

STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

YEAR ENDED JUNE 30, 2003

STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

October 9, 2003

Board of Trustees
Michigan Technological University

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of **Michigan Technological University** for the year ended June 30, 2003 (not presented herein), and have issued our report dated October 9, 2003 thereon, which expressed an unqualified opinion on the statements. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information (as listed in the table of contents) supplements the basic financial statements noted above, and is presented solely for the purposes of conforming the University's financial statements with the State of Michigan Comprehensive Annual Financial Report format. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of **Michigan Technological University**, the State of Michigan Department of Management and Budget, and the State of Michigan Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

SCHEDULE OF NET ASSETS

June 30, 2003

ASSETS

Current assets

Cash and cash equivalents	\$ 22,654,297
Amounts due from federal government	2,528,275
Amounts due from primary government	10,162,453
Amounts due from component units	37,993
Inventories	1,242,298
Other current assets	<u>3,720,188</u>

Total current assets **40,345,504**

Mortgage and loans receivable, net 10,948,289

Capital assets

Land and other non-depreciable assets	12,661,928
Buildings, equipment, and other depreciable assets (depreciable infrastructure)	308,531,553
Less accumulated depreciation	(159,315,883)
Construction in progress	<u>3,886,483</u>

Total assets **\$ 217,057,874**

LIABILITIES

Current liabilities

Accounts payable and other liabilities	\$ 7,873,763
Amounts due to primary government	1,329,195
Bonds payable	170,000
Interest payable	37,700
Deferred revenue	3,798,287
Current portion of other long-term obligations	<u>2,410,604</u>

Total current liabilities **15,619,549**

Bonds payable 15,900,000

Noncurrent portion of other long-term obligations 3,954,208

Total liabilities **35,473,757**

NET ASSETS

Invested in capital assets, net of related debt 154,016,850

Restricted

Education 814,844

Construction and debt service 4,986,329

Other purposes 12,940,961

Unrestricted 8,825,133

Total net assets **181,584,117**

Total liabilities and net assets **\$ 217,057,874**

See notes to State of Michigan financial schedules.

STATE OF MICHIGAN FINANCIAL SCHEDULES

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

MICHIGAN TECHNOLOGICAL UNIVERSITY

Functions/Programs	Expenses	Program Revenues			Net Expense	General Revenues			Change in Net Assets	As Restated Net Assets Beginning of Year	Net Assets End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Interest and Investment Earnings	Payments from the State of Michigan	Other			
Component unit Michigan Technological University	\$ 158,113,705	\$ 65,554,932	\$ 28,645,086	\$ 3,192,771	\$ (60,720,916)	\$ (133,349)	\$ 53,849,113	\$ 5,578,306	\$ (1,426,846)	\$ 183,010,963	\$ 181,584,117

See notes to State of Michigan financial schedules.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Michigan Technological University (“the University”) is an institution of higher education and is considered to be a discrete component unit of the State of Michigan because its Board of Trustees is appointed by the Governor. Accordingly, the University's financial statements are included in those of the State. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various State agencies, State Building Authority (SBA) revenues and payments to the State retirement program for certain University employees.

Basis of Presentation

The accompanying financial schedules have been prepared using the economic resource measurement focus and the accrual basis of accounting with the exception that certain investment income and interest on the Federal Perkins student loan program are recorded only when received.

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 20, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

In applying these accounting pronouncements, the University follows the guidance for special purpose governments engaged only in “business type” activities rather than issuing financial statements that focus on accountability of individual funds.

Restated Financial Statements

Net assets as of July 1, 2001 have been restated by approximately \$921,000 to correct the following errors:

	Increase (Decrease) <u>To Net Assets</u>
Recognize accumulated depreciation on assets not depreciated previously	\$ (389,000)
Adjust accrued liabilities for MUSIC insurance reserves	<u>1,310,000</u>
Total increase in net assets	<u>\$ 921,000</u>

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

The adjustments had no effect on the change in net assets for 2003 and decreased the change in net assets for the year ended June 30, 2002 by the following amounts:

	<u>Increase (Decrease) To Change in Net Assets</u>
Recognize depreciation expense on assets not depreciated previously	\$ (217,000)
Adjust accrued liabilities for MUSIC insurance reserves	<u>8,000</u>
Total decrease in change net assets	<u>\$ (209,000)</u>

Recently Issued Accounting Standards

In May, 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance whether entities associated with a primary government, although for which a primary government is not financially accountable, should be reported as component units, and discretely presented in the primary government's financial statements based on the nature and significance of the relationship. Generally, Statement No. 39 requires inclusion of an organization that raises and holds economic resources for the direct benefit of the primary governmental unit. As a result, it is contemplated that in implementing Statement No. 39, the University will begin including in its financial statements the Michigan Tech Fund ("MTF") (see Note 2) for the fiscal year ending June 30, 2004.

2. AFFILIATED ORGANIZATION

MTF is an independent nonprofit corporation formed for the exclusive benefit of the University and is a tax-exempt support organization engaged in traditional fund raising programs. The accompanying financial statements do not include the net assets of the MTF. The most recent audited MTF financial statements are as of June 30, 2003. The net assets of the MTF were \$75.3 million. Included in those net assets, MTU had an endowment of \$38.0 million.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Authorizations

The University investment policies are governed and authorized by University Bylaws and the Board of Control.

The University utilizes the "pooled cash" method of accounting for substantially all of its cash and cash equivalents. Investment policies for cash and cash equivalents, as set forth by the Board of Control, authorized the University to invest, with limitations, in commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

Investments may also be made in securities of the U.S. Treasury and Federal agencies, and in time savings accounts.

Policies regarding investments and marketable securities as set forth by the Board of Control, authorize the University to invest in U.S. Treasury Obligations; commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services; or Federal agency securities certificates of deposit issued by FDIC insured banks, FSLIC insured savings and loan associations, or an NCUA credit union member; or Eurodollar time deposits in Tier 1, 2, or 3 banks.

GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

Cash and Cash Equivalents

Cash and cash equivalents, which are held in the University's name, consist of the following amounts at June 30, 2003:

Disbursement accounts (deposits)	\$ 10,593,089
Government money market funds	<u>12,061,208</u>
Total cash and cash equivalents	<u>\$ 22,654,297</u>

Deposits

In accordance with GASB Statement No.3, deposits are classified into three categories of custodial credit risk, as follows:

- Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Deposits were reflected in the accounts of the banks at \$24,579,004. Of the bank balance, \$407,075 was covered by federal depository insurance or by collateral held by the University's agent in the University's name (GASB credit risk category #1). \$0 was covered by collateral held in the pledging bank's trust department in the University's name (GASB credit risk category #2) and \$24,171,929 was uninsured and uncollateralized (GASB credit risk category #3).

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

The University 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 University evaluates each financial institution it deposits University 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

In accordance with GASB Statement No.3, investments are classified into three categories of custodial credit risk, as follows:

- Category 1: Insured or registered, or securities held by the entity or by its agent in the entity's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.)

The University utilizes the "pooled" method of accounting for substantially all of its investments, which consist entirely of Government Money Market Funds in the amount of \$12,061,208 and are included with cash and cash equivalents on the statement of net assets.

The disbursement accounts (deposits) and Government Money Market Funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the University's investment policy.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

4. CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs of capital assets as of June 30, 2003:

<u>Classification</u>	<u>Amount</u>
Capital assets not being depreciated	
Land	\$ 8,832,277
Timber	368,394
Mineral collections	<u>3,461,257</u>
Total capital assets not being depreciated	<u>12,661,928</u>
Capital assets being depreciated	
Land improvements	1,625,799
Equipment	91,705,803
Buildings	206,755,133
Infrastructure	<u>8,444,818</u>
Total capital assets being depreciated	308,531,553
Less accumulated depreciation	
Land improvements	(589,003)
Equipment	(73,694,250)
Building	(77,335,700)
Infrastructure	<u>(7,696,930)</u>
Total accumulated depreciation	(159,315,883)
Capital assets being depreciated, net	<u>149,215,670</u>
Construction in progress	<u>3,886,483</u>
Capital assets, net	<u>\$ 165,764,081</u>

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

5. RETIREMENT PLANS

The following table summarizes retirement plan information as of June 30, 2003:

Covered Payroll

Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA – CREF)	\$45,122,372
Michigan Public School Employees' Retirement Fund (MPSERF)	<u>12,478,936</u>
Total covered payroll	<u>\$57,601,308</u>

Contributions

Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA – CREF)	\$ 5,706,023
Michigan Public School Employees' Retirement Fund (MPSERF)	<u>3,287,833</u>
Total contributions	<u>\$ 8,993,856</u>

6. DEBT SERVICE REQUIREMENTS ON NOTES AND BONDS OUTSTANDING

Bonded Debt

Principal and interest on the bonds are payable only from certain general revenues. The obligations are generally callable. The following table summarizes debt service requirements:

<u>Year ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 170,000	\$ 613,609	\$ 783,609
2005	280,000	608,171	888,171
2006	290,000	597,426	887,426
2007	300,000	585,716	885,716
2008	310,000	573,066	883,066
2009-2013	755,000	2,739,222	3,494,222
2014-2018	6,100,000	2,486,329	8,586,329
2019-2023	5,335,000	798,511	6,133,511
2024-2028	980,000	514,095	1,494,095
2029-2033	1,260,000	235,748	1,495,748
2034-2038	<u>290,000</u>	<u>7,250</u>	<u>297,250</u>
Total – bonds payable	<u>\$16,070,000</u>	<u>\$ 9,759,143</u>	<u>\$25,829,143</u>

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

Included in bonds payable, classified as a current liability, are purchase contracts in the amount of \$1,977,679. These purchase agreements were entered into by the University to purchase equipment and represent the amount due within the next twelve months.

There were no advance refunding or bond defeasances entered into by the University during the year ended June 30, 2003.

There were no interest rate exchange agreements entered into during the year ended June 30, 2003.

Line of Credit

The University has an unused line of credit arrangement with one bank under which it may borrow up to \$10,000,000 that is set at a variable rate of interest, which is 1% below the Wall Street prime rate. There are no commitment fees and no restrictive covenants associated with this line of credit. No activity on the line of credit occurred during the year ended June 30, 2003.

Obligations Under Capital Leases

The University has entered into capital lease agreements for the purchase of office equipment and telecommunications switching equipment. The capitalized cost of the equipment was approximately \$791,000 and net book value of the equipment was approximately \$390,000 at June 30, 2003.

Scheduled maturities of capital leases are as follows for the following fiscal years ending June 30:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 432,927	\$ 58,393	\$ 491,320
2005	428,275	40,960	469,235
2006	359,164	24,066	383,230
2007	337,869	12,277	350,146
2008	172,647	1,736	174,383
Total lease payments	<u>\$ 1,730,882</u>	<u>\$ 137,432</u>	<u>\$ 1,868,314</u>

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the years ended June 30, 2003 are insignificant.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

7. COMMITMENTS AND CONTINGENCIES

The University has internally funded reserves for certain employee benefits. Accrued liabilities are generally based on actuarial valuations and represent the present value of unpaid expected claims, including estimates of claims incurred but not reported.

In the normal course of business, the University is named party to various legal actions. Historically, the University has not experienced significant losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, management believes the resolution of these matters will not have a material adverse effect on the University's financial position or results of operations.

8. SUBSEQUENT EVENT

On October 7, 2003 the University's Board of Control approved the renovation of Wadsworth Hall and the installation of back-up power generation, enabling the administration to purchase electric power on an interruptible basis for a five-year period. In conjunction with these purchases, the Board of Control also approved a resolution authorizing the issuance and delivery of General Revenue Bonds to facilitate these projects, for a total amount of \$38.2 million.

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