

**Wayne State University**  
**Consolidated Financial Statements and**  
**Supplemental Information**  
**September 30, 2003 and 2002**

**Wayne State University**  
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**September 30, 2003 and 2002**

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# **Wayne State University**

## **Management's Discussion and Analysis (Unaudited)**

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### **INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of Wayne State University (the "University") for the year ending September 30, 2003, with selected comparative information for the year ending September 30, 2002. This discussion has been prepared by management and should be read in conjunction with the University's financial statements and related notes.

The University is a comprehensive public institution of higher learning in southeast Michigan with enrollment of over 33,000 students and approximately 2,739 faculty members. It offers a diverse range of programs from bachelor's degrees to post-doctoral degrees, through a framework of departmental units in 13 schools and colleges. The University contributes to the State and nation through related research and public service programs. It employs over 8,000 people.

Excellence in research is a crucial element in the University's mission. Based on the 2001 National Science Foundation Research and Development Expenditures Survey, the most recent survey results available, the University ranked 63<sup>rd</sup> among all universities and 42<sup>nd</sup> among public universities. A substantial portion of the University's research is conducted at the School of Medicine. The fiscal year 2001 National Science Foundation Research and Development Expenditures Survey ranked the University 59<sup>th</sup> in the life sciences category. The University has a research affiliation agreement with the Karmanos Cancer Institute, one of 28 comprehensive cancer research centers designated by the National Cancer Institute. The University also has an Affiliation Agreement (the "agreement") with the Detroit Medical Center ("DMC") which outlines provisions relating to shared resources, facilities and faculties, medical research and teaching, medical student residency programs and medical practice plans. The agreement encompasses critical components and aspects of the University's medical education and life sciences research. The University recently began establishing similar affiliations with other healthcare organizations further ensuring its ability to accomplish those aspects of its mission related to medical education and life sciences research. During 2002, the University was awarded a significant contract from the National Institutes of Health Perinatology Research Branch covering the next 10 years. This is the first such Research Branch program established permanently on a university campus.

### **USING THE FINANCIAL STATEMENTS**

The University's financial report includes three basic financial statements: the Statement of Net Assets, which presents the assets, liabilities, and net assets of the University at the end of the fiscal year, the Statement of Revenues, Expenses and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year, and the Statement of Cash Flows, which provides information on major sources and uses of cash during the fiscal year. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the university as a whole.

### **OVERALL FINANCIAL HIGHLIGHTS**

The University's financial position remained strong at September 30, 2003 with total assets of \$1.2 billion and liabilities of \$391.6 million. Consolidated net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$27.4 million during the year to \$775.1 million.

# Wayne State University

## Management's Discussion and Analysis (Unaudited)

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Summarized aggregate revenues and expenses for the years ending September 30, 2003 and 2002 are as follows:

| <i>(in millions of dollars)</i> | <b>2003</b>    | <b>2002</b>    |
|---------------------------------|----------------|----------------|
| Total revenues                  | \$ 709.1       | \$ 669.3       |
| Total expenses                  | <u>681.7</u>   | <u>653.2</u>   |
| Increase in net assets          | <u>\$ 27.4</u> | <u>\$ 16.1</u> |

Fiscal year 2003 revenues increased \$39.8 million (6.0%), while expenses increased \$28.5 million (4.4%). The relationship between the relative increases in revenues and expenses demonstrates the University's continued commitment to fiscal restraint. A detailed discussion of specific revenue and expense categories and activity is included on pages 7-10 of Management's Discussion and Analysis.

### STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University while the change in net assets is an indicator of how the current year's operations have affected the overall financial condition of the University. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the University's assets, liabilities and net assets on September 30, 2003 and 2002 is as follows:

| <i>(in millions of dollars)</i> | <b>2003</b>     | <b>2002</b>     |
|---------------------------------|-----------------|-----------------|
| Current assets                  | \$ 358.2        | \$ 324.4        |
| Noncurrent assets               |                 |                 |
| Investments                     | 149.7           | 131.2           |
| Capital assets, net             | 621.3           | 586.0           |
| Noncurrent receivables, net     | 36.4            | 38.0            |
| Other                           | <u>1.1</u>      | <u>.8</u>       |
| Total assets                    | <u>1,166.7</u>  | <u>1,080.4</u>  |
| Current liabilities             | 165.4           | 149.7           |
| Noncurrent liabilities          | <u>226.2</u>    | <u>183.0</u>    |
| Total liabilities               | <u>391.6</u>    | <u>332.7</u>    |
| Net assets                      | <u>\$ 775.1</u> | <u>\$ 747.7</u> |

## **Wayne State University Management's Discussion and Analysis (Unaudited)**

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Current assets are comprised primarily of cash and temporary investments and accounts receivable of \$346 million and \$313 million for 2003 and 2002, respectively. Cash and temporary investments were \$249 million at September 30, 2003, as compared to \$216 million at September 30, 2002. Cash and investments at September 30, 2003 represent approximately five months of operating expenses (excluding depreciation).

Current liabilities consist primarily of deferred income, accounts payable and accrued expenses due within one year. Current liabilities at September 30, 2003 have increased by \$15.8 million when compared to September 30, 2002. This increase was primarily due to an increase in tuition related deferred income of \$8.4 million, which represents student tuition payments for the 2003 fall academic term, which will be recognized as revenue in fiscal year 2004. This increase resulted from tuition rate increases and favorable enrollment trends for fall term 2003. There were also deferred income increases related to sponsored programs, (\$2.8 million) and fall term residence hall room and board payments (\$1.2 million). The balance of the current liability increase results from routine operating activity associated with trade payables.

An overall analysis of the University current assets and current liabilities indicate strong current ratios, 2.2 for fiscal years 2003 and 2002.

The most significant change in the noncurrent asset section of the statement of net assets was the \$35.3 million increase in net capital assets. This was due primarily to new building activity, which is discussed in the Capital and Debt Activities section on page 4, offset by depreciation expense of \$43.3 million. There is a related increase in noncurrent liabilities, which represents the issuance of additional bonds to finance the aforementioned capital activity, more fully discussed on page 4.

### **INVESTMENTS**

The University's investments are accounted for in the Endowment Fund and are held and managed by the Wayne State University Foundation. These investments increased \$18.5 million to \$149.7 million at September 30, 2003, compared to \$131.2 million at September 30, 2002. Factors contributing to the increase in investments include investment income and gifts to permanent endowments, net of distributions from endowment funds to beneficiary accounts.

The University's endowment funds consist of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested into perpetuity to produce income to be distributed consistent with the donors' restrictions. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, although these amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Programs supported by the endowments include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University uses its endowments to support operations in a way that strikes a balance by generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. The endowment spending rate policy provides for an annual distribution of 5% of a 2½-year moving average market value (measured at six month intervals) of endowment assets. Actual distributions were 4.7% and 5.4% of the current market value of the endowments in fiscal year 2003 and 2002, respectively.

# Wayne State University

## Management's Discussion and Analysis (Unaudited)

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### CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic and research programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range facilities plan by balancing its efforts to modernize its complement of older teaching and research facilities with the construction of new facilities.

Capital additions during 2003 totalled \$93.5 million, as compared to \$112.2 million in 2002. Capital additions consist primarily of the replacement, renovation and new construction of academic, research, and other ancillary facilities, and the significant investment in equipment including information technology. Current year capital asset additions were funded with capital appropriations, debt proceeds, gifts, and unrestricted net assets, which were designated for capital purposes.

In its role of financial stewardship, the University works to manage its financial resources effectively, including the use of debt to finance capital projects. Its most recent credit rating is AA- by Fitch, Inc. and Standard & Poor's Rating Service. The highest achievable ratings are "AAA." Management believes these ratings represent key indicators of its capacity to meet its financial obligations.

Bonds payable totalled \$202.0 million and \$158.3 million at September 30, 2003 and 2002, respectively. This increase is largely attributable to the \$45.7 million of General Revenue bonds issued in October 2002. The proceeds of this issuance were used to finance construction of the University's South Residence Hall, acquisition and renovation of the building at 110 E. Warren, major parking structure and lot improvements and renovations, and renovations related to facilities associated with the Perinatology Research Branch contract.

Subsequent to September 30, 2003, the University issued \$56.2 million in additional bonds. These funds will be used to finance major renovations to research laboratories across the campus, renovations to 5057 Woodward, and additional renovations associated with the Perinatology Research Branch laboratories.

The University continues to invest in its facilities infrastructure. Over the past five years, the University has spent approximately \$320 million on new buildings, renovation of existing buildings, land acquisitions and land improvements. Among the new buildings and renovations are the Eugene Applebaum College of Pharmacy and Health Sciences building and parking garage, the Welcome Center, bookstore and parking garage, two residence halls, the Law School addition, and the acquisition of the buildings at 110 E. Warren and 5057 Woodward.

# Wayne State University

## Management's Discussion and Analysis (Unaudited)

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### NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets on September 30, 2003 and 2002 are summarized as follows:

| <i>(in millions of dollars)</i>                 | <b>2003</b>     | <b>2002</b>     |
|---|-----------------|-----------------|
| Invested in capital assets, net of related debt | \$ 423.1        | \$ 428.5        |
| Restricted                                      |                 |                 |
| Nonexpendable                                   | 84.3            | 76.4            |
| Expendable                                      | 106.0           | 100.1           |
| Unrestricted                                    | <u>161.7</u>    | <u>142.7</u>    |
| Total net assets                                | <u>\$ 775.1</u> | <u>\$ 747.7</u> |

Descriptions of the components of total net assets are as follows:

Capital assets, net of related debt - Represents the University's investment in property, plant and equipment, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Changes in the balance from year to year result from capital additions, issuance and payments of debt, retirement of assets, and depreciation expense.

Restricted nonexpendable - Represents the University's permanent endowment funds. Such net assets represent the corpus portion of gifts to the University's permanent endowment funds.

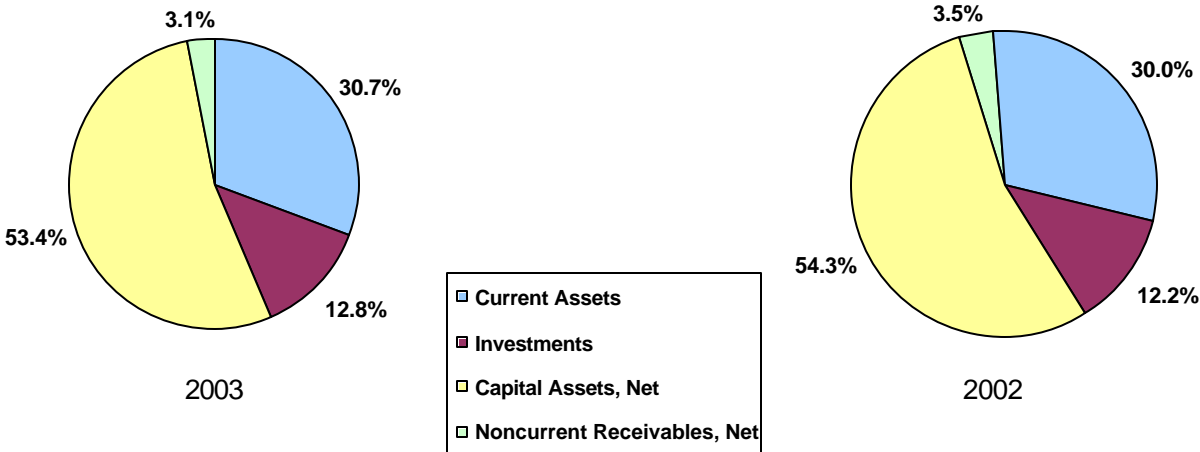
Restricted expendable - Are comprised primarily of external gifts and are subject to externally imposed restrictions governing their use. This category of net assets includes \$63.3 million of funds functioning as endowments. This category of net assets also include undistributed accretions of permanent endowment investments.

Unrestricted - Represents funds which are not subject to externally imposed stipulations, however most of the University's unrestricted net assets at September 30, 2003 have been designated for various academic, research and administrative programs, as well as capital projects.

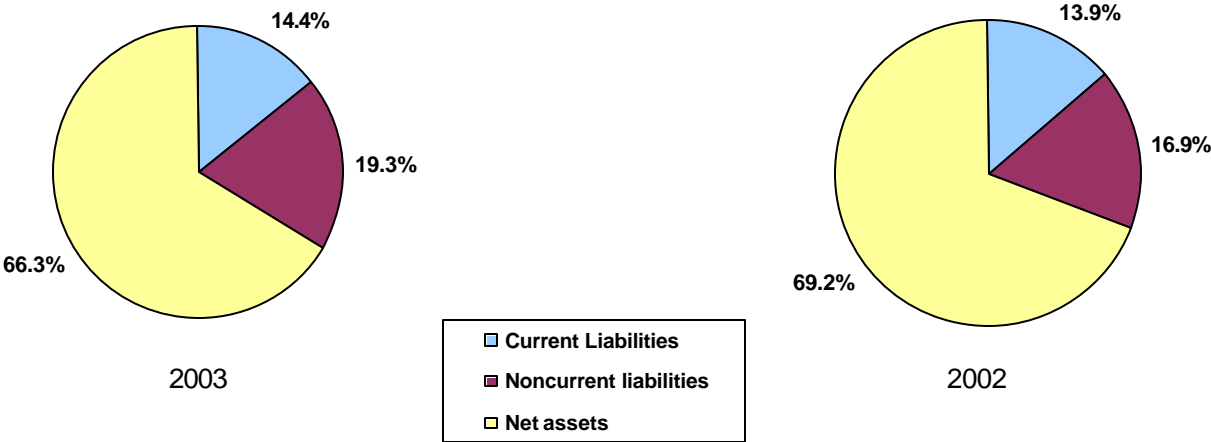
**Wayne State University  
Management’s Discussion and Analysis (Unaudited)**

The following is a graphic illustration of the composition of the University’s Consolidated Statement of Net Assets at September 30, 2003 and 2002:

**Assets**



**Liabilities and Net Assets**





# Wayne State University

## Management's Discussion and Analysis (Unaudited)

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### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University. A brief summary, discussion, and analysis of various aspects of this statement follow.

Various revenue categories included in the statement are as follows:

| <i>(in millions of dollars)</i>        | <b>2003</b>     | <b>2002</b>     |
|--|-----------------|-----------------|
| Operating revenues                     |                 |                 |
| Student tuition and fees               | \$ 148.0        | \$ 131.7        |
| Less: Scholarship allowances           | <u>39.9</u>     | <u>34.1</u>     |
| Net student tuition and fees           | 108.1           | 97.6            |
| Sponsored programs                     | 237.8           | 233.6           |
| Other                                  | <u>29.7</u>     | <u>28.9</u>     |
| Operating revenues                     | 375.6           | 360.1           |
| Nonoperating revenues                  |                 |                 |
| State appropriations                   | 245.5           | 256.9           |
| Private gifts                          | 30.2            | 22.4            |
| Net investment (loss) income           | 40.1            | (1.5)           |
| State capital appropriations           | 6.1             | 19.3            |
| Capital and endowment gifts and grants | <u>11.6</u>     | <u>12.1</u>     |
| Net nonoperating revenues              | 333.5           | 309.2           |
| Total revenues                         | <u>\$ 709.1</u> | <u>\$ 669.3</u> |

Revenue streams from various sources supplement the University's student tuition and fees revenue. These sources include state appropriations, federal and state sponsored programs, private gifts and grants and investment income. The state appropriations are the University's largest single revenue source. As a result, the University is reliant on state appropriations to fund its operations. The University has in the past and will continue to seek funding from all possible sources consistent with its mission, to supplement student tuition, and to prudently manage the financial resources realized from these efforts to fund its operating activities.

Operating revenues for fiscal year 2003 were \$375.6 million compared to \$360.1 million in fiscal year 2002, an increase of 4.3%. This increase is primarily attributable to increases in net student tuition and fees and sponsored program revenue. Net tuition and fees, which provide a significant component of the funding for instructional programs and fellowships, increased \$10.5 million, or 10.8% to \$108.1 million in 2003. This trend was primarily a result of increased student enrollment (6.2%), increased average credit hours per student (5.5%) and tuition/fee rate increases of approximately 9%. Revenues for sponsored programs increased 1.8%, or \$4.2 million, to \$237.8 million during fiscal year 2003. These two revenue sources comprise over 90% of the University's operating revenues.

Auxiliary activities, which are included in the "other" category, experienced a \$2.9 million revenue increase as well. This revenue increase relates primarily to room and board fees generated since the opening of the new residence halls and parking rate increases for staff and students.

## **Wayne State University Management's Discussion and Analysis (Unaudited)**

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Net nonoperating revenues for 2003 and 2002 totalled \$333.5 million and \$309.2 million, respectively. The primary source of nonoperating revenue is state appropriations. During 2003, the University experienced an \$11.4 million (4.4%) overall reduction in its operating appropriation as a result of mid-year budget reductions imposed by the State of Michigan. State capital appropriations were down for the year as well, declining \$13.1 million (68.4%) from \$19.2 million in 2002 to \$6.1 million in 2003.

Net investment income, also a significant source of nonoperating income during 2003, increased by \$41.6 million (including unrealized market value appreciation of \$12.0 million) over 2002. Of the actual current year net investment income from all sources, which totalled \$40.1 million in 2003, compared to net investment losses of (\$1.5) million in 2002, \$21.6 million of this investment income is attributable to the University's endowments with the remainder (\$18.5 million) representing the investment income of all other University funds.

The revenue trends, discussed above, coupled with the University's cost reductions, helped mitigate the impact of the \$11.4 million reduction in the University's state appropriations.

The University's endowment investment policies are designed to maximize long-term total return while its income distribution policies are designed to preserve the value of the endowment and to generate a predictable stream of spendable income. The income distribution from the University's endowment fund investment portfolios for the support of operating activities, in accordance with the University's spending rate policy, totalled \$7.2 million in 2003 as compared to \$7.1 million in 2002.

State capital appropriations received from the State of Michigan in 2003 funded a portion of the new Welcome Center and Eugene Applebaum College of Pharmacy and Health Sciences buildings.

Capital and endowment gifts and grants represent funds received from foundations, individuals and other private sources.

## Wayne State University Management's Discussion and Analysis (Unaudited)

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Operating and nonoperating expenses by functional classification, are presented below:

| <i>(in millions of dollars)</i>     | <b>2003</b>     | <b>2002</b>     |
|-------------------------------------|-----------------|-----------------|
| Operating expenses                  |                 |                 |
| Instruction                         | \$ 227.7        | \$ 229.2        |
| Research                            | 148.1           | 143.6           |
| Public service                      | 40.3            | 41.4            |
| Academic support                    | 57.4            | 58.8            |
| Student services                    | 30.6            | 30.0            |
| Scholarships and fellowships        | 2.7             | 3.2             |
| Institutional support               | 59.7            | 58.6            |
| Operations and maintenance of plant | 54.2            | 47.6            |
| Auxiliary activities                | 15.0            | 11.3            |
| Depreciation expense                | 43.3            | 41.4            |
| Capital additions, net              | <u>(21.0)</u>   | <u>(20.9)</u>   |
| Total operating expenses            | 658.0           | 644.2           |
| Nonoperating                        |                 |                 |
| Interest expense and other          | <u>23.7</u>     | <u>9.0</u>      |
| Total expenses                      | <u>\$ 681.7</u> | <u>\$ 653.2</u> |

Operating expenses for 2003, including depreciation of \$43.3 million, totalled \$658.0 million compared to \$644.2 million in 2002.

As previously discussed, despite necessary cost reductions, the University maintained its commitment to instruction. General Fund expenditures for instruction increased \$4.4 million (2.8%) to \$159.5 in 2003 as compared to \$155.1 million in 2002. The overall decline in consolidated instruction expenditures is attributable to decreases in the Expendable Restricted Fund and the Designated Fund of 1.4% and 3.7%, respectively.

Significant expense increases include a \$4.5 million (3.1%) increase in research expenses, which bears a direct correlation to the increase in research revenues, a \$6.6 million (13.9%) increase in plant maintenance and operations resulting from increases in utilities and maintenance associated with new buildings and facilities and overall rapidly escalating utility rates which affected virtually all university buildings and facilities. Lastly, a \$3.7 million or 32.7% increase in the expenses associated with the University's Auxiliary activities is attributed to the costs associated with operations and maintenance of two new residence halls, the opening of a new parking structure and increased expenditures to improve the University's parking facilities and operations. The increase in depreciation expense is a result of the University's on-going investment in its physical facilities and equipment.

Net capital additions represents equipment, library books and administrative information technology systems expenditures that are included in the operating functional classifications of expenses, but are capitalized for financial statement reporting.

# Wayne State University Management's Discussion and Analysis (Unaudited)

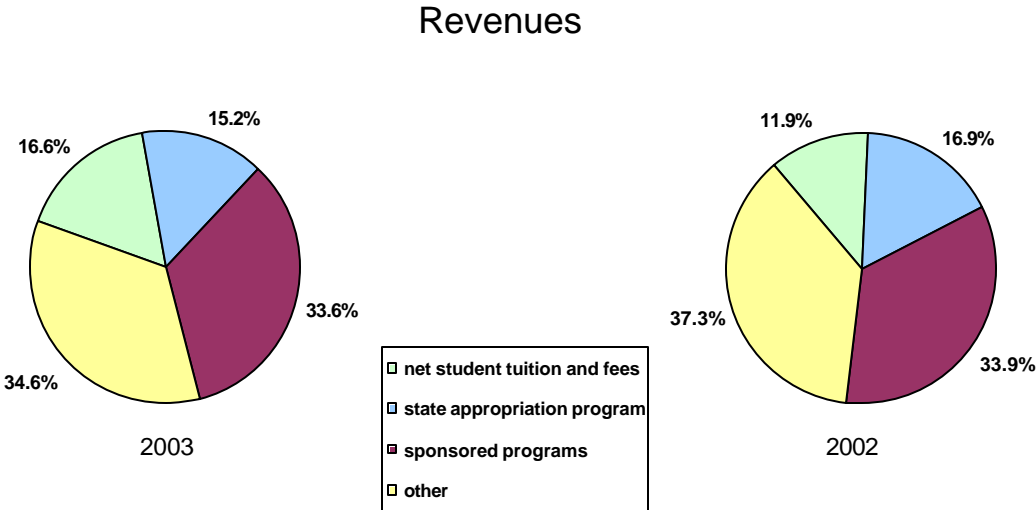
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The \$14.7 million increase in nonoperating expenses in fiscal year 2003 is comprised of an increase of \$1.5 million in interest expense on the increased bond indebtedness and an increase of \$11 million related to the write off of the undepreciated costs of assets below \$2,500, consistent with recent changes to the University's asset capitalization policy.

The overall impact of expense increases was partially offset by decreased spending levels necessitated by the reduction in state appropriations and achieved by the cost control measures adopted by the university early in the fiscal year.

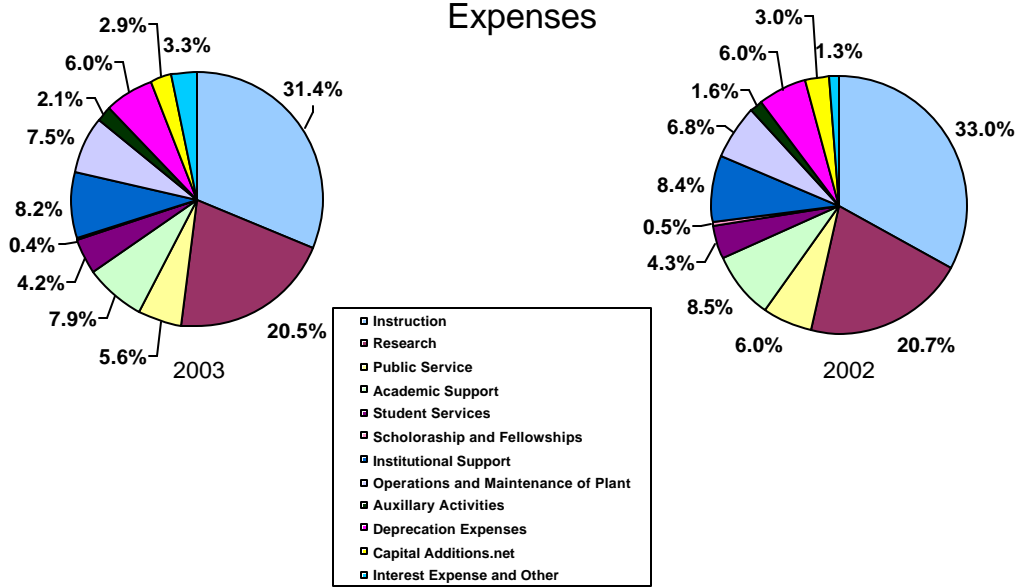
Notwithstanding required expense reductions and cutbacks, the university remains committed to assuring that the expenditure of its resources focuses on its core missions of instruction, research, and public service.

The following is a graphic illustration of fiscal year 2003 and 2002 revenues by source:



**Wayne State University  
Management’s Discussion and Analysis (Unaudited)**

The following is a graphic illustration of fiscal year 2003 and 2002 expenses by function:



It should be noted that General Fund expenditures for instruction increased by \$4.4 million (2.8%) to \$159.5 in 2003 as compared to \$155.1 million in 2002.

**STATEMENT OF CASH FLOWS**

The statement of cash flows provides additional information about the University’s financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ending September 30, 2003 and 2002 is as follows:

*(in millions of dollars)*

|   | <b>2003</b>     | <b>2002</b>     |
|---|-----------------|-----------------|
| Cash received from operations                             | \$ 389.9        | \$ 369.8        |
| Cash expended from operations                             | (610.7)         | (610.9)         |
| Net cash used in operating activities                     | (220.8)         | (241.1)         |
| Net cash provided by investing activities                 | 18.1            | 6.5             |
| Net cash used in capital and related financing activities | (41.6)          | (63.5)          |
| Net cash provided by noncapital financing activities      | 277.6           | 286.8           |
| Net increase (decrease) in cash and temporary investments | 33.3            | (11.3)          |
| <b>Cash and temporary investments</b>                     |                 |                 |
| Beginning of year   | 216.0           | 227.3           |
| End of year   | <u>\$ 249.3</u> | <u>\$ 216.0</u> |

## **Wayne State University Management's Discussion and Analysis (Unaudited)**

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The amount of cash used in operating activities in 2003 was \$20.3 million less than in 2002 as a result of the University implementing numerous cost control initiatives. In addition, the positive flow of funds provided by noncapital financing activities offset the use of funds by operating activities and capital and related financing activities. The University's most significant source of cash provided by noncapital financing activities is State appropriations which totalled \$245.5 and \$256.9 million in fiscal years 2003 and 2002, respectively.

### **ECONOMIC FACTORS AFFECTING THE FUTURE**

These are challenging financial times for higher education, particularly in the State of Michigan. As a result of economic pressures affecting the State of Michigan, state appropriations, our largest single revenue source, has been reduced 10.2% (\$25.4 million), as a result of the 4.4% mid-year reduction in 2003 and a 5.8% reduction for fiscal year 2004. This reduction, combined with continued increases in the cost of utilities, health care and compensation, have required management to institute cost containment measures and operating efficiencies in an effort to balance the budget. The University's reliance on state appropriations creates a direct relationship between future appropriation reductions and the need to increase tuition and fees. While the State of Michigan's State Building Authority has supported the University's renewal of core academic facilities in the past, the economic pressures affecting the State may also affect future support in this area.

Private gifts are an important supplement to the fundamental support provided by state appropriations and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

**Report of Independent Auditors**

To the Board of Governors of  
Wayne State University

In our opinion, the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the consolidated financial position of Wayne State University at September 30, 2003 and 2002, and its consolidated revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 1-12 is not a required part of the consolidated financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

January 30, 2004

**Wayne State University**  
**Consolidated Statements of Net Assets**  
**September 30, 2003 and 2002**

|   | 2003                    | 2002                    |
|---|-------------------------|-------------------------|
| <b>Assets</b>                                     |                         |                         |
| Current assets                                    |                         |                         |
| Cash and temporary investments                    | \$ 249,255,780          | \$ 215,967,058          |
| Current receivables, net                          | 96,314,454              | 97,399,444              |
| Inventories                                       | 1,708,014               | 1,732,619               |
| Deposits and prepaid expenses                     | 10,880,720              | 9,281,589               |
| Total current assets                              | <u>358,158,968</u>      | <u>324,380,710</u>      |
| Investments                                       | 149,679,940             | 131,189,330             |
| Noncurrent receivables, net                       | 36,369,923              | 37,991,597              |
| Unamortized bond issue costs                      | 1,135,437               | 843,084                 |
| Property, plant and equipment, net                | 621,361,940             | 585,965,876             |
| Total assets                                      | <u>\$ 1,166,706,208</u> | <u>\$ 1,080,370,597</u> |
| <b>Liabilities</b>                                |                         |                         |
| Current liabilities                               |                         |                         |
| Accounts payable and accrued expenses             | \$ 70,651,593           | \$ 69,148,854           |
| Deferred income                                   | 86,011,219              | 73,458,426              |
| Deposits  | 4,541,849               | 3,499,260               |
| Current portion of long-term debt                 | 4,240,109               | 3,522,559               |
| Total current liabilities                         | <u>165,444,770</u>      | <u>149,629,099</u>      |
| Federal portion of student loan funds             | 24,636,350              | 24,742,684              |
| Accrued employee benefits                         | 3,732,115               | 3,471,705               |
| Long-term debt                                    | 197,758,031             | 154,831,141             |
| Total liabilities                                 | <u>391,571,266</u>      | <u>332,674,629</u>      |
| <b>Net assets</b>                                 |                         |                         |
| Investment in capital assets, net of related debt | 423,086,813             | 428,455,260             |
| Restricted  |                         |                         |
| Nonexpendable                                     | 84,302,661              | 76,370,685              |
| Expendable  | 106,044,679             | 100,128,557             |
| Unrestricted                                      | 161,700,789             | 142,741,466             |
| Total net assets                                  | <u>775,134,942</u>      | <u>747,695,968</u>      |
| Total liabilities and net assets                  | <u>\$ 1,166,706,208</u> | <u>\$ 1,080,370,597</u> |

The accompanying notes are an integral part of these financial statements.



**Wayne State University**  
**Consolidated Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**Years Ended September 30, 2003 and 2002**

|   | <b>2003</b>           | <b>2002</b>           |
|---|-----------------------|-----------------------|
| <b>Operating revenues</b>   |                       |                       |
| Student tuition and fees  | \$ 147,965,818        | \$ 131,761,424        |
| Less: Scholarship allowances  | <u>39,889,148</u>     | <u>34,105,041</u>     |
| Net student tuition and fees  | 108,076,670           | 97,656,383            |
| Federal grants and contracts  | 121,232,516           | 115,249,562           |
| State and local grants and contracts  | 20,557,777            | 19,656,880            |
| Nongovernmental grants and contracts  | 95,963,900            | 98,647,134            |
| Departmental activities   | 11,246,574            | 13,969,127            |
| Auxiliary activities (net of scholarship allowance of<br>\$1,825,107 in 2003 and \$1,451,000 in 2002) | 17,091,975            | 12,418,306            |
| Other   | <u>1,385,717</u>      | <u>2,554,381</u>      |
| Total operating revenues  | <u>375,555,129</u>    | <u>360,151,773</u>    |
| <b>Operating expenses</b>   |                       |                       |
| Instruction   | 227,668,787           | 229,153,434           |
| Research  | 148,101,861           | 143,566,920           |
| Public service  | 40,341,344            | 41,491,278            |
| Academic support  | 57,402,803            | 58,842,406            |
| Student services  | 30,593,501            | 29,993,064            |
| Scholarships and fellowships  | 2,666,563             | 3,173,690             |
| Institutional support   | 59,718,125            | 58,590,179            |
| Operations and maintenance of plant   | 54,174,312            | 47,607,896            |
| Auxiliary activities  | 15,036,654            | 11,342,404            |
| Depreciation expense  | 43,313,757            | 41,371,062            |
| Capital additions, net  | <u>(21,047,124)</u>   | <u>(20,937,740)</u>   |
| Total operating expenses  | <u>657,970,583</u>    | <u>644,194,593</u>    |
| Operating loss  | (282,415,454)         | (284,042,820)         |
| <b>Nonoperating revenues (expenses)</b>   |                       |                       |
| State appropriations  | 245,520,223           | 256,899,036           |
| Gifts   | 30,162,916            | 22,431,642            |
| Interest expense on capital asset related debt  | (8,389,354)           | (6,915,064)           |
| Net investment income (loss)  | 40,141,401            | (1,504,692)           |
| Other   | <u>(1,692,064)</u>    | <u>(539,109)</u>      |
| Net nonoperating revenues   | <u>305,743,122</u>    | <u>270,371,813</u>    |
| Income (loss) before capital and endowment activity   | 23,327,668            | (13,671,007)          |
| State capital appropriations  | 6,123,696             | 19,272,879            |
| Capital gifts   | 7,697,970             | 9,689,969             |
| Write off of capital assets   | (13,620,013)          | (1,603,529)           |
| Private gifts for endowment purposes  | <u>3,909,653</u>      | <u>2,395,655</u>      |
| Increase in net assets  | 27,438,974            | 16,083,967            |
| <b>Net assets</b>   |                       |                       |
| Beginning of year   | <u>747,695,968</u>    | <u>731,612,001</u>    |
| End of year   | <u>\$ 775,134,942</u> | <u>\$ 747,695,968</u> |

The accompanying notes are an integral part of these financial statements.

**Wayne State University**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2003 and 2002**

|  | <b>2003</b>             | <b>2002</b>             |
|--|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>                                      |                         |                         |
| Tuition and fees   | \$ 109,594,866          | \$ 100,056,334          |
| Grants and contracts   | 242,900,151             | 230,493,540             |
| Auxiliary activities   | 16,090,293              | 13,802,714              |
| Departmental activities  | 11,523,415              | 16,930,954              |
| Loans issued to students   | (5,119,021)             | (5,356,902)             |
| Collection of loans from students  | 8,344,710               | 5,905,650               |
| Scholarships and fellowships   | (4,282,773)             | (4,640,774)             |
| Payments to suppliers  | (151,330,115)           | (166,246,088)           |
| Payments to employees  | (449,925,460)           | (434,636,901)           |
| Other receipts   | <u>1,366,086</u>        | <u>2,564,381</u>        |
| Net cash used by operating activities  | <u>(220,837,848)</u>    | <u>(241,127,092)</u>    |
| <b>Cash flows from noncapital financing activities</b>                           |                         |                         |
| State appropriations   | 244,766,818             | 257,487,916             |
| Gifts  | 32,599,356              | 25,883,938              |
| Private gifts for endowment purposes   | 3,909,653               | 2,395,655               |
| Student direct lending receipts  | 65,495,139              | 57,171,108              |
| Student direct lending disbursements   | (65,363,185)            | (56,516,553)            |
| FFELPS student lending receipts  | 41,345,984              | 17,617,828              |
| FFELPS student lending disbursements   | (43,999,520)            | (17,518,439)            |
| Other  | <u>(1,139,921)</u>      | <u>317,606</u>          |
| Net cash provided by noncapital financing activities                             | <u>277,614,324</u>      | <u>286,839,059</u>      |
| <b>Cash flows from capital and related financing activities</b>                  |                         |                         |
| State capital appropriations   | 14,670,824              | 18,955,154              |
| Capital gifts and grants   | 10,406,436              | 3,426,842               |
| Proceeds from issuance of debt and other long term obligations                   | 45,700,000              | 26,400,000              |
| Bond issue costs paid and discount   | (577,412)               | (469,574)               |
| Purchase of capital assets   | (100,440,732)           | (102,040,298)           |
| Principal paid on capital debt   | (2,936,667)             | (2,826,667)             |
| Interest paid on capital debt  | <u>(8,434,983)</u>      | <u>(6,961,965)</u>      |
| Net cash used by capital and related financing activities                        | <u>(41,612,534)</u>     | <u>(63,516,508)</u>     |
| <b>Cash flows from investing activities</b>                                      |                         |                         |
| Investment income, net   | 28,322,233              | 11,730,715              |
| Proceeds from sales and maturities of investments                                | 146,834,966             | 137,737,279             |
| Purchase of investments  | <u>(157,032,419)</u>    | <u>(142,955,169)</u>    |
| Net cash provided by investing activities  | 18,124,780              | 6,512,825               |
| Net increase (decrease) in cash and temporary investments                        | 33,288,722              | (11,291,716)            |
| <b>Cash and temporary investments</b>  |                         |                         |
| Beginning of year  | <u>215,967,058</u>      | <u>227,258,774</u>      |
| End of year  | <u>\$ 249,255,780</u>   | <u>\$ 215,967,058</u>   |
| <b>Reconciliation of operating loss to net cash used by operating activities</b> |                         |                         |
| Operating loss   | \$ (282,415,454)        | \$ (284,042,820)        |
| Adjustments to reconcile operating loss to net cash used by operating activities |                         |                         |
| Depreciation expense   | 43,313,757              | 41,371,062              |
| Change in assets and liabilities   |                         |                         |
| Accounts receivable, net   | 3,015,433               | 109,044                 |
| Inventories and other assets   | (1,574,527)             | (175,085)               |
| Accounts payable and accrued expenses  | 10,432,594              | (2,341,905)             |
| Deposits held for others   | 1,042,590               | 315,596                 |
| Deferred income  | 5,087,349               | 3,995,808               |
| Accrued employee benefits  | <u>260,410</u>          | <u>(358,792)</u>        |
| Net cash used by operating activities  | <u>\$ (220,837,848)</u> | <u>\$ (241,127,092)</u> |

The accompanying notes are an integral part of these financial statements.

# Wayne State University

## Notes to Consolidated Financial Statements

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### 1. Organization and Summary of Significant Accounting Policies

#### Organization and Basis of Presentation

Wayne State University (The University) is a state-supported institution with an enrollment of over 33,000 students. The financial statements include the individual schools, colleges and departments and all controlled organizations. The controlled organizations are the Wayne State University Housing Authority and the Wayne State University Foundation. The Housing Authority manages the University's residence halls and apartment related activities, while the Foundation facilitates the University's fund-raising activities and manages its endowment funds. While the University is a political subdivision of the State of Michigan, it is not a component unit of the State as defined by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The University is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as an educational organization under Internal Revenue Code Section 501 (c) (3), and is therefore generally exempt from federal and state income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *State and Local Governments*. The statements of net assets, revenues, expenses and changes in net assets, and cash flows are reported on a consolidated basis, and all intra-university transactions are eliminated as required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*.

The university has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The university has elected not to apply FASB pronouncements issued after November 30, 1989.

Consistent with GASB Statement No. 35, the University classifies its resources for accounting purposes into the following four net assets categories:

- **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted**
  - Nonexpendable** – Net assets subject to externally imposed stipulations that require they be maintained permanently by the University. Such net assets represent the corpus portion of gifts to the University's permanent endowment funds.
  - Expendable** – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University or that expire with the passage of a specified time. Such net assets include restricted gifts for current operations and undistributed accretions of permanent endowment investments in the amount of \$17,600,000 and \$9,130,000 as of September 30, 2003 and 2002, respectively.

# Wayne State University

## Notes to Consolidated Financial Statements

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- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Governors or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets have been designated for academic and research programs and initiatives, and capital programs.

### **Summary of Significant Accounting Policies**

The accompanying financial statements have been prepared on the accrual basis. The University reports as a Business Type Activity, as defined by GASB Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Consistent with GASB No. 35, the University defines operating activities as reported in the statement of revenues, expenses and changes in net assets as those that generally result from exchange transactions such as payments received for tuition and fees, as well as research services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. State appropriations, gifts and investment activity are recorded as non-operating revenue.

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

### **Investments**

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Realized and unrealized gains and losses are reported as investment income.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Governors to appropriate an amount of realized and unrealized endowment appreciation as they determine prudent. The University's policy is to retain the realized and unrealized appreciation with the endowment after spending rule distributions are applied.

### **Deferred Income**

Deferred income includes amounts received in advance of an event, such as portions of student tuition received prior to the beginning of the fall term. Deferred revenue also consists of amounts received from grant and contract sponsors which have not yet been earned under the agreement. This revenue is recognized only to the extent resources have been expended.

### **Receivables**

Receivables from sponsoring agencies include billed amounts of \$24,772,917 and \$24,681,759 and unbilled amounts of \$13,811,476 and \$19,192,341 at September 30, 2003 and 2002, respectively. Reserves have been provided for possible losses on receivables from sponsoring agencies, student accounts receivable and student and other notes receivable.

# Wayne State University

## Notes to Consolidated Financial Statements

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### **Inventories**

Inventories are stated at the lower of cost or market.

### **Property, Plant and Equipment**

Property, plant and equipment is recorded at cost or, if acquired by gift, at the fair market value as of the date of donation. Depreciation is computed on the straight-line method over the estimated service lives (five to forty years) of the respective assets.

### **Revenue Recognition**

State appropriations for current and capital funds are recognized in the period they are appropriated. State Building Authority funds are recognized when the State Building Authority receives the proceeds from the bonds issued for the project or when the University incurs State Building Authority capital project expenditures, whichever occurs first.

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowment pledges and conditional promises do not meet eligibility requirements, as defined by GASB Statement No. 33, *Financial Reporting for Non-Exchange Transactions*, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history, type of gift and nature of the fundraising.

The University disbursed approximately \$109,363,000 and \$74,034,000 in 2003 and 2002, respectively, for student loans through the U.S. Department of Education federal direct lending and federal guaranteed student loan programs. These distributions and related funding sources are not included as expenditures and revenues in the accompanying consolidated Statement of Revenues, Expenses and Changes in Net Assets.

### **Reclassifications**

Certain fiscal year 2002 balances have been reclassified to conform to the current-year presentation.

# Wayne State University

## Notes to Consolidated Financial Statements

### 2. Cash and Temporary Investments

Cash and temporary investments are stated at fair value.

In accordance with Governmental Accounting Standards Board Statement No. 3, investments are classified into three categories to give an indication of the level of credit risk assumed by the University. These categories are defined as follows:

Category 1: Investments that are insured or registered, or securities held by the University or its agent in the University's name.

Category 2: Uninsured and unregistered investments held by the broker's or dealer's trust department or agent in the University's name.

Category 3: Uninsured and unregistered investments held by the broker or dealer, or by its trust department or agent, but not in the University's name.

Of the total cash balances, \$3,807,135 and \$5,026,955 at September 30, 2003 and 2002, respectively, \$469,509 in 2003 and \$458,123 in 2002 were covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized, as the University is precluded by state law from collateralizing its deposits.

The classification, category and fair value (carrying amount) of cash and temporary investments as of September 30, 2003 and 2002 are as follows:

| Classification                   | September 30, 2003  |                      |                      | Total<br>Fair Value  |
|----------------------------------|---------------------|----------------------|----------------------|----------------------|
|                                  | Category            |                      |                      |                      |
|                                  | 1                   | 2                    | 3                    |                      |
| Temporary investments            |                     |                      |                      |                      |
| Fixed income investment pools    |                     |                      |                      |                      |
| Intermediate                     | \$ -                | \$ -                 | \$ 53,041,366        | \$ 53,041,366        |
| U.S. government and short-term   | -                   | -                    | 144,362,724          | 144,362,724          |
| Institutional prime money market | -                   | -                    | 5,465,373            | 5,465,373            |
| Commercial paper                 | -                   | 9,988,450            | -                    | 9,988,450            |
| Certificates of deposit          | 127,058             | 11,250,442           | -                    | 11,377,500           |
| Student loan-backed securities   | -                   | 31,000,000           | -                    | 31,000,000           |
| Other                            | 5,251,830           | -                    | -                    | 5,251,830            |
|                                  | <u>\$ 5,378,888</u> | <u>\$ 52,238,892</u> | <u>\$202,869,463</u> | <u>260,487,243</u>   |
| Cash overdraft                   |                     |                      |                      | <u>(11,231,463)</u>  |
|                                  |                     |                      |                      | <u>\$249,255,780</u> |

**Wayne State University**  
**Notes to Consolidated Financial Statements**

| Classification                   | September 30, 2002 |                      |                      | Total<br>Fair Value  |
|----------------------------------|--------------------|----------------------|----------------------|----------------------|
|                                  | Category           |                      |                      |                      |
|                                  | 1                  | 2                    | 3                    |                      |
| Temporary investments            |                    |                      |                      |                      |
| Fixed income investment pools    |                    |                      |                      |                      |
| Intermediate                     | \$ -               | \$ -                 | \$ 52,155,500        | \$ 52,155,500        |
| U.S. government and short-term   | -                  | -                    | 112,389,326          | 112,389,326          |
| Institutional prime money market | -                  | -                    | 24,314,777           | 24,314,777           |
| Commercial paper                 | -                  | 11,992,860           | -                    | 11,992,860           |
| Certificates of deposit          | 126,164            | 8,000,000            | -                    | 8,126,164            |
| Student loan-backed securities   | -                  | 21,000,000           | -                    | 21,000,000           |
| Other                            | 624,811            | -                    | -                    | 624,811              |
|                                  | <u>\$ 750,975</u>  | <u>\$ 40,992,860</u> | <u>\$188,859,603</u> | <u>230,603,438</u>   |
| Cash overdraft                   |                    |                      |                      | <u>(14,636,380)</u>  |
|                                  |                    |                      |                      | <u>\$215,967,058</u> |

Cash and temporary investments include bond proceeds of \$19.4 million and \$19.3 million, for fiscal years 2003 and 2002, respectively, that are restricted for capital purposes.

Cash balances in the various funds of the University are pooled and may be invested in short-term, interest-bearing instruments. The Board of Governors' policy allows investments to be made in bank repurchase agreements, corporate fixed income securities (maturing less than or equal to three years), municipal obligations, bank certificates of deposit, United States Treasury bills and notes, other United States agency notes, commercial paper, bankers' acceptances, secondary market certificates of deposit and any other instruments that have been selected and approved by the Common Fund Short and Intermediate-Term investment pools, including the Global Fund.

Board policy states that commercial paper shall have a minimum rating of P-1 by Moody's and/or an A-1 by Standard & Poor's. Investments in bank instruments may be in those issued by any bank chartered in the United States of America which is a member of the Federal Reserve System or in any bank chartered by the State of Michigan. Direct placements are limited to 20% of total resources with any institution, and investment pools must not have more than 10% of their assets in any particular issue. Management believes that investments were made in accordance with Board policy.

The University's cash and temporary investments provided a return of 2.12% and 3.10% for the years ended September 30, 2003 and 2002, respectively.

**Wayne State University**  
**Notes to Consolidated Financial Statements**

**3. Investments**

The classification, category and fair value (carrying amount) of investments held as of September 30, 2003 and 2002 are as follows:

| Classification   | September 30, 2003 |             |                       | Total<br>Fair Value   |
|--|--------------------|-------------|-----------------------|-----------------------|
|  | Category           |             |                       |                       |
|  | 1                  | 2           | 3                     |                       |
| U.S. common and preferred stocks                       | \$ 1,302           | \$ -        | \$ 75,525,340         | \$ 75,526,642         |
| U. S. Treasury bills, notes, bonds<br>and asset-backed | 10,000             | -           | 10,519,188            | 10,529,188            |
| Fixed income investment pools                          | -                  | -           | 26,705,463            | 26,705,463            |
| Corporate bonds  | 9,207              | -           | 8,625,294             | 8,634,501             |
| Foreign stocks   | -                  | -           | 26,887,116            | 26,887,116            |
| Real estate  | -                  | -           | 639,228               | 639,228               |
| Other  | 2                  | -           | 757,800               | 757,802               |
|  | <u>\$ 20,511</u>   | <u>\$ -</u> | <u>\$ 149,659,429</u> | <u>\$ 149,679,940</u> |

| Classification   | September 30, 2002 |             |                       | Total<br>Fair Value   |
|--|--------------------|-------------|-----------------------|-----------------------|
|  | Category           |             |                       |                       |
|  | 1                  | 2           | 3                     |                       |
| U.S. common and preferred stocks                       | \$ 1,302           | \$ -        | \$ 82,495,125         | \$ 82,496,427         |
| U. S. Treasury bills, notes, bonds<br>and asset-backed | 10,384             | -           | 15,915,020            | 15,925,404            |
| Corporate bonds  | 9,259              | -           | 22,296,677            | 22,305,936            |
| Fixed income investment pools                          | -                  | -           | 5,015,339             | 5,015,339             |
| Real estate  | -                  | -           | 689,180               | 689,180               |
| Other  | 14                 | -           | 4,757,030             | 4,757,044             |
|  | <u>\$ 20,959</u>   | <u>\$ -</u> | <u>\$ 131,168,371</u> | <u>\$ 131,189,330</u> |

At September 30, 2003 and 2002, approximately 99% of the long-term investments were administered by outside managers. These funds must be invested in accordance with University policy, as outlined in the managers' contracts, and in a manner that achieves the University's return on investment objectives. These long-term investments provided a total return (loss) of 15.9% and (6.4)% for the years ended September 30, 2003 and 2002, respectively. Total return includes ordinary income as well as realized and unrealized gains and losses. Investments under management are allocated approximately 70% to equity managers and 30% to fixed income managers.



**Wayne State University**  
**Notes to Consolidated Financial Statements**

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**4. Receivables**

As of September 30, 2003 and 2002, receivables consist of the following:

|   | <b>2003</b>          | <b>2002</b>          |
|---|----------------------|----------------------|
| Receivables from sponsoring agencies                                    | \$ 38,584,393        | \$ 43,874,100        |
| Pledged gift receivables  | 10,750,370           | 14,033,972           |
| Student notes receivables   | 34,253,997           | 32,137,141           |
| Student accounts receivable   | 43,129,063           | 36,273,246           |
| State appropriations receivable, capital projects                       | 140,992              | 8,688,119            |
| Other   | <u>11,012,423</u>    | <u>7,723,638</u>     |
|   | 137,871,238          | 142,730,216          |
| Less: Provision for loss on receivables                                 | (4,648,954)          | (6,468,998)          |
| Less: Unamortized discount to present value on pledged gift receivables | <u>(537,907)</u>     | <u>(870,177)</u>     |
|   | 132,684,377          | 135,391,041          |
| Less: Current portion receivables, net                                  | <u>(96,314,454)</u>  | <u>(97,399,444)</u>  |
| Total noncurrent receivables, net                                       | <u>\$ 36,369,923</u> | <u>\$ 37,991,597</u> |

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance applicable to student notes receivables applies only to University funded notes and the University portion of federal student loans, since Federal regulations do not require the University to provide reserves on the federal portion of uncollectible student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health profession loan programs.

During 2003, the University became a participant in the School as Lender program and disbursed approximately \$5,711,000 in loans to students, which is included in student notes receivable. The University secured a line of credit with a bank to fund loans issued in conjunction with this program.

Payments on pledges receivable at September 30, 2003 are expected to occur in the following years ending September 30:

|           |                      |
|-----------|----------------------|
| 2004      | \$ 7,405,544         |
| 2005-2008 | 3,029,616            |
| 2009      | <u>315,210</u>       |
|           | <u>\$ 10,750,370</u> |

# Wayne State University

## Notes to Consolidated Financial Statements

### 5. Property, Plant and Equipment

Capital assets activity for the year ended September 30, 2003 is summarized as follows:

|                                | Beginning<br>Balance  | Additions            | Retirements          | Ending<br>Balance     |
|--------------------------------|-----------------------|----------------------|----------------------|-----------------------|
| Land                           | \$ 24,554,201         | \$ 5,153,547         | \$ 37,939            | \$ 29,669,809         |
| Land improvements              | 14,360,994            | 2,343,838            | 81,844               | 16,622,988            |
| Buildings                      | 660,022,073           | 63,428,923           | 2,445,830            | 721,005,166           |
| Construction in progress       | 4,738,663             | (583,442)            | -                    | 4,155,221             |
| Equipment and software         | 242,238,989           | 18,075,069           | 71,002,313           | 189,311,745           |
| Library materials              | 103,535,382           | 3,911,898            | 261,650              | 107,185,630           |
| Subtotal                       | 1,049,450,302         | 92,329,833           | 73,829,576           | 1,067,950,559         |
| Less: Accumulated depreciation | 463,484,426           | 43,313,757           | 60,209,564           | 446,588,619           |
| Net capital assets             | <u>\$ 585,965,876</u> | <u>\$ 49,016,076</u> | <u>\$ 13,620,012</u> | <u>\$ 621,361,940</u> |

Construction in progress additions represents expenditures for new projects, net of the amount of capital assets placed in service.

Retirements include the net effect of the University changing its capitalization threshold from \$2,500 to \$5,000 in fiscal 2003. The net effect of this change resulted in approximately an \$11 million (1.9)% decrease in the University's property, plant and equipment.

### 6. Long-Term Debt

Long-term debt consists of the following as of September 30, 2003 and 2002:

|   | Interest<br>Rate | Maturity    | <u>Outstanding Principal</u> |                       |
|---|------------------|-------------|------------------------------|-----------------------|
|   |                  |             | 2003                         | 2002                  |
| <b>Bonds</b>                              |                  |             |                              |                       |
| Series 2002 General Revenue               | 4.33%            | 2003 - 2032 | \$ 45,700,000                | \$ -                  |
| Series 2001 General Revenue,<br>Tranche A | 4.85%            | 2003 - 2031 | 19,000,000                   | 19,000,000            |
| Series 2001 General Revenue,<br>Tranche B | 4.27%            | 2003 - 2031 | 7,400,000                    | 7,400,000             |
| Series 1999 General Revenue               | 4.25% to 5.50%   | 2003 - 2029 | 125,250,000                  | 127,595,000           |
| Series 1993 General Revenue               | 5.10% to 5.65%   | 2003 - 2012 | 3,955,000                    | 4,220,000             |
| <b>Notes</b>                              |                  |             |                              |                       |
| Various                                   | Various          | 2003 - 2013 | 4,561,297                    | 3,910,820             |
|   |                  |             | <u>205,866,297</u>           | <u>162,125,820</u>    |
| Less: Amounts due within one year         |                  |             | (4,240,109)                  | (3,522,559)           |
| Less: Unamortized bond discount           |                  |             | <u>(3,868,157)</u>           | <u>(3,772,120)</u>    |
|   |                  |             | <u>\$ 197,758,031</u>        | <u>\$ 154,831,141</u> |

# Wayne State University

## Notes to Consolidated Financial Statements

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The University's General Revenue Bonds are secured primarily by the unrestricted operating revenues of the University. When possible, the University defeases prior debt issuances to reduce its borrowing costs. The total amount of defeased bonds outstanding at September 30, 2003 and 2002 totalled \$59,315,000 and \$62,250,000, respectively.

Maturities of bonds and notes payable and obligations under installment purchases for the next five years are as follows:

|            |                      |
|------------|----------------------|
| 2004       | \$ 4,240,108         |
| 2005       | 4,669,798            |
| 2006       | 4,583,417            |
| 2007       | 4,902,177            |
| 2008       | 5,007,009            |
| Thereafter | <u>182,463,788</u>   |
|            | <u>\$205,866,297</u> |

Cash paid for interest was approximately \$8,434,983 in 2003 and \$6,961,965 in 2002.

### Interest Rate Swaps

The University has entered into interest rate swap agreements whereby it pays a fixed interest rate to, and receives a variable rate from, the counterparty to the swaps based on the following notional amounts:

| Bond Issue             | Period   | Amount               | Interest Rate |
|------------------------|----------|----------------------|---------------|
| Series 2001, Tranche A | 30 years | \$ 19,000,000        | 4.85%         |
| Series 2001, Tranche B | 30 years | 7,400,000            | 4.27%         |
| Series 2002            | 30 years | <u>45,700,000</u>    | 4.33%         |
| Total                  |          | <u>\$ 72,100,000</u> |               |

The variable interest rates for these bonds for the period that the swaps were outstanding ranged from 1% to 1.5% for fiscal years 2003 and 2002.

The estimated fair value of the interest rate swaps at September 30, 2003 was a liability of approximately \$9 million. The fair value represents the estimated amount that the University would pay to terminate the swap agreements at the balance sheet date, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with government accounting standards, this amount is not required to be included in the accompanying financial statements.

The purpose of these transactions is to reduce the University's risk exposure to rising interest rates and to effectively lower its cost of borrowing over time.

# Wayne State University

## Notes to Consolidated Financial Statements

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### 7. Retirement Plan

The University provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after they reach 26 years of age and have two years of service. For eligible employees, the University will contribute 10% of an employee's salary each pay period provided that the employee contributes 5% of their salary. The University's contributions for each employee are fully vested immediately.

The University's total payroll was approximately \$363,351,000 and \$353,611,000 in 2003 and 2002, respectively. The University's contributions were calculated using the base salary amount of \$230,553,000 in 2003 and \$223,897,000 in 2002. The University and employees made the required contribution of \$23,055,000 and \$11,257,500, respectively in 2003 and \$22,390,000 and \$11,195,000, respectively in 2002.

### 8. Commitments

In connection with the University's ongoing construction program, approximately \$10,900,000 was committed at September 30, 2003. Included in this amount is approximately \$2,300,000 related to Perinatal Research Branch renovations, \$2,200,000 related to Parking improvements, \$1,300,000 for the NIH Pharmacy lab renovation and various other construction projects. The commitments will be funded through a combination of sources including state appropriations, gifts, investment income, various university resources and transfers from the General Fund.

### 9. Contingencies

#### **Insurance program**

In conjunction with the conduct of its routine operations, the University is exposed to various risks of loss and legal actions. The University and ten other state-supported universities participant in the Michigan Universities Self-Insurance Corporation ("MUSIC"), which provides comprehensive general liability, errors and omissions, property and vehicle liability, and excess liability insurance. Loss coverages are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer and commercial carriers covering the third.

Comprehensive general liability coverage is provided on an occurrence basis, errors and omissions coverage is provided on a claims made basis and property coverage is provided on a blanket basis. Each university is responsible for its regular anticipated losses, determined actuarially, for both general liability and errors and omissions. The aggregate retention amounts for each member are actuarially determined annually. MUSIC provides coverage for claims in excess of these retentions.

All of the participating universities are subject to additional assessments, if the obligations and expenses (claims) of MUSIC exceed the consolidated periodic payments and accumulated operational reserves for any given year. The maximum possible additional assessment for the University for the year ended September 30, 2003 is approximately \$1.8 million. The University has not been subjected to additional assessments since the formation of MUSIC in 1987.

# Wayne State University

## Notes to Consolidated Financial Statements

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The University is also self-insured for certain employee benefits. Claims expenditures and liabilities are recorded when it is probable that a significant loss has occurred and the amount of that loss can be reasonably estimated. This would include an estimate of any significant claims that have been incurred but not reported. The University's recorded reserves for its self-insured workers' compensation, dental and certain medical insurance programs at September 30, 2003 and 2002 totalled approximately \$3,750,000 and \$3,400,000, respectively. Specific excess (umbrella) coverage has been purchased by the University for its self-insured workers' compensation and medical insurance programs.

### **Pending litigation**

The University is named as a defendant in certain civil actions. The University is of the opinion that the resulting disposition of these actions will not have a material effect on the consolidated financial statements.

### **Loan Guarantees**

The University has guaranteed an operating line of credit of \$500,000 for the Wayne State University Research and Technology Park in the City of Detroit (a 501(c)(3) organization). As of September 30, 2003, there have been no funds drawn against the line of credit. Subsequent to September 30, 2003, the University's Board of Governors authorized the Administration to guarantee a construction loan of \$10 million for the Research and Technology Park facilities.

## **10. Natural Classification of Expenses**

Operating expenses by natural classification for the years ended September 30, 2003 and 2002 are summarized as follows:

|                             | <b>2003</b>           | <b>2002</b>           |
|-----------------------------|-----------------------|-----------------------|
| Compensation and benefits   | \$ 451,202,617        | \$ 436,984,413        |
| Supplies and services       | 160,787,646           | 162,665,428           |
| Depreciation                | 43,313,757            | 41,371,062            |
| Scholarship and fellowships | 2,666,563             | 3,173,690             |
| Total operating expenses    | <u>\$ 657,970,583</u> | <u>\$ 644,194,593</u> |

**Report of Independent Auditors on  
Supplemental Information**

To the Board of Governors of  
Wayne State University

Our report on the audits of the consolidated financial statements of Wayne State University as of September 30, 2003 and 2002, and for the years then ended, appears on page 13. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements, taken as a whole, which are set forth on pages 14 to 28, inclusive. The supplemental information included herein on pages 30 to 33, inclusive, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

January 30, 2004

**Wayne State University**  
**Consolidating Statement of Net Assets**  
**September 30, 2003 with Comparative Totals for 2002**

|   | 2003           |                 |                           |                             |                            |                        |                |                   |                             |               |                    | 2002               |
|---|----------------|-----------------|---------------------------|-----------------------------|----------------------------|------------------------|----------------|-------------------|-----------------------------|---------------|--------------------|--------------------|
|   | General Fund   | Designated Fund | Auxiliary Activities Fund | Independent Operations Fund | Expendable Restricted Fund | Subtotal Current Funds | Plant Fund     | Student Loan Fund | Endowment and Similar Funds | Agency Fund   | Consolidated Total | Consolidated Total |
| <b>Assets</b>                                     |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| <b>Current assets</b>                             |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| Cash and temporary investments                    | \$ 106,928,517 | \$ 31,168,053   | \$ 8,997,579              | \$ (679,151)                | \$ 23,534,463              | \$ 169,949,461         | \$ 56,266,557  | \$ 7,580,640      | \$ 5,532,860                | \$ 9,926,262  | \$ 249,255,780     | \$ 215,967,058     |
| Current receivables, net                          | 41,985,647     | 3,666,345       | 3,560,533                 | 1,571,296                   | 39,490,520                 | 90,274,341             | 4,776,989      | 122,631           | 267,061                     | 873,432       | 96,314,454         | 97,399,444         |
| Inventories                                       | 1,001,387      | -               | 706,627                   | -                           | -                          | 1,708,014              | -              | -                 | -                           | -             | 1,708,014          | 1,732,619          |
| Deposits and prepaid expenses                     | 10,438,114     | 8,976           | 138,800                   | -                           | 15,938                     | 10,601,828             | 16,762         | -                 | -                           | 262,130       | 10,880,720         | 9,281,589          |
| Total current assets                              | 160,353,665    | 34,843,374      | 13,403,539                | 892,145                     | 63,040,921                 | 272,533,644            | 61,060,308     | 7,703,271         | 5,799,921                   | 11,061,824    | 358,158,968        | 324,380,710        |
| <b>Investments</b>                                |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| Noncurrent receivables, net                       | -              | 188,241         | -                         | 8,679                       | 203,247                    | 400,167                | 2,414,616      | 33,555,140        | 149,679,940                 | -             | 149,679,940        | 131,189,330        |
| Unamortized bond issue costs                      | -              | -               | -                         | -                           | -                          | -                      | 1,135,437      | -                 | -                           | -             | 1,135,437          | 843,084            |
| Property, plant and equipment, net                | -              | -               | -                         | -                           | -                          | -                      | 621,361,940    | -                 | -                           | -             | 621,361,940        | 585,965,876        |
| Total assets                                      | \$ 160,353,665 | \$ 35,031,615   | \$ 13,403,539             | \$ 900,824                  | \$ 63,244,168              | \$ 272,933,811         | \$ 685,972,301 | \$ 41,258,411     | \$ 155,479,861              | \$ 11,061,824 | \$ 1,166,706,208   | \$ 1,080,370,597   |
| <b>Liabilities</b>                                |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| <b>Current liabilities</b>                        |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| Accounts payable and accrued expenses             | \$ 29,383,617  | \$ 2,786,219    | \$ 1,954,617              | \$ 165,569                  | \$ 14,726,506              | \$ 49,016,528          | \$ 5,470,609   | \$ 5,908,421      | \$ 187,267                  | \$ 10,068,768 | \$ 70,651,593      | \$ 69,148,854      |
| Deferred income                                   | 63,123,616     | 353,850         | 2,898,507                 | 12,036                      | 19,353,274                 | 85,741,283             | 269,936        | -                 | -                           | -             | 86,011,219         | 73,458,426         |
| Deposits  | 2,863,617      | 41,125          | 594,051                   | -                           | -                          | 3,498,793              | 50,000         | -                 | -                           | 993,056       | 4,541,849          | 3,499,260          |
| Current portion of long-term debt                 | -              | -               | -                         | -                           | -                          | -                      | 4,240,109      | -                 | -                           | -             | 4,240,109          | 3,522,559          |
| Total current liabilities                         | 95,370,850     | 3,181,194       | 5,447,175                 | 177,605                     | 34,079,780                 | 138,256,604            | 10,030,654     | 5,908,421         | 187,267                     | 11,061,824    | 165,444,770        | 149,629,099        |
| Federal portion of student loan funds             | -              | -               | -                         | -                           | -                          | -                      | -              | 24,636,350        | -                           | -             | 24,636,350         | 24,742,684         |
| Accrued employee benefits                         | 2,906,547      | 52,262          | 559,146                   | 12,999                      | 201,161                    | 3,732,115              | -              | -                 | -                           | -             | 3,732,115          | 3,471,705          |
| Long-term debt                                    | -              | -               | -                         | -                           | -                          | -                      | 197,758,031    | -                 | -                           | -             | 197,758,031        | 154,831,141        |
| Total liabilities                                 | 98,277,397     | 3,233,456       | 6,006,321                 | 190,604                     | 34,280,941                 | 141,988,719            | 207,788,685    | 30,544,771        | 187,267                     | 11,061,824    | 391,571,266        | 332,674,629        |
| <b>Net assets</b>                                 |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| Investment in capital assets, net of related debt | -              | -               | -                         | -                           | -                          | -                      | 423,086,813    | -                 | -                           | -             | 423,086,813        | 428,455,260        |
| <b>Restricted</b>                                 |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| <b>Nonexpendable</b>                              |                |                 |                           |                             |                            |                        |                |                   |                             |               |                    |                    |
| Expendable  | -              | -               | -                         | -                           | 28,963,227                 | 28,963,227             | 947,521        | 10,326,289        | 73,930,402                  | -             | 84,302,661         | 76,370,685         |
| Unrestricted                                      | 62,076,268     | 31,798,159      | 7,397,218                 | 710,220                     | -                          | 101,981,865            | 54,103,312     | 387,351           | 5,228,261                   | -             | 161,700,789        | 142,741,466        |
| Total net assets                                  | 62,076,268     | 31,798,159      | 7,397,218                 | 710,220                     | 28,963,227                 | 130,945,092            | 478,183,616    | 10,713,640        | 155,292,594                 | -             | 775,134,942        | 747,695,968        |
| Total liabilities and net assets                  | \$ 160,353,665 | \$ 35,031,615   | \$ 13,403,539             | \$ 900,824                  | \$ 63,244,168              | \$ 272,933,811         | \$ 685,972,301 | \$ 41,258,411     | \$ 155,479,861              | \$ 11,061,824 | \$ 1,166,706,208   | \$ 1,080,370,597   |

(A) General Fund unrestricted net assets are appropriated or allocated as follows (in thousands):

|  | 2003      | 2002      |
|--|-----------|-----------|
| Contractually committed, encumbrances              | \$ 11,849 | \$ 8,152  |
| Appropriated in subsequent year's budget           | 4,800     | 3,560     |
| Rainy Day Fund                                     | 7,961     | 7,791     |
| Committed for research                             | 18,659    | 19,449    |
| Academic unit funds carried forward                | 6,506     | 7,123     |
| Operating unit funds carried forward               | 10,460    | 9,710     |
| Funds available for allocation in subsequent years | 1,841     | 3,320     |
| Total General Fund unrestricted net assets         | \$ 62,076 | \$ 59,105 |

**Wayne State University**  
**Consolidating Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended September 30, 2003 with Comparative Totals for 2002**

|  | 2003            |                    |                                 |                                   |                                  |                              |                |                      |                                   |              | 2002<br>Consolidated<br>Total |                       |
|--|-----------------|--------------------|---------------------------------|-----------------------------------|----------------------------------|------------------------------|----------------|----------------------|-----------------------------------|--------------|-------------------------------|-----------------------|
|  | General<br>Fund | Designated<br>Fund | Auxiliary<br>Activities<br>Fund | Independent<br>Operations<br>Fund | Expendable<br>Restricted<br>Fund | Subtotal<br>Current<br>Funds | Plant<br>Fund  | Student<br>Loan Fund | Endowment<br>and Similar<br>Funds | Adjustment   |                               | Consolidated<br>Total |
| <b>Operating revenues</b>                            |                 |                    |                                 |                                   |                                  |                              |                |                      |                                   |              |                               |                       |
| Student tuition and fees                             | \$ 145,428,622  | \$ -               | \$ 2,314,728                    | \$ -                              | \$ -                             | \$ 147,743,350               | \$ 222,468     | \$ -                 | \$ -                              | \$ -         | \$ 147,965,818                | \$ 131,761,424        |
| Less: Scholarship allowances                         | -               | -                  | -                               | -                                 | -                                | -                            | -              | -                    | -                                 | (39,889,148) | (39,889,148)                  | (34,105,041)          |
| Net student tuition and fees                         | 145,428,622     | -                  | 2,314,728                       | -                                 | -                                | 147,743,350                  | 222,468        | -                    | -                                 | (39,889,148) | 108,076,670                   | 97,656,383            |
| Federal grants and contracts                         | -               | -                  | -                               | -                                 | 120,980,665                      | 120,980,665                  | 251,851        | -                    | -                                 | -            | 121,232,516                   | 115,249,562           |
| State and local grants and contracts                 | -               | -                  | -                               | -                                 | 20,557,777                       | 20,557,777                   | -              | -                    | -                                 | -            | 20,557,777                    | 19,656,880            |
| Nongovernmental grants and contracts                 | -               | 52,270,926         | -                               | -                                 | 43,692,974                       | 95,963,900                   | -              | -                    | -                                 | -            | 95,963,900                    | 98,647,134            |
| Departmental activities                              | 3,782,038       | 6,546,905          | -                               | 917,631                           | -                                | 11,246,574                   | -              | -                    | -                                 | -            | 11,246,574                    | 13,969,127            |
| Auxiliary activities                                 | -               | -                  | 18,917,082                      | -                                 | -                                | 18,917,082                   | -              | -                    | -                                 | (1,825,107)  | 17,091,975                    | 12,418,306            |
| Recovery of indirect costs of sponsored programs     | 32,296,224      | -                  | -                               | -                                 | (32,296,224)                     | -                            | -              | -                    | -                                 | -            | -                             | -                     |
| Other  | 1,213,455       | -                  | -                               | -                                 | -                                | 1,213,455                    | -              | 172,262              | -                                 | -            | 1,385,717                     | 2,554,381             |
| Total operating revenue                              | 182,720,339     | 58,817,831         | 21,231,810                      | 917,631                           | 152,935,192                      | 416,622,803                  | 474,319        | 172,262              | -                                 | (41,714,255) | 375,555,129                   | 360,151,773           |
| <b>Operating expenses</b>                            |                 |                    |                                 |                                   |                                  |                              |                |                      |                                   |              |                               |                       |
| Instruction  | 159,530,293     | 43,460,537         | -                               | -                                 | 24,677,957                       | 227,668,787                  | -              | -                    | -                                 | -            | 227,668,787                   | 229,153,434           |
| Research   | 24,422,382      | 3,248,453          | -                               | -                                 | 120,431,026                      | 148,101,861                  | -              | -                    | -                                 | -            | 148,101,861                   | 143,566,920           |
| Public service                                       | 1,602,786       | 12,722,945         | -                               | 3,018,676                         | 22,996,937                       | 40,341,344                   | -              | -                    | -                                 | -            | 40,341,344                    | 41,491,278            |
| Academic support                                     | 52,835,044      | 3,217,014          | -                               | -                                 | 1,350,745                        | 57,402,803                   | -              | -                    | -                                 | -            | 57,402,803                    | 58,842,406            |
| Student services                                     | 29,598,778      | 390,617            | -                               | -                                 | 604,106                          | 30,593,501                   | -              | -                    | -                                 | -            | 30,593,501                    | 29,993,064            |
| Scholarships and fellowships                         | 21,257,206      | 10,662             | -                               | -                                 | 23,112,950                       | 44,380,818                   | -              | -                    | -                                 | (41,714,255) | 2,666,563                     | 3,173,690             |
| Institutional support                                | 53,159,247      | 6,425,969          | -                               | -                                 | 132,909                          | 59,718,125                   | -              | -                    | -                                 | -            | 59,718,125                    | 58,590,179            |
| Operation and maintenance of plant                   | 48,574,968      | -                  | -                               | -                                 | 1,087,044                        | 49,662,012                   | 4,512,300      | -                    | -                                 | -            | 54,174,312                    | 47,607,896            |
| Auxiliary activities                                 | -               | -                  | 15,036,654                      | -                                 | -                                | 15,036,654                   | -              | -                    | -                                 | -            | 15,036,654                    | 11,342,404            |
| Depreciation expense                                 | -               | -                  | -                               | -                                 | -                                | -                            | 43,313,757     | -                    | -                                 | -            | 43,313,757                    | 41,371,062            |
| Capital additions, net                               | -               | -                  | -                               | -                                 | -                                | -                            | (21,047,124)   | -                    | -                                 | -            | (21,047,124)                  | (20,937,740)          |
| Transfers (in) out                                   | -               | -                  | -                               | -                                 | -                                | -                            | -              | -                    | -                                 | -            | -                             | -                     |
| Debt service   | 8,872,203       | -                  | 2,534,557                       | -                                 | -                                | 11,406,760                   | (11,406,760)   | -                    | -                                 | -            | -                             | -                     |
| Loan matching  | 126,683         | -                  | -                               | -                                 | -                                | 126,683                      | -              | (126,683)            | -                                 | -            | -                             | -                     |
| Plant improvement and extension                      | 15,471,367      | 1,178,689          | 3,437,742                       | -                                 | 484,900                          | 20,572,698                   | (20,572,698)   | -                    | -                                 | -            | -                             | -                     |
| Other  | 206,293         | 1,550,324          | -                               | -                                 | 2,086,952                        | 3,843,569                    | -              | 59,584               | (3,903,153)                       | -            | -                             | -                     |
| Total operating expenses                             | 415,657,250     | 72,205,210         | 21,008,953                      | 3,018,676                         | 196,965,526                      | 708,855,615                  | (5,200,525)    | (67,099)             | (3,903,153)                       | (41,714,255) | 657,970,583                   | 644,194,593           |
| Operating income (loss)                              | (232,936,911)   | (13,387,379)       | 222,857                         | (2,101,045)                       | (44,030,334)                     | (292,232,812)                | 5,674,844      | 239,361              | 3,903,153                         | -            | (282,415,454)                 | (284,042,820)         |
| <b>Nonoperating revenues (expenses)</b>              |                 |                    |                                 |                                   |                                  |                              |                |                      |                                   |              |                               |                       |
| State appropriations                                 | 233,134,077     | -                  | -                               | -                                 | 12,386,146                       | 245,520,223                  | -              | -                    | -                                 | -            | 245,520,223                   | 256,899,036           |
| Gifts  | -               | 7,428,329          | -                               | 1,851,236                         | 20,485,575                       | 29,765,140                   | -              | 20,278               | 377,498                           | -            | 30,162,916                    | 22,431,642            |
| Interest expense on capital asset related debt       | -               | -                  | -                               | -                                 | -                                | -                            | (8,389,354)    | -                    | -                                 | -            | (8,389,354)                   | (6,915,064)           |
| Investment income                                    | -               | -                  | -                               | -                                 | -                                | -                            | -              | -                    | -                                 | -            | -                             | -                     |
| Endowment and similar funds                          | -               | 106,956            | -                               | 3,148                             | 6,744,728                        | 6,854,832                    | 33,667         | 30,545               | (6,919,044)                       | -            | -                             | -                     |
| Other  | 2,773,695       | 12,752,312         | 66,059                          | (200)                             | 1,419,374                        | 17,011,240                   | 1,436,214      | 49,475               | 21,644,472                        | -            | 40,141,401                    | (1,504,692)           |
| Other  | -               | -                  | -                               | -                                 | -                                | -                            | (1,474,744)    | (198,824)            | (18,496)                          | -            | (1,692,064)                   | (539,109)             |
| Net nonoperating revenues (expenses)                 | 235,907,772     | 20,287,597         | 66,059                          | 1,854,184                         | 41,035,823                       | 299,151,435                  | (8,394,217)    | (98,526)             | 15,084,430                        | -            | 305,743,122                   | 270,371,813           |
| Income (loss) before capital and endowment additions | 2,970,861       | 6,900,218          | 288,916                         | (246,861)                         | (2,994,511)                      | 6,918,623                    | (2,719,373)    | 140,835              | 18,987,583                        | -            | 23,327,668                    | (13,671,007)          |
| State capital appropriations                         | -               | -                  | -                               | -                                 | -                                | -                            | 6,123,696      | -                    | -                                 | -            | 6,123,696                     | 19,272,879            |
| Capital gifts  | -               | -                  | -                               | -                                 | -                                | -                            | 7,697,970      | -                    | -                                 | -            | 7,697,970                     | 9,689,969             |
| Write off of capital assets                          | -               | -                  | -                               | -                                 | -                                | -                            | (13,620,013)   | -                    | -                                 | -            | (13,620,013)                  | (1,603,529)           |
| Private gifts for endowment purposes                 | -               | -                  | -                               | -                                 | -                                | -                            | -              | -                    | 3,909,653                         | -            | 3,909,653                     | 2,395,655             |
| Increase (decrease) in net assets                    | 2,970,861       | 6,900,218          | 288,916                         | (246,861)                         | (2,994,511)                      | 6,918,623                    | (2,517,720)    | 140,835              | 22,897,236                        | -            | 27,438,974                    | 16,083,967            |
| Net assets, beginning of year                        | 59,105,407      | 24,897,941         | 7,108,302                       | 957,081                           | 31,957,738                       | 124,026,469                  | 480,701,336    | 10,572,805           | 132,395,358                       | -            | 747,695,968                   | 731,612,001           |
| Net assets, end of year                              | \$ 62,076,268   | \$ 31,798,159      | \$ 7,397,218                    | \$ 710,220                        | \$ 28,963,227                    | \$ 130,945,092               | \$ 478,183,616 | \$ 10,713,640        | \$ 155,292,594                    | \$ -         | \$ 775,134,942                | \$ 747,695,968        |



**Wayne State University**  
**Consolidating Statement of Net Assets**  
**September 30, 2002**

|   | 2002                  |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
|---|-----------------------|----------------------|---------------------------|-----------------------------|----------------------------|------------------------|-----------------------|----------------------|-----------------------------|---------------------|-------------------------|
|   | General Fund          | Designated Fund      | Auxiliary Activities Fund | Independent Operations Fund | Expendable Restricted Fund | Subtotal Current Funds | Plant Fund            | Student Loan Fund    | Endowment and Similar Funds | Agency Fund         | Consolidated Total      |
| <b>Assets</b>                                     |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| <b>Current assets</b>                             |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| Cash and temporary investments                    | \$ 101,128,112        | \$ 25,885,721        | \$ 8,940,723              | \$ 173,301                  | \$ 15,682,913              | \$ 151,810,770         | \$ 50,695,348         | \$ 4,123,094         | \$ 805,744                  | \$ 8,532,102        | \$ 215,967,058          |
| Current receivables, net                          | 34,126,024            | 1,228,435            | 1,375,286                 | 1,199,230                   | 45,210,916                 | 83,139,891             | 12,691,097            | 103,000              | 598,557                     | 866,899             | 97,399,444              |
| Inventories                                       | 956,580               | -                    | 776,039                   | -                           | -                          | 1,732,619              | -                     | -                    | -                           | -                   | 1,732,619               |
| Deposits and prepaid expenses                     | 8,718,833             | 14,933               | 122,083                   | -                           | 15,938                     | 8,871,787              | 16,762                | -                    | -                           | 393,040             | 9,281,589               |
| <b>Total current assets</b>                       | <b>144,929,549</b>    | <b>27,129,089</b>    | <b>11,214,131</b>         | <b>1,372,531</b>            | <b>60,909,767</b>          | <b>245,555,067</b>     | <b>63,403,207</b>     | <b>4,226,094</b>     | <b>1,404,301</b>            | <b>9,792,041</b>    | <b>324,380,710</b>      |
| Investments                                       | -                     | -                    | -                         | -                           | -                          | -                      | -                     | -                    | 131,189,330                 | -                   | 131,189,330             |
| Noncurrent receivables, net                       | -                     | 692,735              | -                         | 21,466                      | 1,234,540                  | 1,948,741              | 4,953,461             | 31,089,395           | -                           | -                   | 37,991,597              |
| Unamortized bond issue costs                      | -                     | -                    | -                         | -                           | -                          | -                      | 843,084               | -                    | -                           | -                   | 843,084                 |
| Property, plant and equipment, net                | -                     | -                    | -                         | -                           | -                          | -                      | 585,965,876           | -                    | -                           | -                   | 585,965,876             |
| <b>Total assets</b>                               | <b>\$ 144,929,549</b> | <b>\$ 27,821,824</b> | <b>\$ 11,214,131</b>      | <b>\$ 1,393,997</b>         | <b>\$ 62,144,307</b>       | <b>\$ 247,503,808</b>  | <b>\$ 655,165,628</b> | <b>\$ 35,315,489</b> | <b>\$ 132,593,631</b>       | <b>\$ 9,792,041</b> | <b>\$ 1,080,370,597</b> |
| <b>Liabilities</b>                                |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| <b>Current liabilities</b>                        |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| Accounts payable and accrued expenses             | \$ 27,047,614         | \$ 2,580,101         | \$ 1,279,821              | \$ 418,669                  | \$ 13,353,189              | \$ 44,679,394          | \$ 15,841,124         | \$ -                 | \$ 198,273                  | \$ 8,430,063        | \$ 69,148,854           |
| Deferred income                                   | 54,714,468            | 223,800              | 1,652,329                 | 13,532                      | 16,584,829                 | 73,188,958             | 269,468               | -                    | -                           | -                   | 73,458,426              |
| Deposits  | 1,424,760             | 99,341               | 613,181                   | -                           | -                          | 2,137,282              | -                     | -                    | -                           | 1,361,978           | 3,499,260               |
| Current portion of long-term debt                 | -                     | -                    | -                         | -                           | -                          | -                      | 3,522,559             | -                    | -                           | -                   | 3,522,559               |
| <b>Total current liabilities</b>                  | <b>83,186,842</b>     | <b>2,903,242</b>     | <b>3,545,331</b>          | <b>432,201</b>              | <b>29,938,018</b>          | <b>120,005,634</b>     | <b>19,633,151</b>     | <b>-</b>             | <b>198,273</b>              | <b>9,792,041</b>    | <b>149,629,099</b>      |
| Federal portion of student loan funds             | -                     | -                    | -                         | -                           | -                          | -                      | -                     | 24,742,684           | -                           | -                   | 24,742,684              |
| Accrued employee benefits                         | 2,637,300             | 20,641               | 560,498                   | 4,715                       | 248,551                    | 3,471,705              | -                     | -                    | -                           | -                   | 3,471,705               |
| Long-term debt                                    | -                     | -                    | -                         | -                           | -                          | -                      | 154,831,141           | -                    | -                           | -                   | 154,831,141             |
| <b>Total liabilities</b>                          | <b>85,824,142</b>     | <b>2,923,883</b>     | <b>4,105,829</b>          | <b>436,916</b>              | <b>30,186,569</b>          | <b>123,477,339</b>     | <b>174,464,292</b>    | <b>24,742,684</b>    | <b>198,273</b>              | <b>9,792,041</b>    | <b>332,674,629</b>      |
| <b>Net assets</b>                                 |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| Investment in capital assets, net of related debt | -                     | -                    | -                         | -                           | -                          | -                      | 428,455,260           | -                    | -                           | -                   | 428,455,260             |
| Restricted  |                       |                      |                           |                             |                            |                        |                       |                      |                             |                     |                         |
| Nonexpendable                                     | -                     | -                    | -                         | -                           | -                          | -                      | 45,970                | 10,003,137           | 66,321,578                  | -                   | 76,370,685              |
| Expendable  | -                     | -                    | -                         | -                           | 31,957,738                 | 31,957,738             | 6,798,755             | -                    | 61,372,064                  | -                   | 100,128,557             |
| Unrestricted                                      | 59,105,407            | 24,897,941           | 7,108,302                 | 957,081                     | -                          | 92,068,731             | 45,401,351            | 569,668              | 4,701,716                   | -                   | 142,741,466             |
| <b>Total net assets</b>                           | <b>59,105,407</b>     | <b>24,897,941</b>    | <b>7,108,302</b>          | <b>957,081</b>              | <b>31,957,738</b>          | <b>124,026,469</b>     | <b>480,701,336</b>    | <b>10,572,805</b>    | <b>132,395,358</b>          | <b>-</b>            | <b>747,695,968</b>      |
| <b>Total liabilities and net assets</b>           | <b>\$ 144,929,549</b> | <b>\$ 27,821,824</b> | <b>\$ 11,214,131</b>      | <b>\$ 1,393,997</b>         | <b>\$ 62,144,307</b>       | <b>\$ 247,503,808</b>  | <b>\$ 655,165,628</b> | <b>\$ 35,315,489</b> | <b>\$ 132,593,631</b>       | <b>\$ 9,792,041</b> | <b>\$ 1,080,370,597</b> |

(A) General Fund unrestricted net assets are appropriated or allocated as follows (in thousands):

**2002**

|  |                  |
|--|------------------|
| Contractually committed, encumbrances              | \$ 8,152         |
| Appropriated in subsequent year's budget           | 3,560            |
| Rainy Day Fund                                     | 7,791            |
| Committed for research                             | 19,449           |
| Academic unit funds carried forward                | 7,123            |
| Operating unit funds carried forward               | 9,710            |
| Funds available for allocation in subsequent years | <u>3,320</u>     |
| <b>Total General Fund unrestricted net assets</b>  | <b>\$ 59,105</b> |

**Wayne State University**  
**Consolidating Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended September 30, 2002**

|  | 2002           |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
|--|----------------|-----------------|---------------------------|-----------------------------|----------------------------|------------------------|----------------|-------------------|-----------------------------|--------------|--------------------|
|  | General Fund   | Designated Fund | Auxiliary Activities Fund | Independent Operations Fund | Expendable Restricted Fund | Subtotal Current Funds | Plant Fund     | Student Loan Fund | Endowment and Similar Funds | Adjustment   | Consolidated Total |
| <b>Operating revenues</b>                            |                |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
| Student tuition and fees                             | \$ 129,318,752 | \$ -            | \$ 2,234,022              | \$ -                        | \$ -                       | \$ 131,552,774         | \$ 208,650     | \$ -              | \$ -                        | \$ -         | \$ 131,761,424     |
| Less: Scholarship allowances                         | -              | -               | -                         | -                           | -                          | -                      | -              | -                 | -                           | (34,105,041) | (34,105,041)       |
| Net student tuition and fees                         | 129,318,752    | -               | 2,234,022                 | -                           | -                          | 131,552,774            | 208,650        | -                 | -                           | (34,105,041) | 97,656,383         |
| Federal grants and contracts                         | -              | -               | -                         | -                           | 114,997,711                | 114,997,711            | 251,851        | -                 | -                           | -            | 115,249,562        |
| State and local grants and contracts                 | -              | -               | -                         | 1,500,803                   | 18,156,077                 | 19,656,880             | -              | -                 | -                           | -            | 19,656,880         |
| Nongovernmental grants and contracts                 | -              | 39,811,329      | -                         | -                           | 58,835,805                 | 98,647,134             | -              | -                 | -                           | -            | 98,647,134         |
| Departmental activities                              | 3,474,861      | 9,474,307       | -                         | 1,019,959                   | -                          | 13,969,127             | -              | -                 | -                           | -            | 13,969,127         |
| Auxiliary activities                                 | -              | -               | 13,869,306                | -                           | -                          | 13,869,306             | -              | -                 | -                           | (1,451,000)  | 12,418,306         |
| Recovery of indirect costs of sponsored programs     | 29,837,304     | -               | -                         | -                           | (29,837,304)               | -                      | -              | -                 | -                           | -            | -                  |
| Other  | 2,359,411      | -               | -                         | -                           | -                          | 2,359,411              | -              | 194,970           | -                           | -            | 2,554,381          |
| Total operating revenue                              | 164,990,328    | 49,285,636      | 16,103,328                | 2,520,762                   | 162,152,289                | 395,052,343            | 460,501        | 194,970           | -                           | (35,556,041) | 360,151,773        |
| <b>Operating expenses</b>                            |                |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
| Instruction  | 155,165,369    | 45,129,379      | -                         | -                           | 28,858,686                 | 229,153,434            | -              | -                 | -                           | -            | 229,153,434        |
| Research   | 25,112,718     | 691,878         | -                         | -                           | 117,762,324                | 143,566,920            | -              | -                 | -                           | -            | 143,566,920        |
| Public service                                       | 1,832,571      | 1,524,952       | -                         | 7,120,840                   | 31,012,915                 | 41,491,278             | -              | -                 | -                           | -            | 41,491,278         |
| Academic support                                     | 55,852,172     | 1,851,969       | -                         | -                           | 1,138,265                  | 58,842,406             | -              | -                 | -                           | -            | 58,842,406         |
| Student services                                     | 29,038,731     | 526,789         | -                         | -                           | 427,544                    | 29,993,064             | -              | -                 | -                           | -            | 29,993,064         |
| Scholarships and fellowships                         | 19,499,323     | 87,758          | -                         | -                           | 19,142,650                 | 38,729,731             | -              | -                 | -                           | (35,556,041) | 3,173,690          |
| Institutional support                                | 54,048,439     | 4,382,004       | -                         | -                           | 159,736                    | 58,590,179             | -              | -                 | -                           | -            | 58,590,179         |
| Operation and maintenance of plant                   | 43,918,533     | -               | -                         | -                           | 1,016,137                  | 44,934,670             | 2,673,226      | -                 | -                           | -            | 47,607,896         |
| Auxiliary activities                                 | -              | -               | 11,342,404                | -                           | -                          | 11,342,404             | -              | -                 | -                           | -            | 11,342,404         |
| Depreciation expense                                 | -              | -               | -                         | -                           | -                          | -                      | 41,371,062     | -                 | -                           | -            | 41,371,062         |
| Capital additions, net                               | -              | -               | -                         | -                           | -                          | -                      | (20,937,740)   | -                 | -                           | -            | (20,937,740)       |
| Transfers (in) out                                   |                |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
| Debt service   | 6,857,900      | -               | 2,276,434                 | -                           | -                          | 9,134,334              | (9,134,334)    | -                 | -                           | -            | -                  |
| Loan matching  | 126,683        | -               | -                         | -                           | -                          | 126,683                | -              | (126,683)         | -                           | -            | -                  |
| Plant improvement and extension                      | 16,597,108     | 62,240          | 891,415                   | -                           | 130,880                    | 17,681,643             | (17,792,902)   | -                 | 111,259                     | -            | -                  |
| Other  | 722,683        | 187,066         | -                         | 50,000                      | 191,171                    | 1,150,920              | (511,162)      | (29,875)          | (609,883)                   | -            | -                  |
| Total operating expenses                             | 408,772,230    | 54,444,035      | 14,510,253                | 7,170,840                   | 199,840,308                | 684,737,666            | (4,331,850)    | (156,558)         | (498,624)                   | (35,556,041) | 644,194,593        |
| Operating income (loss)                              | (243,781,902)  | (5,158,399)     | 1,593,075                 | (4,650,078)                 | (37,688,019)               | (289,685,323)          | 4,792,351      | 351,528           | 498,624                     | -            | (284,042,820)      |
| <b>Nonoperating revenues (expenses)</b>              |                |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
| State appropriations                                 | 240,882,300    | -               | -                         | 3,254,336                   | 12,762,400                 | 256,899,036            | -              | -                 | -                           | -            | 256,899,036        |
| Gifts  | -              | 5,844,471       | -                         | 1,669,181                   | 14,854,469                 | 22,368,121             | -              | (55,218)          | 118,739                     | -            | 22,431,642         |
| Interest expense on capital asset related debt       | -              | -               | -                         | -                           | -                          | -                      | (6,915,064)    | -                 | -                           | -            | (6,915,064)        |
| Investment income                                    |                |                 |                           |                             |                            |                        |                |                   |                             |              |                    |
| Endowment and similar funds                          | -              | 115,383         | -                         | 159                         | 7,006,371                  | 7,121,913              | 36,324         | 47,247            | (7,205,484)                 | -            | -                  |
| Other  | 3,181,834      | 1,838,365       | 72,574                    | (154)                       | 1,212,897                  | 6,305,516              | 2,585,979      | 58,113            | (10,454,300)                | -            | (1,504,692)        |
| Other  | -              | (585,123)       | -                         | -                           | -                          | (585,123)              | 303,893        | (243,263)         | (14,616)                    | -            | (539,109)          |
| Net nonoperating revenues (expenses)                 | 244,064,134    | 7,213,096       | 72,574                    | 4,923,522                   | 35,836,137                 | 292,109,463            | (3,988,868)    | (193,121)         | (17,555,661)                | -            | 270,371,813        |
| Income (loss) before capital and endowment additions | 282,232        | 2,054,697       | 1,665,649                 | 273,444                     | (1,851,882)                | 2,424,140              | 803,483        | 158,407           | (17,057,037)                | -            | (13,671,007)       |
| State capital appropriations                         | -              | -               | -                         | -                           | -                          | -                      | 19,272,879     | -                 | -                           | -            | 19,272,879         |
| Capital gifts  | -              | -               | -                         | -                           | -                          | -                      | 9,689,969      | -                 | -                           | -            | 9,689,969          |
| Write off of capital assets                          | -              | -               | -                         | -                           | -                          | -                      | (1,603,529)    | -                 | -                           | -            | (1,603,529)        |
| Private gifts for endowment purposes                 | -              | -               | -                         | -                           | -                          | -                      | -              | -                 | 2,395,655                   | -            | 2,395,655          |
| Increase (decrease) in net assets                    | 282,232        | 2,054,697       | 1,665,649                 | 273,444                     | (1,851,882)                | 2,424,140              | 28,162,802     | 158,407           | (14,661,382)                | -            | 16,083,967         |
| Net assets, beginning of year                        | 58,823,175     | 22,843,244      | 5,442,653                 | 683,637                     | 33,809,620                 | 121,602,329            | 452,538,534    | 10,414,398        | 147,056,740                 | -            | 731,612,001        |
| Net assets, end of year                              | \$ 59,105,407  | \$ 24,897,941   | \$ 7,108,302              | \$ 957,081                  | \$ 31,957,738              | \$ 124,026,469         | \$ 480,701,336 | \$ 10,572,805     | \$ 132,395,358              | \$ -         | \$ 747,695,968     |