, 2000 through September 2000 and 00.00 percent for the remainder of the fiscal year. For the year ended June 30, 2001, the College contributed a fixed rate of 11.12 percent for the months July through September and 10.77 percent for the remainder of the fiscal year. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 0 percent to 0 percent of gross wages. The College's contributions to the MPSERS' plan for the years ended June 30, 2002, 2001 and 2000 were approximately $0,000,000, $0,000,000 and $0,000,000, respectively.

Note 5 – Retirement Plans (continued)

Post Retirement Benefits – Under the MPSERS' Act, all retirees participating in the MPSERS' Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 00 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the College's total contribution to the MPSERS' plan discussed above.

Defined Contribution Plan

As an alternative pension option, the College offers all full-time faculty and administrative employees the opportunity to participate in the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Funding for the plan consists of employer and employee contributions of 0.0 percent and 0.0 percent of covered compensation for the years ended June 30, 2002 and 2001, respectively. Benefits vest immediately. Compensation covered under the plan for the year ended June 30, 2002 was approximately $0,000,000, resulting in contributions of approximately $0,000,000 and $0,000,000 for the College and employees, respectively.

Note 6 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Lease obligations	$ 1,000,000	$ -	$ 600,000	$ 400,000	$ 200,000
Bonds payable	4,000,000	6,500,000	400,000	10,100,000	200,000
Total leases and bonds payable	5,000,000	6,500,000	1,000,000	10,500,000	400,000
Other liabilities:					
Accrued sick leave	950,000	50,000	-	1,000,000	100,000
Total long term liabilities	$ 5,950,000	$ 6,550,000	$ 1,000,000	$ 11,500,000	$ 500,000

The College has outstanding Community College Improvement Bonds, Series XXXX, in the amount of $0,000,000. Interest on the bonds ranges from 0 percent to 0.0 percent and is payable semi-annually. The College is levying annual ad valorem taxes to repay the bond principal obligations as they become due.

Note 6 – Long-term Liabilities (continued)

Principal payments on the long term debt are payable annually on October 1. Maturities on the bonds for the next five years and thereafter are as follows:

Year	Amount
2003	$ 500,000
2004	900,000
2005	700,000
2006	900,000
2007	1,000,000
2008 and after	6,800,000
Total	$ 10,800,000

Note 7 – Functional Expenditures (Optional Footnote)

The College reports expenditures on the statement of activities under functional classification in accordance with instructions in the State of Michigan Activities Classification Structure Manual. Following is a table of expenditures by function by natural classification:

	Compensation								
	Faculty	Exempt Staff	Nonexempt Wages	Benefits	Scholarships	Utilities	Supplies and Other Services	Depreciation	Total
Instruction	$ 5,000,000	$ 1,500,000	$ 500,000	$ 1,500,000	$ 200,000	$ 150,000	$ 875,000	$ -	$ 9,725,000
Public service	750,000	200,000	100,000	150,000	75,000	50,000	545,000	-	1,870,000
Instructional support	-	2,000,000	300,000	750,000	200,000	75,000	575,000	-	3,900,000
Student services	-	3,000,000	1,000,000	1,200,000	150,000	100,000	404,000	-	5,854,000
Institutional administration	-	2,700,000	500,000	1,000,000	75,000	50,000	85,000		4,410,000
Operation and maintenance									-
of plant	-	500,000	100,000	350,000	-	400,000	165,000	-	1,515,000
Depreciation	-	-	-	-	-	-	-	3,600,000	3,600,000
Other expenditures	-	-	-	-	25,000	-	5,000	-	30,000
Total	$ 5,750,000	$ 9,900,000	$ 2,500,000	$ 4,950,000	$ 725,000	$ 825,000	$ 2,654,000	$ 3,600,000	$ 30,904,000

Note 8 – Risk Management

The College is exposed to various risks of loss related to property loss, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to auto, property, and liability; the College is uninsured for medical benefits provided to employees' claims.

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

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. These estimates are recorded in accrued liabilities on the balance sheet.

Changes in the estimated liability for the past fiscal year are as follows:

Estimated liability - Beginning of the year	$ 300,000
Estimated claims incurred, including changes in estimates	2,800,000
Less: claim payments	2,850,000
Estimated liability - End of the year	$ 250,000

Note 9 – Commitments, Contingencies and Capital Outlay

There are various lawsuits in which the College is a defendant. It is the opinion of College officials that the potential claims in excess of insurance coverage resulting from the remaining litigation would not have a material effect on the financial statements.

The College has committed $0,000,000 in matching funds toward the completion of a $0,000,000 building program. The State of Michigan has committed to funding the remaining fifty percent of the project by Act 19 of Public Act 1993. At June 30, 2002, the remaining commitment for the College is approximately $0,000,000 and the State of Michigan has completed its funding obligation. The College has also committed $0,000,000 toward a technology enhancement plan, of which approximately $0,000,000 has been expended as of June 30, 2002.

Note 10 – Sample Community College Foundation

Sample Community College Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the College. At June 30, 2002, the stated value of the net assets of the Foundation approximated $0,000,000 including promises to give of approximately $0,000,000. These assets are not included in the financial statements of the College. Contributions to and payments on behalf of the College by the Foundation approximated $0,000,000 in the fiscal year ending June 30, 2002.

The College provides personnel support, supplies and equipment to the Foundation.

Consolidating Balance Sheet

June 30, 2002

	Combined Total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Endowment Fund
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	$ 11,217,000	$ 4,420,000	$ 935,000	$ 1,000	$ 60,000	$ 1,000	$ 5,800,000	$ -	$ -
Short-term Investments	2,000,000	1,800,000	200,000	-	-	-	-	-	-
Property taxes receivable	650,000	500,000	100,000	-	-	-	50,000	-	-
State appropriation receivable	2,250,000	1,800,000	-	-	-	-	450,000	-	-
Federal and state grants receivable	450,000	-	-	-	250,000	-	200,000	-	-
Accounts receivable	1,268,000	270,000	10,000	80,000	100,000	2,000	800,000	1,000	5,000
Inventories	455,000	40,000	15,000	400,000	-	-	-	-	-
Prepaid expenses and other assets	20,000	20,000	-	-	-	-	-	-	-
Due from (due to) other funds	-	(820,000)	500,000	250,000	-	-	-	20,000	50,000
TOTAL CURRENT ASSETS	18,310,000	8,030,000	1,760,000	731,000	410,000	3,000	7,300,000	21,000	55,000
LONG-TERM INVESTMENTS	20,911,000	-	2,450,000	-	-	-	17,000,000	-	1,461,000
STUDENT LOANS RECEIVABLE	200,000	-	-	-	-	200,000	-	-	-
BOND ISSUANCE COSTS	100,000	-	-	-	-	-	100,000	-	-
PROPERTY AND EQUIPMENT									
Land and improvements	1,700,000	-	-	-	-	-	1,700,000	-	-
Infrastructure	1,600,000	-	-	-	-	-	1,600,000	-	-
Buildings and improvements	55,000,000	-	-	-	-	-	55,000,000	-	-
Equipment	20,000,000	-	-	-	-	-	20,000,000	-	-
Library books	1,400,000	-	-	-	-	-	1,400,000	-	-
Capitalized collection	6,500,000	-	-	-	-	-	6,500,000	-	-
Construction in progress	1,200,000	-	-	-	-	-	1,200,000	-	-
Allowance for depreciation	(35,000,000)	-	-	-	-	-	(35,000,000)	-	-
TOTAL PROPERTY AND EQUIPMENT	52,400,000	-	-	-	-	-	52,400,000	-	-
TOTAL ASSETS	$ 91,921,000	$ 8,030,000	$ 4,210,000	$ 731,000	$ 410,000	$ 203,000	$ 76,800,000	$ 21,000	$ 1,516,000

Consolidating Balance Sheet

June 30, 2002

	Combined Total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Endowment Fund
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Current portion of debt obligations	$ 500,000	$ -	$ -	$ -	$ -	$ -	$ 500,000	$ -	$ -
Accounts payable	757,000	400,000	120,000	26,000	150,000	1,000	60,000	-	
Accrued interest payable	27,500	-	-	-	-	-	27,500	-	-
Accrued payrolls, vacation and other compensation	1,150,000	1,100,000	30,000	5,000	15,000	-	-	-	-
Deposits	21,000	-	-	-	-	-	-	21,000	-
Unearned revenue	460,000	460,000	-	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	2,915,500	1,960,000	150,000	31,000	165,000	1,000	587,500	21,000	-
LONG-TERM DEBT OBLIGATIONS	10,000,000	-	-	-	-	-	10,000,000	-	-
ACCRUED SICK LEAVE	1,000,000	1,000,000			-	-	-	-	-
TOTAL LIABILITIES	13,915,500	2,960,000	150,000	31,000	165,000	1,000	10,587,500	21,000	-
NET ASSETS									
Invested in capital assets, net of related debt	49,400,000	-	-	-	-	-	49,400,000	-	-
Restricted for	-								
Nonexpendable scholarships	1,200,000	-	-	-	-	-	-	-	1,200,000
Expendable scholarships	350,000	-	-	-	100,000	-	-	-	250,000
Instructional department uses	145,000	-		-	145,000	-	-	-	-
Loans	202,000	-	-	-	-	202,000	-	-	-
Capital projects	10,000,000	-	-	-	-	-	10,000,000	-	-
Unrestricted	16,708,500	5,070,000	4,060,000	700,000	-	-	6,812,500	-	66,000
TOTAL NET ASSETS	78,005,500	5,070,000	4,060,000	700,000	245,000	202,000	66,212,500	-	1,516,000
TOTAL LIABILITIES AND NET ASSETS	$ 91,921,000	$ 8,030,000	$ 4,210,000	$ 731,000	$ 410,000	$ 203,000	$ 76,800,000	$ 21,000	$ 1,516,000

Consolidating Statement of Revenue, Expenses, Transfers, and Changes in Net Assets
For the Year Ended June 30, 2002

	Combined Total	Elimination	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Endowment Fund
REVENUE									
Operating revenue									
Tuition and fees (net of scholarship allowance of $2,900,000)	$ 4,600,000	$ (2,900,000) B	$ 7,000,000	$ 500,000	$ -	$ -	$ -	$ -	$ -
Federal grants and contracts	3,010,000	-	10,000	-	-	3,000,000	-	-	-
State grants and contracts	1,000,000	-	-	-	-	1,000,000	-	-	-
Nongovernmental grants	260,000	-	10,000	-	-	250,000	-	-	-
Internal service charges	-	(600,000) D	600,000	-	-	-	-	-	-
Auxiliary activities (net of scholarship allowances of $100,000)	2,400,000	(100,000) B	-	200,000	2,300,000	-	-	-	-
Indirect cost recoveries	-	(100,000) C	100,000	-	-	-	-	-	-
Current funds expenditures for equipment and capital improvements	-	(4,000,000) A	-	-	-	-	-	4,000,000	
Miscellaneous	55,000		-	50,000	-	-	-	5,000	-
TOTAL OPERATING REVENUE	11,325,000	(7,700,000)	7,720,000	750,000	2,300,000	4,250,000	-	4,005,000	-
EXPENSES									
Operating expenses									
Instruction	9,725,000	(2,500,000) D	11,750,000	-	-	475,000	-	-	-
Public services	1,870,000	-	250,000	1,500,000	-	120,000	-	-	-
Instructional support	3,900,000	(600,000) D	4,150,000	300,000	-	50,000	-	-	-
Student services	5,854,000	(3,500,000) B	3,650,000	-	1,800,000	3,900,000	-	-	4,000
Institutional administration	4,410,000	(600,000) C	3,900,000	1,100,000	-	10,000	-	-	-
Operation and maintenance of plant	1,515,000	(300,000) A	1,500,000	-	-	-	-	315,000	-
Depreciation expense	3,000,000	-	-	-	-	-	-	3,000,000	-
Technology	600,000	(200,000) A	800,000	-	-	-	-	-	-
Other expenditures	30,000	-	-	-	-	-	5,000	25,000	-
TOTAL OPERATING EXPENSES	30,904,000	(7,700,000)	26,000,000	2,900,000	1,800,000	4,555,000	5,000	3,340,000	4,000
OPERATING INCOME (LOSS)	(19,579,000)	-	(18,280,000)	(2,150,000)	500,000	(305,000)	(5,000)	665,000	(4,000)

Consolidating Statement of Revenue, Expenses, Transfers, and Changes in Net Assets
For the Year Ended June 30, 2002

	Combined Total	Elimination	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Endowment Fund
NONOPERATING REVENUES (EXPENSES)									
State appropriations	10,100,000	-	10,100,000	-	-	-	-	-	-
Property tax levy	13,200,000	-	9,200,000	2,000,000	-	-	-	2,000,000	-
Gifts	560,000	-	50,000	10,000	-	-	-	500,000	-
Investment income	1,109,500	-	400,000	200,000	-	-	4,500	500,000	5,000
Interest on capital asset - related debt	(250,000)	-	-	-	-	-	-	(250,000)	-
NET NONOPERATING REVENUES	24,719,500		19,750,000	2,210,000		-	4,500	2,750,000	5,000
INCOME BEFORE OTHER REVENUES AND EXPENSES	5,140,500		1,470,000	60,000	500,000	(305,000)	(500)	3,415,000	1,000
State capital appropriations	600,000	-	-	-	-	-	-	600,000	-
Capital gifts and grants	100,000	-	-	-	-	-	-	100,000	-
Additions to permanent endowments	15,000	-	-	-	-	-	-	-	15,000
TOTAL OTHER REVENUE	715,000	-	-	-	-	-	-	700,000	15,000
INCREASE IN NET ASSETS	5,855,500	-	1,470,000	60,000	500,000	(305,000)	(500)	4,115,000	16,000
Transfers In (Out)	-	-	(1,400,000)	(1,000,000)	(200,000)	500,000	2,500	2,097,500	-
NET INCREASE IN NET ASSETS	5,855,500	-	70,000	(940,000)	300,000	195,000	2,000	6,212,500	16,000
NET ASSETS - BEGINNING OF YEAR	72,150,000	-	5,000,000	5,000,000	400,000	50,000	200,000	60,000,000	1,500,000
NET ASSETS - END OF YEAR	$ 78,005,500	$ -	$ 5,070,000	$ 4,060,000	$ 700,000	$ 245,000	$ 202,000	$ 66,212,500	$ 1,516,000

A = Elimination of capital expenditures from operating expenditures in the current funds.
B = Elimination of student aid/scholarships from expense to prevent doublerecording of revenue.
Already recorded in federal and state grant and contracts revenue.
C = Elimination of indirect cost recoveries on federal and state contracts recorded as federal and state revenue
D = Elimination of internal services charges such as, copy fees, maintenance and institutional computing.