

Lansing Community College Results Inventory 2004-05

Financial Responsibility

Access

Student Learning Outcomes & Stakeholder Satisfaction

This report focuses on the stewardship of Lansing Community College's finances and assets, assessing whether finances are managed responsibly; and whether resources are allocated optimally to achieve efficiencies and to serve priority needs of students and the taxpayers who support College operations.

This report is Part One of the Lansing Community College Academic Quality Improvement Project (AQIP) "Annual Results Inventory." These reports present information related to the College's continuous improvement process.

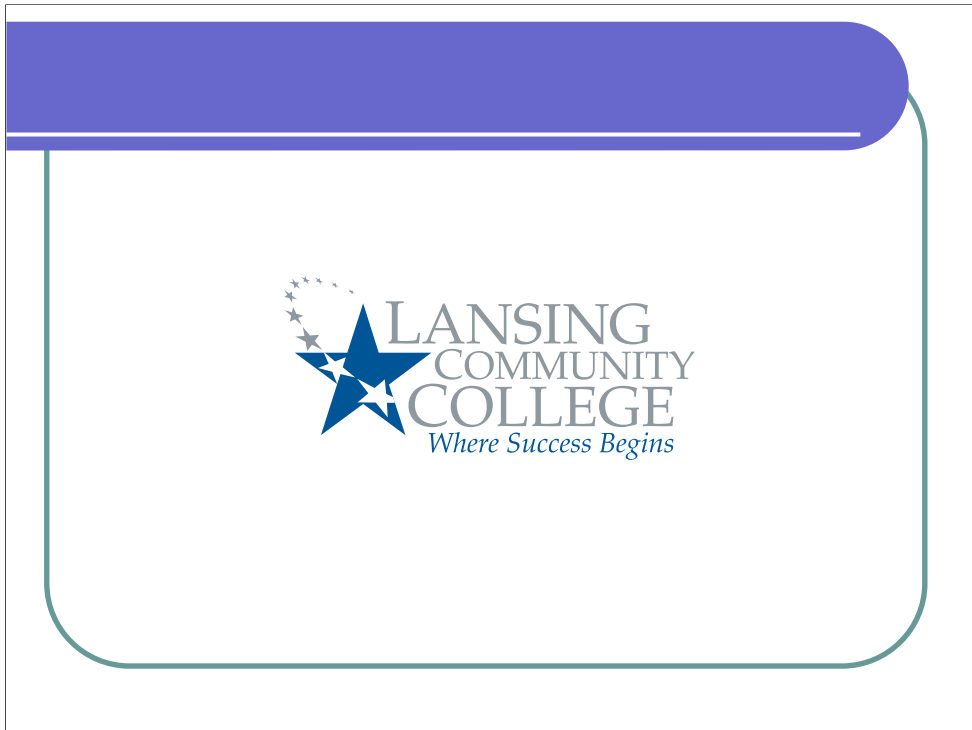


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College Results Inventory Timeline

Month	Report
December	1. Financial Responsibility
April	2. Access
May	3. Student Learning Outcomes & Stakeholder Satisfaction



Trends and current conditions

- Return on Investment for Learning units
- Diversified product mix
- Enrollment trends

These variables make up the fundamental analysis of the College's financial performance.

Trends and current conditions

Return on Investment for Strategic Learning Units

Learning Unit	Return on Investment		
	2001-02	2002-03	2003-04
Career & Workforce	\$0.88	\$0.91	\$0.84
Developmental	\$0.94	\$0.91	\$0.75
General Ed	\$1.14	\$1.15	\$1.36
College	\$0.97	\$0.99	\$0.99

*Preliminary Figures

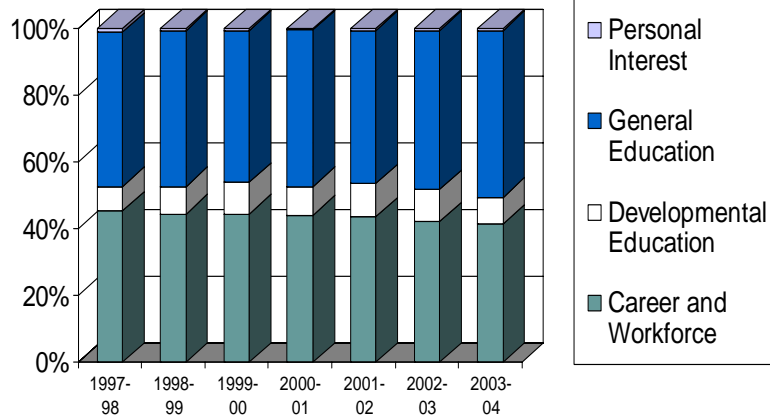
Source: Information Services & College Development

As part of the Strategic Planning process, the College was divided into four functional learning units: Career & Workforce Development, Developmental Education, General Education and Personal Enrichment.

The Program Review process uses quality, community impact, and financial indicators to assess program effectiveness. To complete a uniform financial description of programs across the College, a basic financial analysis model was needed. The Return On Investment model calculates all revenues to an instructional program, prorating State aid and property tax revenue based on student contact hours, in addition to tuition and fees. The model accounts for in-district vs. out-of-district enrollments by program, applying actual tuition and fees directly, and prorating State aid across programs based on in-district and out-district enrollments.

During FY04, ROI amounts changed among the learning units: Career and Workforce's ROI decreased due to higher direct costs (increased by \$1,596,312) and lower contact hours (decreased by 400,094 hours). General Education ROI increased due to lower direct costs (decreased by \$666,796). Developmental Learning's ROI decreased due to a reduction in the allocation of fees attributed to the unit, the percent change decreased from 5% in FY03 to 1.6% in FY04. All of these changes represent the College's efforts to more accurately present the financial operations of each of the learning units.

Trends and current conditions
Diversified Product Mix: Contact Hours

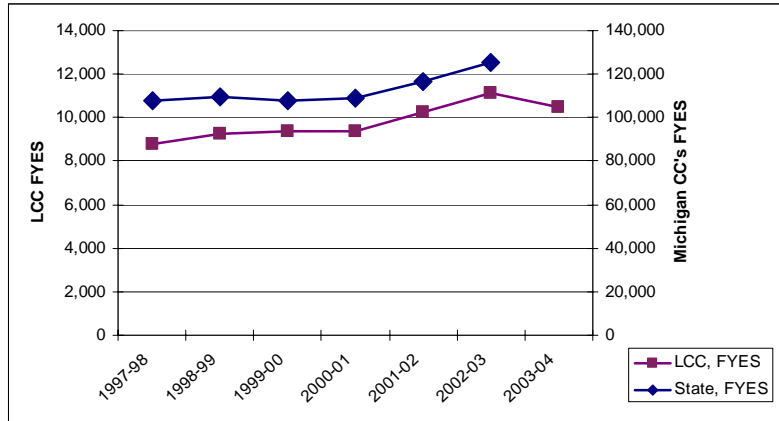


Source: Michigan Department of Career Development *ACS Report*

The College has consistently provided approximately equal amounts of Career & Workforce and General Education contact hours. Developmental Education contact hours have risen slightly over the last seven years. This diverse product mix helps the College respond financially to demographic and economic changes.

Personal Interest contact hours are recorded based on the State of Michigan definition of personal interest curriculum, and appears as a very small percentage.

Trends and current conditions Enrollment Trends



Source: Michigan Department of Career Development *ACS Report*

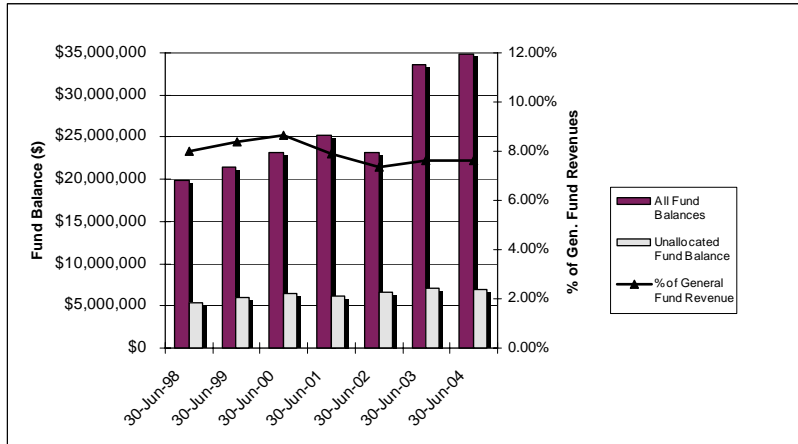
Due to a change in the College's enrollment reporting methodology beginning in FY2004, it appears that there is a decline in total credit hours for the year. This is because through FY 2003, enrollments were captured at the 1/10th point-in-time of each semester, so all students registered as of that date were counted in headcount and in credits, even if they dropped on their own after the 1/10th count date, or were administratively dropped. The State of Michigan has determined that colleges may now submit enrollment data using a single point in the "academic period" which includes all 3 semesters as one. Using this method, LCC determines its enrollment for the last 3 prior semesters as of the last day of the Spring semester. So, all of the student drops for Summer 03, Fall 03 and Spring 04 are now more accurately reflected in the decreased total, whereas in prior years using the 1/10th option, those students that had dropped were still included in official counts. Thus there is a drop in reported credit hours and contact hours in our first year using this academic year reporting option, with the understanding that this is a more accurate picture of our students, credit hours and contact hours.

Long-term Financial Health

- Fund balances
- Budget accuracy
- General Fund revenue growth
- Additional Revenue sources
- Instructional costs
- Administrative costs
- Indebtedness

The College has a long tradition of safeguarding its assets and resources, and is striving to increase its fund balances.

Long Term Financial Health Fund Balances

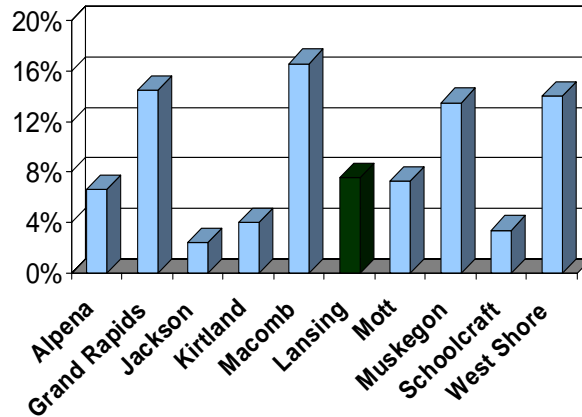


Source: LCC Accounting & Payroll Department

Capital reserves and other fund balances totaled \$34,812,973 as of June 30, 2004. The majority of these reserves are allocated for specific purposes. In May 2004, the Board of Trustees approved the use of \$20 million in capital reserves toward the completion of Facilities Master Plan construction, as well as a \$500,000 reserve for employee initiatives. Reserves within the College's Auxiliary Fund balance (currently \$4.4 million), may be used for future parking upgrades or expansions. The unallocated fund balance as of June 30, 2004 was \$7.0 million, which serves as a budget stabilization fund.

In order to avoid cash flow problems, it is important to maintain an adequate budget stabilization fund. As of June 2004, LCC's unallocated net assets totaled 7.6% of general fund revenues, which is about one percent below 1/12th of general fund revenues for the year (the rule-of-thumb used to gauge the adequacy of budget stabilization funds). As shown above, with passage of the millage in November of 2001, unallocated fund balances as a percentage of revenues declined initially. Careful budget planning must continue to address the need to increase the unallocated portion of fund balance. With general fund revenues now at \$98 million, the College's budget stabilization fund should be at least \$8.2 million.

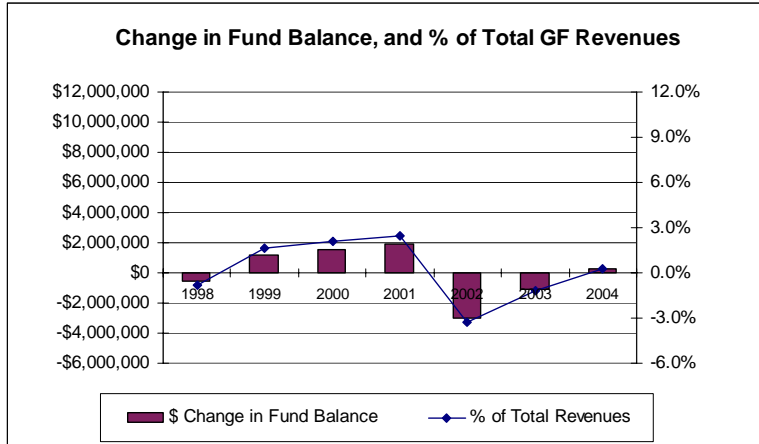
**Long Term Financial Health
Unrestricted Fund Balances as % of Revenues**



Source: Information Services & College Development

This graph shows a comparison of total unrestricted fund balances (general fund and designated fund) for ten Michigan community colleges. LCC's total unrestricted fund balance was 7.6% of the College's FY04 general fund revenues. The average total unrestricted fund balance as a percentage of general fund revenues was 10.7% for the reporting colleges.

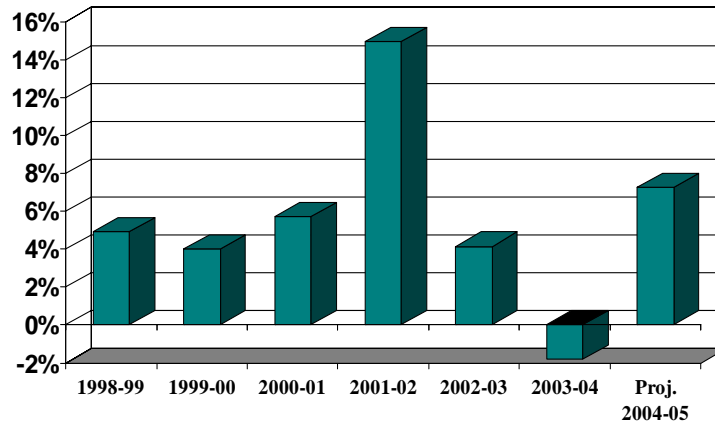
Long Term Financial Health Budget Accuracy



Source: LCC Accounting & Payroll Department

Revenue and expenditure projections are regularly updated, and year-end contributions to fund balance (positive or negative) were at or below 3.5 % of general fund revenues from FY98 through FY04. For the year just ended, the year-end increase in net assets was just under \$250,000. This occurred despite a December 2003 State Executive Order which reduced Lansing Community College FY 2004 appropriations by \$1.3 million.

Long Term Financial Health General Fund Revenue Growth

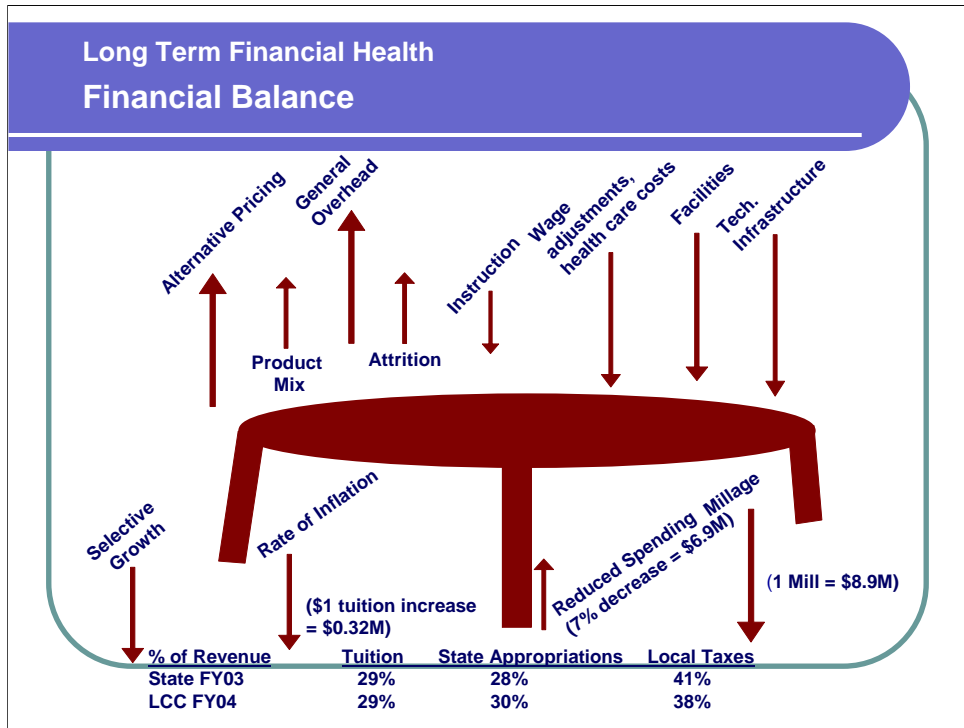


Source: LCC Accounting & Payroll Department

Revenue growth over the past six years has been relatively stable, with annual increases in revenue averaging 5% since FY99. The large increase in FY02 was the result of an increase in the local taxpayer-voted millage rate. In FY 2004, the College experienced its first decline in total general fund revenues in at least 10 years. This was due to a drop in State aid of more than \$3 million in a single year.

The revenue outlook is more positive for FY 2005, with a Board approved budget anticipating \$98.5 million in total revenues. This is primarily due to the change from credit to contact, or billing hours beginning Fall 2004, a tuition restraint incentive appropriation from the State, and modest increases in property tax revenues.

These additional revenues are needed in FY 2005 due to higher energy costs, negotiated wage and salary increases, and costs associated with opening of the new West Campus.

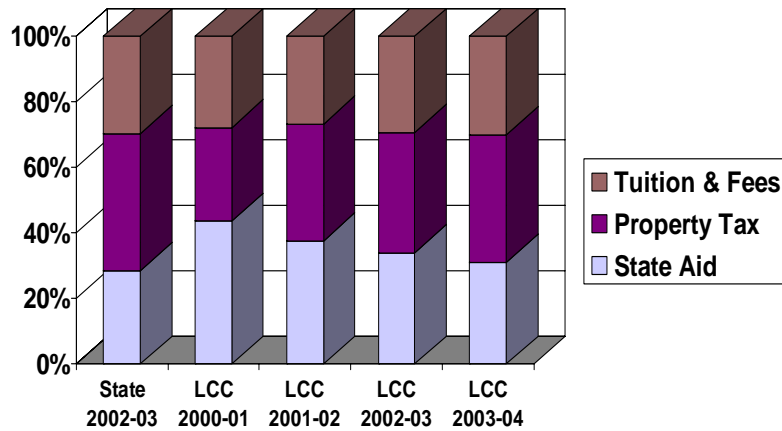


The model of the three-legged stool was used during strategic plan development to convey the challenges the College faced in balancing its finances. While the passage of the millage allowed us to move forward on many fronts, further expenditure reductions are needed to maintain a positive financial outlook. The College's planning and review processes must continuously identify opportunities to increase efficiencies. Low priority programs and services must be eliminated, and alternative revenue streams, must be explored.

The following table shows the steady improvement in the balance between state and local sources of revenue over the past three years. With reductions in state support experienced in recent years, this balance takes on increased importance.

% of Revenue	State Aid	Tuition & Fees	Property Taxes
State Average 2002-03	27.80%	28.80%	40.50%
LCC 2000-01	41.23%	26.20%	27.00%
LCC 2001-02	35.90%	25.40%	33.90%
LCC 2002-03	30.56%	29.08%	36.23%
LCC 2003-04	30.19%	29.19%	37.52%

Long Term Financial Health General Fund Revenue Sources

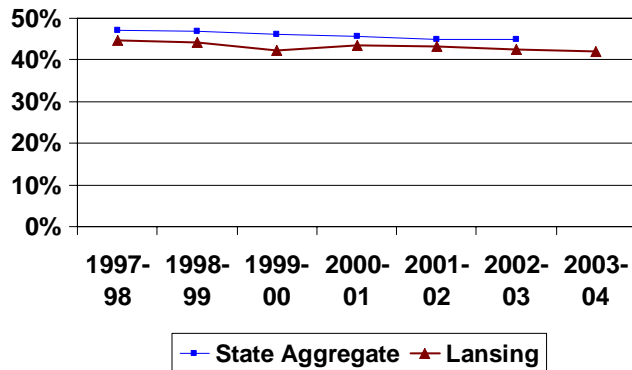


Source: LCC Accounting & Payroll Department
& Michigan Dept of Career Development ACS Report

Even with the 2001 approval of an additional 1 mill in LCC's property tax rate, the College remains below the State aggregate for property taxes per Fiscal Year Equated Student (FYES). The table below shows that LCC is equal to the State in terms of total revenue per FYES when State aid, tuition and fees and property taxes are combined. It should be noted that the latest data available from the State is for FY03. With the exception of State Aid, all of the State aggregate figures are likely to increase for FY04.

Revenue per Fiscal Year Equated Student				
	State Aid	Tuition & Fees	Property Taxes	Total
State Average 2002-03	\$2,427	\$2,511	\$3,531	\$8,673
LCC 2001-02	\$3,147	\$2,230	\$2,978	\$8,355
LCC 2002-03	\$2,719	\$2,373	\$2,836	\$7,928
LCC 2003-04	\$2,644	\$2,556	\$3,285	\$8,757

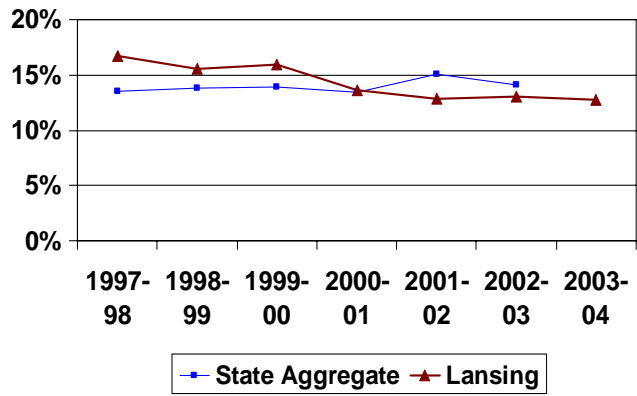
Long Term Financial Health Instructional costs as % of total



Source: LCC Accounting & Payroll Department

The College's strategic plan called for reallocating dollars to direct instruction. This was accomplished through reductions in administrative areas, as well as a faculty bargaining agreement which increased full-time faculty salaries. The Early Retirement Incentive Plan is reducing the instructional costs by replacing higher compensated faculty with less expensive ones. The College has added full-time faculty positions in recent years, and the reduction of the full-time faculty contract year to 190 days has impacted the cost of offering summer semester courses. Across the state, the percentage of expenditures allocated to instruction has declined for each of the past seven years.

Long Term Financial Health
Administrative costs as % of total



Source: LCC Accounting & Payroll Department

The College shifted approximately \$1,000,000 from administrative overhead functions to direct instruction in recent years. This shift began in FY01 through attrition of some positions. Institutional Administrative costs as a percentage of all expenditures dropped from 16% in FY00, to 12.8% in FY04. Statewide, institutional administrative costs have increased over the past seven years, from 12.9% in FY95 to 14.1% in FY03. The slight increase in administrative costs at LCC for FY03 were the result of the early retirement incentives expenditures during the year.

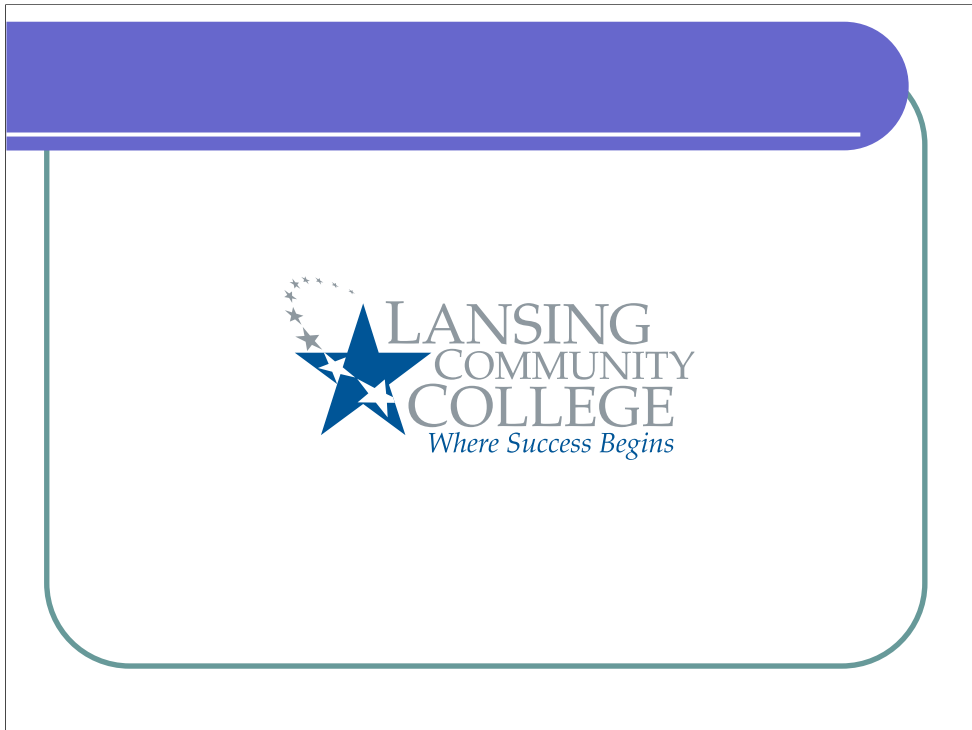
Long Term Financial Health Indebtedness

- As of June 30, 2004, the College had outstanding debt of \$58,950,000.
- Per the Community College Act, the College has excess bonding capacity of \$37,922,005.
- College Bond Ratings are Aa3 (Moody's) and AA (Standard and Poors)

The College sold \$41,705,000 in bonds in February 2002, and an additional \$20,975,000 in April 2003. Proceeds from these bond sales will fund approximately two-thirds of the College's planned \$89.8 million facilities master plan.

The College's bonding capacity is based on a formula that considers the community college district's State Equalized Value:

<i>LCC's Taxable value (as of June 2004)</i>	\$9,562,200,506
1.5% of first \$250,00,000 =	\$3,750,000
Excess SEV over \$250,000,000	\$9,312,200,506
x 1% of excess SEV	\$93,122,005
Total Bond Capacity	\$96,872,005
Current Indebtedness	\$58,950,000
<i>Unused Capacity</i>	\$37,922,005



Financial Audits

- Cash flow
- Cash flow balance
- Purchases from minority and women-owned vendors
- Purchases from in-district vendors

For 47 years, the College has submitted financial audits in accordance with State of Michigan guidelines on financial reporting and generally accepted accounting principles.

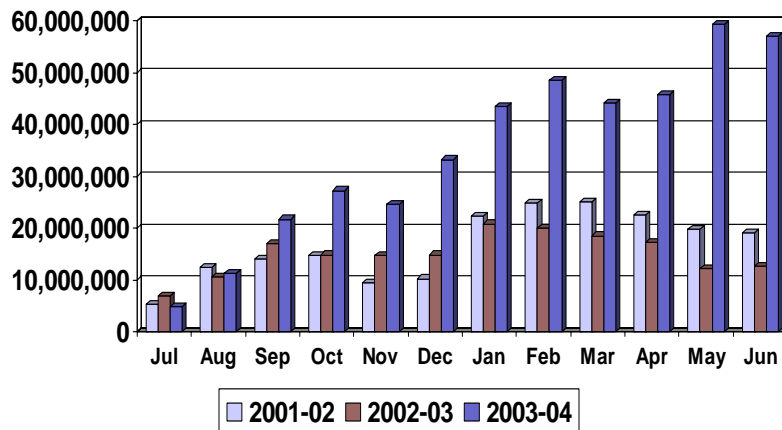
Financial Audits Cash Flow

	Cash In	Cash Out	Balance
July	15,981,877	11,185,743	4,796,134
August	28,155,317	21,695,406	11,256,045
September	46,422,940	35,964,155	21,714,830
October	29,749,405	24,223,818	27,240,417
November	9,104,977	11,838,820	24,506,574
December	23,919,108	15,216,433	33,209,249
January	26,998,310	16,849,374	43,358,185
February	17,436,158	12,270,508	48,523,835
March	12,180,693	16,607,982	44,096,546
April	18,364,531	16,739,110	45,721,967
May	23,005,570	9,313,067	59,414,470
June	11,098,755	13,498,281	57,014,944

Source: LCC Accounting & Payroll Department

The College's cash flow picture for the current fiscal year has been impacted by construction activity in addition to the ongoing cash flow needs of the College to pay employees and suppliers. Funds are transferred to the general fund checking account from bond and other investment accounts for disbursement. Disbursements in the first four months of the current fiscal year (FY 2005) totaled \$55 million.

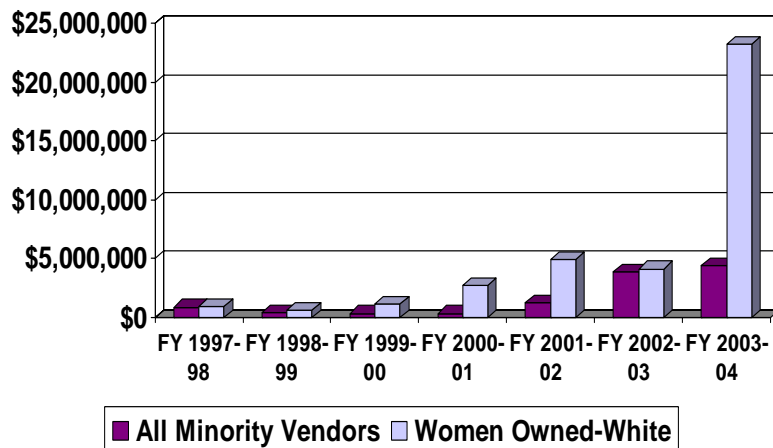
Financial Audits Cash Flow Balance



Source: LCC Accounting & Payroll Department

The College has maintained positive cash flows and has not needed to borrow money to meet cash flow needs. As stated on the previous page, the variation in cash flow for the most recent fiscal year is due to larger cash needs for construction purposes. By October 2004, the College's cash flow balance was more in line with prior fiscal year month end balances, which will be reflected in the cash flow presentation next year.

Financial Audits Purchases from Minority and Women-Owned Vendors



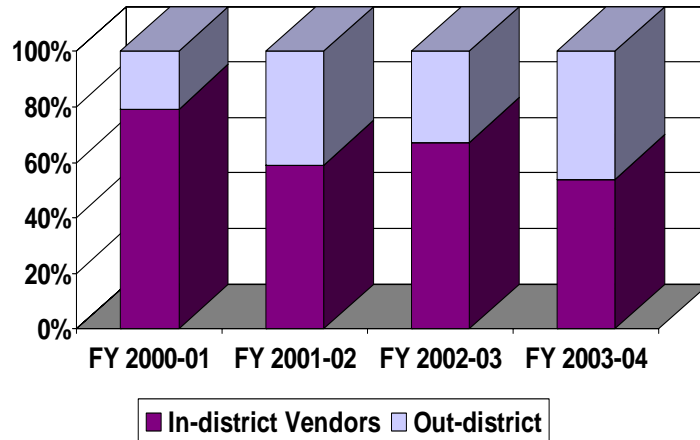
Source: LCC Purchasing Department

The College has emphasized purchasing from minority and women-owned suppliers. The large increase in purchases for FY04 is attributable to construction expenditures, particularly at the West Campus. Businesses owned by white females made up approximately 24% of total College purchases of nearly \$96,000,000. Following the standard developed by the Michigan Minority Business Development Council (MMBDC), numbers are reported the year in which dollars are awarded to minority suppliers, versus when they are paid.

Purchasing staff are active participants in the Michigan Minority Business Development Council and the Lansing Regional Chamber of Commerce Diversity Task Force, and annually participate in the following:

- Hispanic Chamber of Commerce Matchmaker
- Lansing School District Supplier Diversity Fair
- Minority Business Symposium and Mini-Expo Sponsored by the Lansing Regional Small Business Development Center
- LCC Office of Equal Opportunity luncheon for suppliers.

Financial Audits Purchases from In-district Vendors



Source: LCC Purchasing Department

Dollars reflect all purchase orders issued and purchasing card purchases made during the fiscal year. Overall, the College spent almost \$96 million on goods and services in FY 2004, more than double the amount spent in FY 2003 (\$40.9 million). Again, this is attributable to the large amount spent for construction.



Long term outlook

- Prepare for continued reductions in State appropriations
- Continue to reduce overhead costs as a percentage of the budget
- Re-build unallocated fund balance