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CONSUMERS ENERGY CO
Form 11-K
June 30, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-9513

EMPLOYEES' SAVINGS PLAN AND
EMPLOYEE STOCK OWNERSHIP PLAN OF
CONSUMERS ENERGY COMPANY
ONE ENERGY PLAZA
JACKSON, MICHIGAN 49201

(FULL TITLE OF THE PLAN AND ADDRESS OF THE PLAN, IF
DIFFERENT FROM THAT OF THE ISSUER NAMED BELOW)

CMS ENERGY CORPORATION
ONE ENERGY PLAZA
JACKSON, MICHIGAN 49201

(NAME OF ISSUER OF THE SECURITIES HELD
PURSUANT TO THE PLAN AND THE ADDRESS
OF ITS PRINCIPAL EXECUTIVE OFFICE)

Employees' Savings Plan and Employee
Stock Ownership Plan of Consumers Energy Company

Audited Financial Statements and Supplemental Schedule

December 31, 2002 and 2001 and
Year ended December 31, 2002

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Report of Independent Auditors

Plan Administrator
Employees' Savings Plan and Employee
Stock Ownership Plan of Consumers Energy Company

We have audited the accompanying statement of net assets available for benefits of Employees' Savings Plan and Employee Stock Ownership Plan of Consumers Energy Company as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. Other auditors, who have ceased operations, were engaged to audit the financial statements and schedule of the Plan for the year ended December 31, 2001. Their report dated May 10, 2002, expressed an opinion that such financial statements present fairly, in all material respects, the net assets of the Plan as of December 31, 2001 and for the year then ended, in conformity with accounting principles generally accepted in the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2002, and the changes in its net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2002, is presented for purpose of additional analysis and is not a required part of the financial statements but

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is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to auditing procedures applied in our audit of the 2002 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Detroit, Michigan
June 23, 2003

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Employees' Savings Plan and Employee Stock
Ownership Plan of Consumers Energy Company

Statements of Net Assets Available for Benefits

DECEMBER
2002

Assets

Investments:

Guaranteed investment contracts (at contract value)

\$133,883,841

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| | |
|--|---------------|
| CMS Energy Corporation Common Stock | 114,336,401 |
| Other Common stock | - |
| Fidelity Dividend Growth Fund | 129,595,779 |
| Nicholas-Applegate Core Growth Institutional Portfolio Fund | 26,958,174 |
| Comerica Foreign Equity Fund | 12,094,531 |
| Vanguard Large-Cap Value Index Fund | 7,916,780 |
| Vanguard S&P 500 Index Fund | 10,733,054 |
| Vanguard Large-Cap Growth Index Fund | 10,999,521 |
| Nicholas-Applegate Small-Cap Growth Fund | 7,710,161 |
| Short term investments | 38,830,403 |
| Loans to participants | 31,092,239 |
| | ----- |
| Total investments | 524,150,884 |
| Receivables: | |
| Participant contributions | 3,576,748 |
| Employer contributions | - |
| Interest and dividends | 97,095 |
| | ----- |
| | 3,673,843 |
| LIABILITY | |
| Other | 54,056 |
| | ----- |
| Net Assets available for benefits | \$527,770,671 |
| | ===== |

See accompanying notes.

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Employees' Savings Plan and Employee Stock
Ownership Plan of Consumers Energy Company

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2002

ADDITIONS

Interest and dividend income
Participant contributions
Employer contributions

Total additions

DEDUCTIONS

Benefits payments, withdrawals and distributions
Other

Total deductions

Net realized and unrealized depreciation

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in fair value of investments (Note 3)

Net decrease

Net Assets available for benefits:

Beginning of year

End of year

See accompanying notes.

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Employees' Savings Plan and Employee Stock Ownership Plan of Consumers Energy Company

Notes to Financial Statements

December 31, 2002 and 2001

1. DESCRIPTION OF PLAN

The following description of the Employees' Savings Plan and Employee Stock Ownership Plan of Consumers Energy Company (the Plan) provides only general information. Participants should refer to the Plan document for a complete description of the Plan's provisions.

GENERAL

The Plan is a defined contribution plan designed to encourage and assist employees of CMS Energy Corporation and its subsidiaries, which are at least 80% owned and have adopted the Plan (the Company or Employer) in saving for the future. The Plan is a voluntary program that allows eligible participants to invest their contributions in various investment funds. All regular employees of the Company as defined by the Plan, may participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

CONTRIBUTIONS

Participants in the Plan may elect to make pre-tax or after-tax contributions in amounts equal to whole percentages from 1% to 25% of their eligible compensation, as defined by the Plan, subject to certain limitations as set forth in the Plan. If a member's regular annual salary is equal to or more than \$80,000, the most that can be contributed by the employer on behalf of the participant to the Plan is 11%.

The Company will make a matching contribution in an amount equal to \$.50 for each \$1.00 contributed by a participant, up to a maximum of 6% of the participant's compensation.

Effective September 1, 2002, all matching contributions to the plan were suspended. The Matching Employer Contributions are expected to resume on the first pay attributable to work on or after January 1, 2005.

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Each Employer may contribute an Incentive Contribution, which is determined at the end of each year based on earnings performance goals set by the Company at the beginning of the year.

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1. DESCRIPTION OF THE PLAN (CONTINUED)

The Incentive Contribution will be based on the participant's net Elective Employer and Participant Contributions of up to 6% of each participant's compensation. The Matching Employer and Incentive Contributions are allocated entirely to CMS Energy Corporation common stock.

The Plan Administrator may exclude Incentive Contributions to the accounts of certain officers of Employer.

Effective September 1, 2002, all incentive contributions to the plan were eliminated.

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contributions, Elective Employer Contributions and Matching Employer and Incentive Contributions and allocations of Plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the vested value of the participant's account.

PARTICIPANT LOANS

Participants may borrow from their fund accounts up to a maximum of \$50,000 or 50% of their vested account balance. Loan terms range from 1-5 years or up to 10 years for the purchase of a primary residence. The loans are secured by the balance of the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the plan administrator. Principal and interest are paid ratably through payroll deductions.

VESTING

Participants are immediately vested in their contributions and Elective Employer Contributions plus actual earnings thereon. Vesting in the Matching Employer and Incentive Contributions of their accounts are based on years of service. A participant becomes 10% vested for each of the first two years of service with the Company, and 20% for each of the next four years of service.

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1. DESCRIPTION OF THE PLAN (CONTINUED)

PAYMENT OF BENEFITS

Upon termination of service, death, disability or retirement, a participant may receive a lump-sum amount equal to the vested value of his or her account.

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FORFEITURES AND ADMINISTRATIVE EXPENSES

Forfeitures result from Matching Employer or Incentive Contribution remaining in the Plan for terminated participants' nonvested account balances. Forfeitures generated are added to a forfeiture reserve account and are available to offset Matching Employer and Incentive Contributions. Such amounts forfeited in 2002 and 2001 were \$167,015 and \$391,527, respectively, and were treated as a reduction of the Employer's contribution liability. The Company pays expenses relating to the administration of the Plan. Brokerage fees, commissions, stock transfer taxes and other expenses in connection with the purchases, sales and distributions of securities for each investment fund are charged to the fund that incurred the cost.

PLAN TERMINATION

Although it has not expressed the intention to do so, the Company has reserved the right to terminate the Plan at any time by resolution of its Board of Directors. The value of the participant accounts will be determined as of the effective date of the termination and be distributed as provided by the Plan.

2. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENT VALUATION AND INCOME RECOGNITION

Except for the investment contracts, the Plan's investments are stated at fair value which equals the quoted market price on the last business day of the plan year. The shares of registered investment companies are valued at quoted market prices which represent the net asset values of shares held by the Plan at year-end. The fair value of the participation units owned by the Plan in the common trust fund accounts are based on quoted redemption values on the last business day of the plan year. The participant loans are valued at their outstanding balances, which approximate fair value.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment contracts are recorded at their contract values, which represent contributions and reinvested income, less any withdrawals plus accrued interest, because these investments have fully benefit-responsive features. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. However, withdrawals influenced by Company-initiated events, such as in connection with the sale of a business, may result in a distribution at other than contract value. There are no reserves against contract values for credit risk of contract issues or otherwise. Contract value approximates fair value. The average yield for these contracts was 6.31% in 2002 and 6.69% in 2001. The crediting interest rate for these investment contracts ranged from approximately 5.4% to 7.2% in both 2002 and 2001. Rates on contracts remain fixed for the life of each contract.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

USE OF ESTIMATES

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. INVESTMENTS

During 2002, the Plan's investments (including investments purchased and sold, as well as held, during the year) depreciated in fair value as determined by quoted market prices as follows:

| | NET REALIZED AND UNREALIZED DEPRECIATION IN FAIR VALUE OF INVESTMENTS DECEMBER 31, 2002 |
|-------------------------------------|--|
| | |
| Mutual funds | \$ (77,865,143) |
| CMS Energy Corporation common stock | (138,189,454) |
| | \$ (216,054,597) |
| | |

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3. INVESTMENTS (CONTINUED)

The CMS Energy Corporation common stock investment is the only investment with non-participant directed contributions. Activity for this fund is as follows for the year ended December 31, 2002.

| | | |
|---|----|--------|
| Investment balance at January 1, 2002 | \$ | 223,3 |
| Contributions received | | 16,7 |
| Net depreciation in fair value | | (138,1 |
| Interest and dividend income | | 11,3 |
| Benefits paid to participants | | (11,4 |
| Net transfers from other funds | | 12,5 |
| | | 114,3 |
| Investment Balance at December 31, 2002 | \$ | 114,3 |
| | | |

4. DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

| | DECEMBER 31 | |
|--|-------------|------|
| | 2002 | 2001 |
| | | |

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| | | | | |
|--|----|-------------|----|------|
| Net assets available for benefits per the financial statements | \$ | 527,770,671 | \$ | 710, |
| Amounts allocated to withdrawn participants | | (6,734,928) | | (3, |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Net assets available for benefits per the Form 5500 | \$ | 521,035,743 | \$ | 707, |
| <hr style="border-top: 3px double black;"/> | | | | |

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4. DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND FORM 5500 (CONTINUED)

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

| | | YEAR ENDED DECEMBER 31, 2002 | | |
|--|----|------------------------------------|--|-------|
| | | | | ----- |
| Benefits paid to participants per the financial statements | \$ | 49,773,418 | | |
| Add amounts allocated on Form 5500 to withdrawn participants at December 31, 2002 | | 6,734,928 | | |
| Less amounts allocated on Form 5500 to withdrawn participants at December 31, 2001 | | (3,134,204) | | |
| | | | | ----- |
| Benefits paid to participants per the Form 5500 | \$ | 53,374,142 | | ===== |

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year-end but not yet paid.

5. CONTINGENT LIABILITIES

CMS Energy Corporation is a named defendant, along with Consumers Energy Company, CMS Marketing Services and Trading and certain named and unnamed officers and directors, in two lawsuits brought as purported class actions on behalf of participants and beneficiaries of the 401(k) Plan. The two cases, filed in July 2002 in the United States District Court for the Eastern District of Michigan, were consolidated by the trial judge and an amended and consolidated complaint has been filed. Plaintiffs allege breaches of fiduciary duties under ERISA and seek restitution on behalf of the Plan with respect to a decline in value of the shares of CMS Energy Common Stock held in the Plan. Plaintiffs also seek other equitable relief and legal fees. These cases will be vigorously defended. The Company cannot predict the outcome of this litigation.

6. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated April 24, 2002, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity

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with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

7. SUBSEQUENT EVENT

On June 11, 2003, CMS Energy Corporation completed the previously announced sale of all of the outstanding stock of Panhandle Eastern Pipe Line Company (Panhandle) to Southern Union Panhandle Corp., a newly formed entity owned by Southern Union Company. All Panhandle participants in the Plan were 100% vested in both the Matching Employer and Incentive Contributions upon completion of the sale.

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Employees' Savings Plan and Employee Stock Ownership Plan of Consumers Energy Company

EIN: 38-0442310 Plan Number: 002

Schedule H, Line 4(i)--Schedule of Assets (Held at End of Year)

December 31, 2002

| IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY | DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE |
|---|--|
| * New York Life Insurance Company | 7.10%, Matures 06/27/05 |
| * Principal Mutual Life Insurance Company | 7.20%, Matures 4/01/03 |
| * Principal Mutual Life Insurance Company | 6.00%, Matures 2/15/05 |
| * Principal Mutual Life Insurance Company | 6.18%, Matures 11/14/06 |
| * Principal Mutual Life Insurance Company | 6.28%, Matures 5/14/07 |
| * Principal Mutual Life Insurance Company | 5.85%, Matures 1/30/08 |
| * The Prudential Mutual Life Insurance Company | 6.97%, Matures 6/21/04 |
| * The Prudential Mutual Life Insurance Company | 5.40%, Matures 11/15/06 |
| * The Prudential Mutual Life Insurance Company | 5.70%, Matures 11/15/07 |
| * Travelers Life and Annuity | 6.45%, Matures 5/12/05 |
| Fidelity Investments | Fidelity Dividend Growth Fund |
| * CMS Energy Corporation | Common Stock of CMS Energy Corporation |
| Nicholas Applegate | Nicholas-Applegate Core Growth Institutional Portfolio Fund |
| | Nicholas-Applegate Small-Cap Growth Fund |
| * Comerica Bank, N.A. | Comerica Foreign Equity Fund |
| Vanguard Investments | Vanguard Large-Cap Value Index Fund |
| | Vanguard S&P 500 Index Fund |

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| | |
|-----------------------|--------------------------------------|
| | Vanguard Large-Cap Growth Index Fund |
| * Comerica Bank, N.A. | Short term investments |
| * Participants | Loans to participants |

* Party-in-interest.

Note: Historical cost information is not shown as all investments are participant-directed.

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THIS REPORT IS A COPY OF THE PREVIOUSLY ISSUED ARTHUR ANDERSEN REPORT AND THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Employees' Savings & Incentive Plan and Employee Stock Ownership Plan of Consumers Energy Company:

We have audited the accompanying statements of financial position of EMPLOYEES' SAVINGS & INCENTIVE PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN OF CONSUMERS ENERGY COMPANY (the "Plan") as of December 31, 2001 and 2000, and the related statements of changes in members' equity for each of the three years in the period ended December 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Plan administrator. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan administrator, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2001 and 2000, and the changes in members' equity for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes as of December 31, 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule has been subjected to the

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auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Detroit, Michigan,
May 10, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

CONSUMERS ENERGY COMPANY
EMPLOYEES' SAVINGS PLAN AND
EMPLOYEE STOCK OWNERSHIP PLAN

By: /s/ John F. Drake

John F. Drake
Plan Administrator and
Senior Vice President, Human Resources,
CMS Energy Corporation and
Consumers Energy Company

Dated: June 30, 2003

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EXHIBITS

| Exhibit Number | Description |
|----------------|--|
| (23) (a) | Statement regarding Consent of Independent Auditors, Arthur Andersen LLP |
| (23) (b) | Consent of Independent Auditors, Ernst & Young LLP |
| (99) | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

