

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2005



WAYNE STATE
UNIVERSITY

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*Provost and Senior Vice President
for Academic Affairs*

Susan Burns
*Vice President for Development
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Executive Assistant to the President*

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Fiscal Operations and Controller*

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Sponsored Program Administration*

Roger W. Kempa
*Investment, Debt and Risk Officer
and Assistant Treasurer*

Sharon K. Progar
Associate Controller

Patricia R. Douglas
Director of Accounting

Wayne State University

Financial Report
September 30, 2005

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Independent Auditor's Report

Board of Governors
Wayne State University

We have audited the accompanying balance sheets of Wayne State University as of September 30, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne State University as of September 30, 2005 and 2004 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated December 9, 2005 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended September 30, 2005. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis presented on pages 2 through 18 is not a required part of the basic 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 methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 9, 2005



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Wayne State University

Management's Discussion and Analysis - Unaudited

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of Wayne State University (the "University") as of and for the year ended September 30, 2005, with selected comparative information as of and for the years ended September 30, 2004 and 2003. This discussion has been prepared by management and should be read in conjunction with the University's financial statements and related notes for the year ended September 30, 2005.

The University is a comprehensive public institution of higher learning in southeast Michigan with enrollment of over 33,000 students and approximately 2,800 faculty members. It offers a diverse range of programs from bachelor's degrees to post-doctoral degrees, through a framework of departmental units in 11 schools and colleges. The University also contributes to the state and nation through related research and public service programs. The University employs over 5,000 full-time employees.

Excellence in research is a crucial element in the University's mission. Based on the 2003 National Science Foundation Research and Development Expenditures Survey, the most recent survey results available, the University ranked 65th among all universities and 43rd among public universities. A substantial portion of the University's research is conducted at the School of Medicine. The University also has a research affiliation agreement with the Karmanos Cancer Institute, one of 28 comprehensive cancer research centers designated by the National Cancer Institute. The fiscal year 2003 National Science Foundation Research and Development Expenditures Survey ranked the University 53rd in the life sciences category.

USING THIS REPORT

The University's financial report includes three basic financial statements: the Balance Sheet, 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 Governmental 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 combined basis to focus on the University as a whole. Consistent with GASB principles, the Wayne State University Housing Authority and the Wayne State University Foundation, as controlled organizations, are included in the combined financial statements.

OVERALL FINANCIAL HIGHLIGHTS

The University's financial position remained strong at September 30, 2005 with assets of \$1.4 billion and liabilities of \$551 million. Combined net assets, for all funds, which represent the residual interest in the University's assets after liabilities are deducted, increased during the year to \$810 million, an increase of \$38 million or 4.9%.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Financial Position

The table below reflects the University's combined total assets, liabilities and net assets at September 30 for the last three fiscal years.

	(in millions)		
	2005	2004	2003
Total assets	\$ 1,360.7	\$ 1,309.2	\$ 1,166.7
Total liabilities	551.2	537.3	391.6
Net assets	<u>\$ 809.5</u>	<u>\$ 771.9</u>	<u>\$ 775.1</u>

Specific discussion and analysis of the changes in the components of the total combined assets, liabilities, and net asset categories are provided on pages 4 – 10.

Operations

Summarized combined revenues and expenses (operating and non-operating) for the years ended September 30, 2005, 2004 and 2003 are as follows:

	(in millions)		
	2005	2004	2003
Total revenues	\$ 749.1	\$ 699.9	\$ 709.1
Total expenses	711.5	703.2	681.7
Increase (decrease) in net assets	<u>\$ 37.6</u>	<u>\$ (3.3)</u>	<u>\$ 27.4</u>

Fiscal year 2005 revenues increased \$49.2 million (7.0%) over 2004, while expenses increased \$8.3 million (1.2%). Fiscal year 2004 revenues decreased \$9.2 million (1.3%), compared to 2003, while 2004 expenses increased \$21.5 million (3.2%) over the 2003 fiscal year. A more detailed discussion of fluctuations in specific revenue and expense categories, activities and events contributing to these changes and trends is included on pages 11-17 of the Management's Discussion and Analysis.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

BALANCE SHEET

The Balance Sheet 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 accumulated depreciation.

A summarized comparison of the University's assets, liabilities and net assets at September 30, 2005, 2004 and 2003 is as follows:

	(in millions)		
	2005	2004	2003
Current assets	\$ 382.9	\$ 360.7	\$ 344.5
Noncurrent assets:			
Investments	234.4	279.9	169.1
Noncurrent receivables, net	40.5	30.4	30.7
Unamortized bond issue costs	1.8	1.9	1.1
Capital assets, net	<u>701.1</u>	<u>636.3</u>	<u>621.3</u>
Total assets	1,360.7	1,309.2	1,166.7
Current liabilities	218.8	200.7	165.4
Noncurrent liabilities	<u>332.4</u>	<u>336.6</u>	<u>226.2</u>
Total liabilities	<u>551.2</u>	<u>537.3</u>	<u>391.6</u>
Net assets	<u>\$ 809.5</u>	<u>\$ 771.9</u>	<u>\$ 775.1</u>

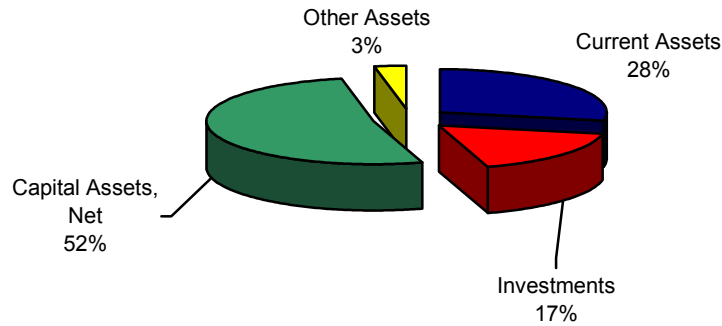
Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

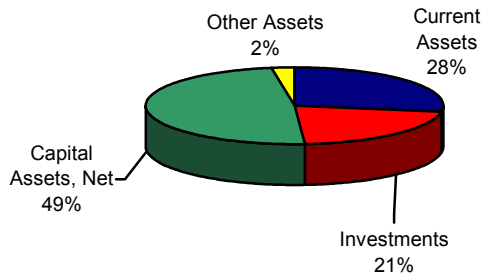
The following is a summarized graphical illustration of the composition of the University's Combined Balance Sheet at September 30, 2005, 2004 and 2003:

Assets

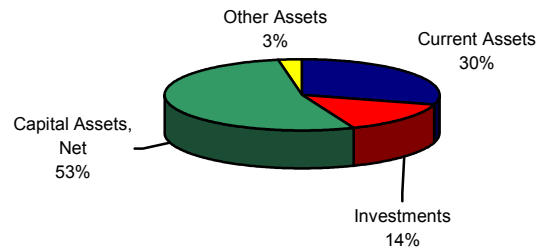
2005



2004



2003

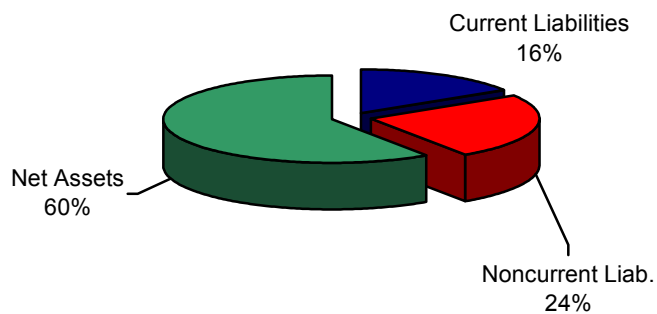


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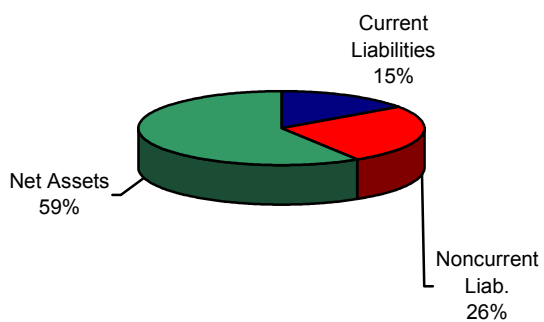
Management's Discussion and Analysis - Unaudited (Continued)

Liabilities and Net Assets

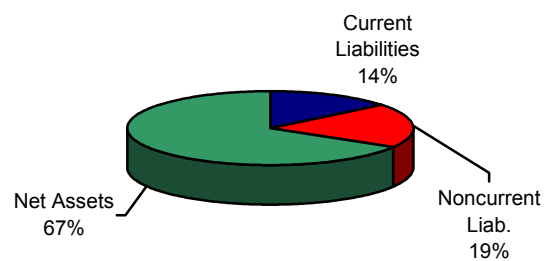
2005



2004



2003



Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Current Assets and Liabilities

Current assets are comprised primarily of cash and temporary investments and receivables of \$368.0, \$348.5 and \$331.9 million at September 30, 2005, 2004 and 2003, respectively. Cash and temporary investments were \$243.6 million at September 30, 2005, as compared to \$227.5 and \$229.9 million at September 30, 2004 and 2003, respectively. The 2005 cash and temporary investments increase results from positive cash flows associated with increases in tuition, sponsored program revenues, investment income and increasing gifts related to the Wayne First Capital Campaign ("Wayne First"). Receivables included in current assets have increased approximately \$3.3 million to \$124.4 million at September 30, 2005, compared to \$121.1 million at September 30, 2004. The primary factors contributing to this increase include the impact of increased tuition on student accounts receivable and increased sponsored program revenues which resulted in increased receivables from sponsoring agencies, net of decreases in "other" receivables.

The 2004 receivable increase of \$19.1 million over the \$102.0 million reported in 2003 reflected the University's first complete year of participation in the School as Lender Program, which resulted in \$20.4 million in outstanding loans receivable in 2004 versus \$5.7 million in 2003. The loans associated with this program are sold to a third party within one year of issuance.

Current liabilities are comprised of amounts due within one year and consist primarily of accounts payable and accrued expenses, deferred income and short-term loans against a line of credit. At September 30, 2005, current liabilities increased by \$18.0 million when compared to September 30, 2004. The increase was primarily attributable to increased tuition related deferred income resulting from the fall 2005 tuition rate increase.

Current liabilities increased \$35.3 million from 2003 to 2004. The aggregate increase includes:

- A \$14.5 million increase in short term loans which represented cash draws on a line of credit with a bank associated with the University's operation of the School as Lender program.
- An increase in trade payables included in accounts payable and accrued liabilities of \$7.1 million relating to major construction projects in process at September 30, 2004.
- Increased tuition related deferred income of approximately \$3.2 million, resulting from increased fall 2004 enrollment and slightly higher tuition rates.

An overall analysis of the University current assets and current liabilities indicates favorable current ratios, a measure of the University's liquidity, of 1.8 at September 30, 2005 and 2004 and 2.1 in 2003.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Noncurrent Assets and Liabilities

The most significant changes in the noncurrent sections of the Balance Sheet from 2004 to 2005 are a decrease of \$45.6 million in investments and a \$64.8 million increase in net property, plant and equipment (capital assets). These changes are more fully discussed in the Investments and Capital asset and debt activities sections that follow.

Investments

The University's investments are comprised of two components, endowment related funds and invested unexpended general revenue bond proceeds. The Wayne State University Foundation manages the majority (in excess of 99%) of the endowment investments. The component relating to the bond proceeds is managed by the University.

The table below reflects the composition of investments at September 30, 2005, 2004 and 2003:

	(in millions)		
	2005	2004	2003
Endowment funds	\$ 192.2	\$ 173.5	\$ 149.7
Bond proceeds	42.2	106.4	19.4
Total investments	\$ 234.4	\$ 279.9	\$ 169.1

Total investments decreased \$45.5 million to \$234.4 million at September 30, 2005, compared to \$279.9 million at September 30, 2004. While investment income and gifts to the University for endowments rose during the year as a result of increases in the endowment funds' investments, total investments declined because of the expenditure of invested bond proceeds, which are expended as the applicable capital projects progress. Increases in the endowment funds were the result of the University's ongoing capital campaign, Wayne First, and a favorable investment environment.

By comparison, total investments increased \$110.8 million to \$279.9 million at September 30, 2004, compared to \$169.1 million at September 30, 2003. The primary factor contributing to this increase was that unexpended bond proceeds included in investments increased by \$87.0 million because of the 2003 and 2004 series general revenue bonds issued during the 2004 fiscal year of \$115.6 million, net of construction expenditures of \$28.6 million. The remaining increase of \$23.8 million is attributable to increased investment income and gifts to endowments, net of distributions from endowment funds to spending accounts.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Endowment funds consist of both permanent endowments (\$85.7 million at September 30, 2005) and funds functioning as endowments (\$108.4 million at September 30, 2005). 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 and used consistent with the donors' restrictions and University policy. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University to function as if they were permanent endowments. Accordingly, 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 University programs, activities and initiatives.

The University invests and uses its endowments to support operations in a way that strikes a balance between generating a stream of annual support for current programs while preserving and increasing the purchasing power of the endowment funds for future periods. During 2005, the University amended its endowment rate spending policy. Under this policy the annual amount of the distribution is 4.75% of a three year moving average of the market value of the endowment fund. Of this annual distribution, 4.25% will be transferred to the beneficiary or operating program accounts and .5% will be used for administration. Prior to this change, the endowment spending rate policy provided for an annual distribution of 5% of a 2½-year moving average market value (measured at quarterly intervals) of endowment assets.

Capital asset and debt activities

One of the critical factors in continually enhancing 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 infrastructure with the construction of new facilities.

Capital additions during 2005 totaled \$108.3 million, as compared to \$60.9 million in 2004 and \$92.3 million in 2003. The 2005 capital additions consist primarily of the completion of a new residence hall, major renovation to the Chemistry Building and energy related projects. During 2004, significant capital expenditures related to beginning construction of a residence hall and renovations to academic, research, and other administrative and ancillary facilities, as well as significant investment in equipment. 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 steward, the University works to manage its financial resources effectively, including the use of debt to finance capital projects. The University's most recent credit ratings which occurred in fiscal year 2004, is "AA" - by both Fitch, Inc. and Standard & Poor's Rating Service with the highest achievable ratings being "AAA." Management believes its current ratings are key indicators of the University's capacity to borrow effectively and its ability to meet its financial obligations.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Bonds and Notes Payable totaled \$306.9, \$313.2 and \$202.0 million at September 30, 2005, 2004 and 2003, respectively. The decrease from 2004 to 2005 results from bond principal payments, while the increase from 2003 to 2004 was attributable to new bond issuances of \$59.4 million (Series 2004), \$51.6 million (Series 2003A) and \$4.7 million (Series 2003B), net of long-term debt principal payments made during fiscal year 2004. The proceeds of these issuances were to finance construction of a new student residence hall, acquisition and installation of equipment related to energy conservation and efficiencies, major research laboratory renovations, construction and renovations associated with the National Institute of Health's (NIH) Perinatology Research Branch contract facilities and renovations to other academic and administrative facilities. Certain of these projects have been completed while others are in progress.

Net assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at September 30, 2005, 2004 and 2003 are summarized as follows:

	(in millions)		
	2005	2004	2003
Invested in capital assets, net of related debt	\$ 427.3	\$ 422.5	\$ 423.1
Restricted:			
Nonexpendable	96.5	90.6	84.3
Expendable	134.4	115.6	106.0
Unrestricted	151.3	143.2	161.7
Total net assets	\$ 809.5	\$ 771.9	\$ 775.1

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

- ◆ Invested in 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 issued for the acquisition, construction or improvement of those assets, plus unspent bond proceeds. 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 - Primarily represents the corpus portion of gifts to the University's permanent endowment funds and certain net assets within the Student Loan Fund.
- ◆ Restricted expendable - Are comprised primarily of external gifts which are subject to externally imposed restrictions governing their use (primarily scholarships and academic programs). This category of net assets, which includes undistributed accretions of permanent endowment investments, totaled \$134.4, \$115.6 and \$106.0 million at September 30, 2005, 2004 and 2003, respectively. It includes funds functioning as endowments of \$102.3, \$88.6, and \$76.1 million at September 30, 2005, 2004 and 2003, respectively.
- ◆ Unrestricted - Represents funds which are not subject to externally imposed restrictions, however most of the University's unrestricted net assets at September 30, 2005 have been designated by the Board of Governors and management for various academic, research and administrative programs, as well as capital projects.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

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 summarized comparison of this statement for the years ended September 30, 2005, 2004 and 2003, including a brief summary, discussion, and analysis, is provided below.

Revenues

Consistent with GASB requirements, revenues are categorized as operating or nonoperating. Summarized classifications in each category for the years ended September 30, 2005, 2004 and 2003 are presented below:

	(in millions)		
	2005	2004	2003
Operating Revenues			
Student tuition and fees	\$ 180.1	\$ 168.0	\$ 148.0
Less: Scholarship allowances	(49.4)	(46.5)	(39.9)
Net student tuition and fees	130.7	121.5	108.1
Sponsored programs	269.5	257.8	237.8
Other	45.6	39.5	29.7
Total operating revenues	445.8	418.8	375.6
Nonoperating and Other Revenues			
State operating appropriations	223.2	216.9	245.5
Gifts	36.6	29.4	30.2
Net investment income	29.5	23.6	40.1
State capital appropriations	2.5	1.4	6.1
Capital and endowment gifts	11.5	7.5	11.6
Other	-	2.3	-
Total nonoperating and other revenues	303.3	281.1	333.5
Total Revenues	\$ 749.1	\$ 699.9	\$ 709.1

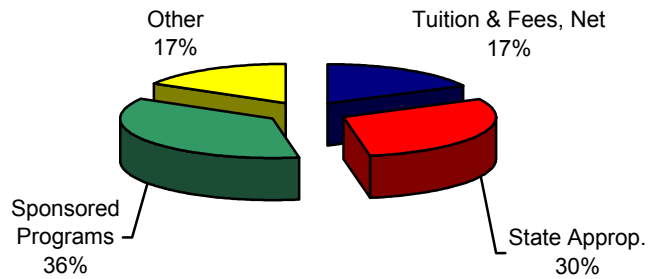
Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

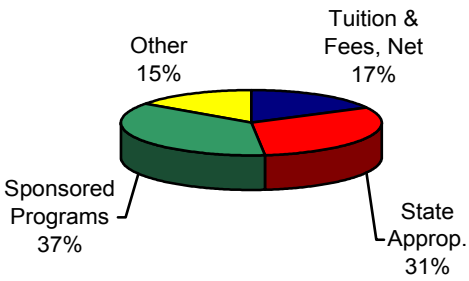
The following is a graphic illustration of revenues by source for the years ended September 30, 2005, 2004 and 2003.

Revenues

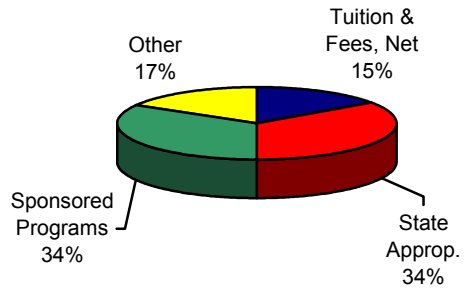
2005



2004



2003



Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Sponsored program revenues of \$269.5 million presented on the table on page 11, consists of federal, state, and nongovernmental grants and contracts, which in the aggregate, comprise the largest single revenue source on the statement of revenues, expenses and changes in net assets. The state operating appropriations represents the University's largest single source of unrestricted revenue. As a result, the state operating appropriations coupled with student tuition and fees, represent most of the resources available to fund the University's general 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 fees and state operating appropriations.

Operating Revenues

Operating revenues totaled \$445.8 million in fiscal year 2005, as compared to \$418.8 million in 2004 and \$375.6 million in 2003. The fiscal year 2005 increase is primarily attributable to increases in student tuition and fees and sponsored program revenue which together comprise approximately 90% of the University's operating revenues. In 2005, net tuition and fees increased \$9.2 million (7.6%) and \$13.4 million (12.4%) in 2004. The 2005 increase is primarily attributable to the fall 2005 tuition rate increase of 18.5%, while the increase in 2004 resulted from increased student enrollment and credit hours and a moderate 2.8% increase in tuition rates.

Revenues from sponsored programs increased \$11.7 million (4.5%) during 2005 and \$20.0 million (8.4%) during 2004. Included in the 2005 increase in sponsored program revenue is the reallocation of funds, \$5.6 million, from the Joseph F. Young, Sr. Psychiatric Program which were previously provided to the University as part of its state operating appropriation. In 2005 the state provided this funding from other sources which results in the revenue being recorded as state grants and contracts which are reflected in sponsored program revenue. The remainder of the increase is attributable to increases in various federal research funds which the University continues to aggressively pursue. In 2004, approximately \$12.0 million of the increase in sponsored program revenue was a result of the activities associated with the first full year of operations of the Perinatology Research Branch, with the remainder of the increase attributable to the University's strategically planned emphasis on growth in other areas of research. Auxiliary enterprises, which are included in the "Other" classification in the preceding table, also experienced \$1.9 million (9.1%) and \$3.4 million (19.9%) revenue increases in fiscal years 2005 and 2004, respectively. The 2005 increase is largely attributable to the reclassification of the fitness center activities into the auxiliary activities fund. Previously these activities were accounted for in the University's general fund. In addition, parking rate increases and increasing residence hall room and board revenue and activities including the opening of the University's third residence hall in August 2005 has also contributed to increased revenue. The auxiliary activities increase in 2004 over 2003 relates primarily to room and board revenue generated by the opening of the new South Residence Hall, which was open and in operation for just one month in fiscal year 2003, and a full year during 2004.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Nonoperating and Other Revenues

Nonoperating and other revenues were \$303.3 million during 2005, as compared to \$281.1 million in 2004 and \$333.5 million in 2003. The primary source of nonoperating revenue is the state operating appropriations, which increased \$6.3 million (2.8%) in 2005 and declined by \$28.6 million (11.7%) as a result of the budget reductions imposed by the State of Michigan in 2004. The 2005 increase includes a \$6.8 million one-time reinstatement of a portion of the 2004 appropriation reduction which was received by the University in October 2004. As a result, these funds are reflected in fiscal year 2005 operations. As discussed above, during 2005, the state operating appropriation was also reduced by \$5.6 million relating to the Joseph F. Young, Sr. Psychiatric Program. These funds were restored by the State through other funding sources and are now reflected in sponsored program revenue.

Net investment income, included in nonoperating and other revenues, increased approximately \$5.9 million during 2005 compared to a decrease of \$16.5 million in 2004. The increase in 2005 is due to favorable endowment fund performance and higher short term interest rates earned on cash and temporary investments. The 2004 decrease in investment income occurred because fiscal year 2003 revenues reflected a significant one-time gain (approximately \$13 million) on the sale of stock in a company having patented intellectual property, in which the University held an interest. Of the actual current year net investment income from all sources, \$20.8 million is attributable to the University's endowments with the remainder of \$8.7 million representing the investment income related to all other University funds.

State capital appropriations, which are received from the State of Michigan, increased \$1.1 million (70.0%) in fiscal year 2005 to \$2.5 million. In fiscal year 2004, state capital appropriations totaled \$1.4 million, which represented a decline of \$4.7 million (77.0%) from 2003. These capital appropriations are for projects approved several years ago. The State has not approved any new capital projects since the 2000 fiscal year. However, during 2005 the State authorized the University to plan a capital project relating to the construction of a new Engineering Development Center Facility at a total estimated project cost of \$26.5 million of which \$15.0 million would be provided by the State once the project is approved for funding. The authorization to plan does not, however, necessarily commit the State to fund the project and as a result, such funding is tentative until the approval and authorization process is completed sometime in the future. The increase in other revenue from 2003 to 2004 resulted from a gain on the sale of university owned real estate and miscellaneous income associated with the discounting of general revenue bonds issued during 2004. Neither of these type of transactions occurred during 2005.

Capital and endowment gifts represent funds received from foundations, individuals and other private sources. These gifts increased \$4.0 million (53.3%) to \$11.5 million in 2005. This fiscal year 2005 increase is primarily attributable to the launch of the public phase of the on-going capital campaign, "Wayne First". Gifts of \$7.5 million received in fiscal 2004 were \$4.1 million (35.3%) less than the \$11.6 million received in 2003. Certain gifts received in 2004 and 2003, related to the Law School and the Eugene Applebaum College of Pharmacy and Health Sciences buildings, which preceded the "Wayne First" campaign. As a result during 2005, gifts related to these projects were declining as the majority of gifts were collected and recognized in prior fiscal years.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Expenses

Operating and nonoperating expenses by functional classification for the years ended September 30, 2005, 2004 and 2003 are presented below:

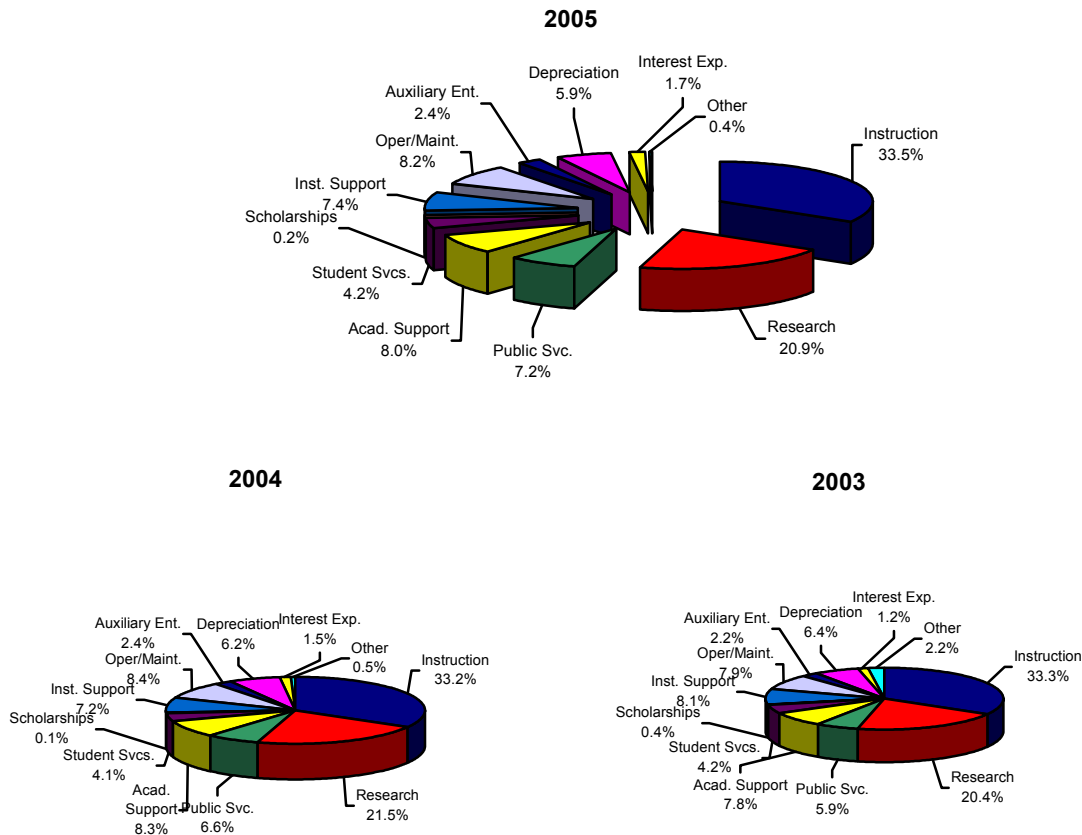
	(in millions)		
	2005	2004	2003
Operating Expenses			
Instruction	\$ 238.3	\$ 233.5	\$ 226.8
Research	148.6	151.4	139.0
Public service	51.6	46.3	40.3
Academic support	56.7	58.6	52.9
Student services	30.2	28.6	28.9
Institutional support	52.9	50.8	55.1
Operation and maintenance of plant	58.2	58.9	54.2
Scholarships and fellowships (excluding amounts applied directly to tuition - see note on page 23)	1.3	0.6	2.7
Auxiliary enterprises	17.4	16.7	14.8
Depreciation expense	41.7	43.8	43.3
Total operating expenses	696.9	689.2	658.0
Nonoperating and other expenses			
Interest expense	11.8	10.6	8.4
Other	2.8	3.4	15.3
Total nonoperating and other expenses	14.6	14.0	23.7
Total Expenses	\$ 711.5	\$ 703.2	\$ 681.7

A graphic illustration of expenses by function for the years ended September 30, 2005, 2004 and 2003 is presented on the following page.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Expenses by Function



Operating Expenses

Operating expenses totaled \$696.9, \$689.2 and \$658.0 million including depreciation of \$41.7, \$43.8 and \$43.3 million for 2005, 2004 and 2003, respectively.

As previously discussed, despite necessary cost control and reductions due to State funding cuts, the University continues to maintain its commitment to instruction and research. Combined expenditures for instruction increased \$4.8 million (2.1%) to \$238.3 million in 2005 and \$6.7 million (3.0%) to \$233.5 million in 2004, as compared to \$226.8 million in 2003. Actual combined expenditures for research decreased slightly \$2.8 million (1.8%) to \$148.6 million in 2005. While federal research expenditures increased by approximately \$3.6 million in 2005, the overall slight decline in total research expenditures occurred because of a decrease in funding from state and local governmental sources and similar decreases from local corporate sponsors. These declines are related to the economic climate in Michigan overall and Southeastern Michigan, specifically. Research expenditures for 2004 increased \$12.4 million (8.9%) to \$151.4 million in 2004, as compared to \$139.0 million in 2003. Other significant 2004 expense increases included a \$4.7 million (8.7%) increase in operation and maintenance of plant resulting from increased utilities and maintenance associated with acquired and constructed buildings, escalating purchased steam rates which affected energy costs in many University buildings and an increase in general

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

facilities repairs. The \$.7 million increase in the auxiliary activities operating expense category in 2005 is largely attributable to the reclassification of the fitness center operations and its related expenses of approximately \$851,000 to the auxiliary activities fund. As discussed on page 13, the fitness center operations were previously accounted for in the general fund. The \$1.9 million or 12.8% increase in the expenses in auxiliary activities from 2003 to 2004 is related to the costs associated with the operation and maintenance of a new residence hall, and increased expenditures to improve the University's parking facilities and operations.

Nonoperating and Other Expenses

Interest expense totaled \$11.8, \$10.6 and \$8.4 million in 2005, 2004 and 2003, respectively. The increasing interest expense is attributable to the increasing bond indebtedness which has occurred since 1998 in conjunction with a series of facilities construction and other capital projects. The decrease in other expenses from \$15.3 million in 2003 to \$3.3 million in 2004 represents an extraordinary amount (approximately \$11 million) relating to the write-off of the undepreciated cost of certain capital assets in conjunction with a change in the University's equipment capitalization policy in 2003. Prior to 2003, the University capitalized equipment with an acquisition cost of \$2,500 or greater. The 2003 policy change increased the University equipment capitalization threshold to \$5,000. All equipment with an original cost between \$2,500 and \$5,000 and the related accumulated depreciation were written off and removed from the University's Balance Sheets.

STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results, by reporting relevant information about the University's cash receipts and cash payments during the year. A comparative summary of the statement of cash flows for the years ended September 30, 2005, 2004 and 2003 is as follows:

Cash Flows	(in millions)		
	2005	2004	2003
Cash received from operations	\$ 459.4	\$ 423.8	\$ 389.9
Cash expended for operations	(659.6)	(654.9)	(610.7)
Net cash used in operating activities	(200.2)	(231.1)	(220.8)
Net cash provided by noncapital financing activities	260.8	254.4	277.6
Net cash provided by (used in) capital and related financing activities	(120.5)	48.4	(41.6)
Net cash provided by (used in) investing activities	76.0	(74.1)	(1.3)
Net increase (decrease) in cash and temporary investments	16.1	(2.4)	13.9
Cash and Temporary Investments - Beginning of Year	<u>227.5</u>	<u>229.9</u>	<u>216.0</u>
Cash and Temporary Investments - End of Year	<u>\$ 243.6</u>	<u>\$ 227.5</u>	<u>\$ 229.9</u>

GASB requires that general appropriations from the State and noncapital gifts be shown as cash flows from noncapital financing activities. The University's most significant source of cash provided by noncapital financing activities is the state operating appropriation which totaled \$223.2, \$217.6 and \$244.8 million in fiscal years 2005, 2004 and 2003, respectively. Included in cash flows provided by and used in capital and related financing activities are all plant funds (except depreciation and amortization) and related long-term

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

debt activities, as well as capital gifts. Cash flows provided by or used in investing activities shows all uses of cash and cash equivalents to purchase investments, and all increases in cash and temporary investments as a result of selling investments or earning income on cash and investments. The net cash provided by investing activities is made up of bond proceed investments sold to finance associated construction expenditures, and the conversion of short-term investments into cash equivalents during the year.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

These continue to be 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, the University's largest single unrestricted revenue source, continues to decline. 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, as well as significantly increase tuition, in order to maintain a balanced budget. The University's reliance on state appropriations for general operations 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 and development of new core academic facilities in the past, in recent years, this has not been the case and the economic pressures affecting the State may continue to negatively 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.

Balance Sheets

		September 30	
		2005	2004
Assets			
Current Assets			
Cash and temporary investments (Note 2)		\$ 243,552,859	\$ 227,468,535
Current receivables, net (Note 3)		124,411,818	121,064,397
Inventories		1,402,027	1,512,904
Prepaid expenses and deposits		<u>13,580,290</u>	<u>10,692,372</u>
Total current assets		382,946,994	360,738,208
Investments (Note 2)		234,351,775	279,907,413
Noncurrent receivables, net (Note 3)		40,520,056	30,358,072
Unamortized bond issue costs		1,822,328	1,879,215
Capital assets, net (Note 4)		<u>701,062,241</u>	<u>636,305,393</u>
Total noncurrent assets		<u>977,756,400</u>	<u>948,450,093</u>
Total assets		<u>\$ 1,360,703,394</u>	<u>\$ 1,309,188,301</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 83,739,718	\$ 78,277,061
Deferred income		101,936,544	89,237,055
Deposits		5,624,596	6,981,239
Short-term loans (Note 3)		21,233,779	20,398,778
Current portion of long-term debt (Note 5)		<u>6,237,894</u>	<u>5,834,359</u>
Total current liabilities		218,772,531	200,728,492
Noncurrent Liabilities			
Federal portion of student loan funds		25,102,840	24,093,358
Accrued employee benefits		6,568,319	5,091,702
Long-term debt (Note 5)		<u>300,711,847</u>	<u>307,366,992</u>
Total noncurrent liabilities		<u>332,383,006</u>	<u>336,552,052</u>
Total liabilities		551,155,537	537,280,544
Net Assets			
Invested in capital assets, net of related debt		427,257,968	422,498,303
Restricted			
Nonexpendable		96,493,014	90,637,745
Expendable		134,436,843	115,588,375
Unrestricted		<u>151,360,032</u>	<u>143,183,334</u>
Total net assets		<u>809,547,857</u>	<u>771,907,757</u>
Total liabilities and net assets		<u>\$ 1,360,703,394</u>	<u>\$ 1,309,188,301</u>

Wayne State University

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended September 30	
	2005	2004
Operating Revenues		
Student tuition and fees	\$ 180,131,105	\$ 167,943,273
Less: Scholarship allowances	(49,394,670)	(46,446,364)
Net student tuition and fees	130,736,435	121,496,909
Federal grants and contracts	142,335,194	134,839,039
State and local grants and contracts	28,703,300	22,258,139
Nongovernmental grants and contracts	98,472,191	100,704,456
Departmental activities	21,881,835	16,944,498
Auxiliary enterprises (net of scholarship allowances of \$1,445,882 for 2005 and \$1,750,707 for 2004)	22,332,387	20,464,946
Other operating revenues	1,412,812	2,092,947
Total operating revenues	445,874,154	418,800,934
Operating Expenses (Note 9)		
Instruction	238,343,759	233,512,055
Research	148,601,703	151,426,342
Public service	51,572,052	46,298,270
Academic support	56,722,153	58,588,464
Student services	30,226,536	28,570,519
Institutional support	52,877,457	50,757,547
Operation and maintenance of plant	58,178,069	58,934,279
Scholarships and fellowships	1,321,317	625,151
Auxiliary enterprises	17,391,079	16,702,432
Depreciation expense	41,663,751	43,768,116
Total operating expenses	696,897,876	689,183,175
Operating loss	(251,023,722)	(270,382,241)
Nonoperating Revenues (Expenses)		
State operating appropriations	223,236,100	216,865,900
Gifts	36,597,150	29,353,815
Investment income	29,489,912	23,648,868
Interest on capital asset - related debt	(11,849,792)	(10,583,858)
Other	(946,227)	2,281,781
Net nonoperating revenues	276,527,143	261,566,506
Income (loss) before other revenues and expenses	25,503,421	(8,815,735)
Other Revenues (Expenses)		
State capital appropriations	2,455,347	1,444,133
Capital gifts	6,921,895	2,224,500
Loss on capital assets retired	(1,839,735)	(3,361,255)
Private gifts for endowment purposes	4,599,172	5,281,172
Net other revenues	12,136,679	5,588,550
Increase (decrease) in net assets	37,640,100	(3,227,185)
Net Assets		
Beginning of year	771,907,757	775,134,942
End of year	\$ 809,547,857	\$ 771,907,757

	Year Ended September 30	
	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	\$ 142,059,487	\$ 126,980,561
Grants and contracts	267,047,036	250,515,295
Auxiliary enterprises	25,907,074	18,257,007
Departmental activities	17,630,032	21,625,227
Loans issued to students	(5,868,915)	(20,580,590)
Collection of loans from students	5,384,061	4,379,017
Scholarships and fellowships	(4,397,577)	(687,297)
Payments to suppliers	(174,541,489)	(184,302,313)
Payments to employees	(474,826,215)	(449,410,275)
Other receipts	1,416,021	2,091,646
Net cash used in operating activities	(200,190,485)	(231,131,722)
Cash Flows from Noncapital Financing Activities		
State operating appropriations	223,236,100	217,619,305
Gifts	30,923,311	29,090,319
Private gifts for endowment purposes	4,599,172	5,281,172
Student direct lending receipts	(33,405)	27,633,854
Student direct lending disbursements	-	(27,035,929)
FFELPS student lending receipts	95,417,926	78,847,354
FFELPS student lending disbursements	(94,513,904)	(77,909,122)
Other	1,123,171	944,347
Net cash provided by noncapital financing activities	260,752,371	254,471,300
Cash Flows from Capital and Related Financing Activities		
State capital appropriations	1,209,075	298,042
Capital gifts and grants	2,717,536	3,295,483
Proceeds from issuance of debt and other long term obligations	-	115,580,000
Bond issue costs paid and discount	-	(1,402,585)
Purchase of capital assets	(105,885,083)	(55,305,522)
Principal paid on capital debt	(6,641,176)	(3,551,667)
Interest paid on capital debt	(11,907,598)	(10,546,673)
Net cash provided by (used in) capital and related financing activities	(120,507,246)	48,367,078
Cash Flows from Investing Activities		
Investment income, net	22,035,227	20,968,280
Proceeds from sales and maturities of investments	181,150,857	144,118,779
Purchase of investments	(127,156,400)	(239,171,355)
Net cash provided by (used in) investing activities	76,029,684	(74,084,296)
Net Increase (Decrease) in Cash and Temporary Investments	16,084,324	(2,377,640)
Cash and Temporary Investments, beginning of year	227,468,535	229,846,175
Cash and Temporary Investments, end of year	\$ 243,552,859	\$ 227,468,535
Operating loss	\$ (251,023,722)	\$ (270,382,241)
Adjustments to reconcile net operating loss to net cash from operating activities:		
Depreciation expense	41,663,751	43,768,116
(Increase) decrease in assets:		
Accounts receivable, net	(698,960)	(19,092,278)
Inventories and other assets	(2,877,041)	383,456
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	2,206,004	7,891,867
Deposits held for others	(1,717,059)	2,439,390
Deferred income	11,135,375	2,500,380
Accrued employee benefits	1,121,167	1,359,588
Net cash used in operating activities	\$ (200,190,485)	\$ (231,131,722)

Note I - Basis of Presentation and Significant Accounting Policies

Overview

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, apartments and related activities and the Foundation facilitates the University's fund-raising activities and manages most of the University's endowment funds. While the University is a political subdivision of the State of Michigan, it is not a component unit of the State of Michigan 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.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and the balance sheets, statements of revenues, expenses and changes in net assets, and cash flows are reported on a combined basis, and all intra-university transactions are eliminated in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*.

Net Assets - Consistent with GASB Statement No. 35, the University reports its net assets in four categories:

- Invested in 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 issued for the acquisition, construction or improvement of those assets, plus unspent bond proceeds. 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 – Primarily represents the corpus portion of gifts to the University's permanent endowment funds and certain net assets within the Student Loan Fund.

Note I - Basis of Presentation and Significant Accounting Policies (continued)

- Restricted expendable - Are comprised primarily of external gifts which are subject to externally imposed restrictions governing their use (primarily scholarships and academic programs). This category of net assets includes \$102.3 and \$88.6 million of funds functioning as endowments in 2005 and 2004, respectively. Restricted expendable net assets also include undistributed accretions of permanent endowment investments.
- Unrestricted - Represents funds which are not subject to externally imposed restrictions, however most of the University's unrestricted net assets at September 30, 2005 have been designated for various academic, research and administrative programs, as well as capital projects.

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 Statement No. 35, the University defines operating activities as reported in the statements of revenues, expenses and changes in net assets, as those that generally result from exchange transactions such as revenues received for tuition and fees, as well as sponsored services from sponsored programs and expenses paid for goods or services. 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 recorded at market 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 spend 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. The University's endowment spending rate policy which was changed during fiscal year 2005, provides for an annual distribution of 4.75% of a 3-year moving average market value (measured at quarterly intervals) of endowment assets. Prior to the change the annual distribution rate was 5% of a 2½-year moving average market value of endowment assets.

Note I - Basis of Presentation and Significant Accounting Policies (continued)

Deferred Income - Represents amounts received or recognized in advance of an event, such as portions of student tuition received or due prior to October 1 and amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreements.

Inventories - Inventories are stated at the lower of cost or market.

Prepaid Expenses and Deposits - Primarily represent cash payments in advance of when the related expenditures will be recognized for financial statement purposes and consists primarily of prepaid student financial aid which is paid to students at the beginning of the fall term of each fiscal year but recognized for accounting purposes over the duration of the fall term.

Capital Assets - Capital assets are 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 operating and capital purposes are recognized in the period they are appropriated. Grant and contract revenue is recognized as the underlying expenditures are incurred. State Building Authority funds are recognized as the University incurs eligible Authority capital project expenditures.

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. Allowance for uncollectible pledge receivables are provided based on management's judgment of potential uncollectible amounts.

The University disbursed approximately \$94,500,000 and \$104,900,000 in 2005 and 2004, respectively, for student loans through the U.S. Department of Education federal direct lending and federal guaranteed student loan programs. These disbursements and the related receipts are not included as revenues or expenditures in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. The disbursements and related receipts are reflected in the noncapital financing activities section of the cash flow statement. During 2004, the University ceased its participation in the direct lending program.

Reclassifications - Certain fiscal year 2004 balances have been reclassified to conform to the current year presentation.

Note 2 - Cash and Investments

The University has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the years ended September 30, 2005 and 2004.

The University's cash and investments are included in the Balance Sheets under the following classifications:

	2005	2004
Cash and temporary investments	\$ 243,552,859	\$ 227,468,535
Investments:		
Endowment fund	192,169,285	173,498,347
Bond proceeds	42,182,490	106,409,066
Total investments	234,351,775	279,907,413
Total cash and investments	<u>\$ 477,904,634</u>	<u>\$ 507,375,948</u>

The University's cash and investments consist of the following:

	2005	2004
Certificate of deposit and savings accounts	\$ 16,371,540	\$ 35,878,991
Fixed income investments	329,845,293	357,104,863
Equity security investments	135,311,090	118,810,436
Other	5,257,894	5,780,618
Checks issued in excess of available cash balances	(8,881,183)	(10,198,960)
Total cash and investments	<u>\$ 477,904,634</u>	<u>\$ 507,375,948</u>

Deposits

Deposits are managed in accordance with the Board of Governors' Cash Management Policy. This policy allows investments to be made in bank certificates of deposit, bankers' acceptances, and secondary market certificates of deposit. This policy also provides that 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.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At September 30, 2005 and 2004, the carrying amount of the University's deposits was \$16,862,816 and \$55,389,280, respectively. Of that amount \$709,324 and \$715,769, respectively, was insured. The remaining \$16,153,492 and \$54,673,511 at September 30, 2005 and 2004, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits.

Note 2 – Cash and Investments (continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. The University does not have a deposit policy for foreign currency risk. The University did not have any deposits denominated in foreign currencies at September 30, 2005 and 2004.

Investments

The Cash and Temporary Investments and Investments-Bond Proceeds are managed in accordance with the Board of Governors Cash Management Policy. Almost all of the Investments-Endowment Fund (approximately 99%) are managed in accordance with a separate Investment Policy approved by the Foundation Board of Trustees. Although, the University has some investments that are restricted by external agreements or by special donor limitations.

The Board of Governors' Cash Management Policy allows investments to be made in bank repurchase agreements, corporate fixed income securities with limited maturities, municipal obligations, United States Treasury bills and notes, other United States agency notes, commercial paper, and any other instruments that have been selected and approved by the Common Fund Short and Intermediate-Term investment pools, including the Global Fund. This policy also provides that 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.

The Endowment Investment Policy sets a general target for investments of 50 percent United States equities, 15 percent Non-United States equities, 25 percent for fixed income securities, and 5 percent for both hedge and real estate funds. Each of these targets has a permitted range of 45 to 55 percent, 13 to 17 percent, 20 to 30 percent and 0 to 8 percent, respectively. Diversification is a fundamental risk management strategy and these funds are broadly diversified.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University and the Endowment's investment policies do not limit the value of investments that may be held by an outside party. Investments in external investment pools and in open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University's counterparties held \$355,416,001 of its portfolio at September 30, 2005 and \$262,563,043 at September 30, 2004.

Note 2 - Cash and Investments (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's Cash Management Policy limits the maturities and the maximum maturities of its investments. Securities exceeding maturities of one year are limited to corporate fixed income securities maturing less than or equal to three years, United States treasury notes and instruments maturing less than or equal to seven years, and intermediate-term investment pools (those with securities maturing on an average of seven years or less). In addition, securities with maturities exceeding one year are limited to 70% of the total investments.

The Endowment Investment Policy does not limit interest rate risk. The interest rate risk of the fixed income securities is considered as part of the overall risk of this portfolio when establishing its asset allocation. Investments are managed in accordance with asset allocation guidelines and manager guidelines at time of manager appointment.

The University held the following types of fixed income investments and maturities, in years, at September 30, 2005 and 2004:

Types of Investments	2005 Maturities (in Years)				Total
	Less Than 1	1-5	6-10	More Than 10	
U.S. Treasuries	\$ 49,783	\$ 7,549,410	\$ -	\$ -	\$ 7,599,193
U.S. Government Sponsored Enterprises	48,720,152	21,656,001	-	-	70,376,153
Corporate Asset Backed Securities	-	2,600,798	-	-	2,600,798
External Investment Pools ⁽¹⁾	-	54,733,158	-	-	54,733,158
Money Market Mutual Fund ⁽¹⁾⁽²⁾	57,418,947	-	-	-	57,418,947
Corporate Securities	1,848,571	3,267,069	-	-	5,115,640
Commercial Paper	79,965,278	-	-	-	79,965,278
Fixed Income Institutional Bond Fund ⁽¹⁾	-	-	51,688,209	-	51,688,209
Non-U.S. Fixed Income Securities	203,750	144,167	-	-	347,917
Investment by Maturity	\$ 188,206,481	\$ 89,950,603	\$ 51,688,209	\$ -	\$ 329,845,293

⁽¹⁾ This is the range in which the average maturity falls for these investment types.

⁽²⁾ Includes bond proceeds of \$42,182,490, and a money market fund comprised primarily of U.S. Government Sponsored Enterprise Investments totaling \$9,794,977.

Note 2 - Cash and Investments (continued)

Types of Investments	2004 Maturities (in Years)				Total
	Less Than 1	1-5	6-10	More Than 10	
U.S. Treasuries	\$ 1,337,898	\$ 6,793,549	\$ 110,840	\$ 145,276	\$ 8,387,563
U.S. Agencies	-	-	-	754,225	754,225
U.S. Government Sponsored Enterprise	38,889,157	15,755,366	2,538,954	6,630,301	63,813,778
Corporate Asset Backed Securities	-	2,156,193	762,038	384,728	3,302,959
Student Loan Asset Backed Securities	30,050,000	-	-	-	30,050,000
External Investment Pools ⁽¹⁾	-	53,865,359	-	-	53,865,359
Money Market Mutual Fund ⁽¹⁾⁽²⁾	119,466,506	-	-	-	119,466,506
Corporate Securities	1,813,834	7,778,213	4,143,739	3,432,790	17,168,576
Commercial Paper	34,933,150	-	-	-	34,933,150
Fixed Income Institutional Bond Fund ⁽¹⁾	-	-	25,091,496	-	25,091,496
Non-U.S. Fixed Income Securities	-	271,251	-	-	271,251
Investment by Maturity	\$ 226,490,545	\$ 86,619,931	\$ 32,647,067	\$ 11,347,320	\$ 357,104,863

⁽¹⁾ This is the range in which the average maturity falls for these investment types.

⁽²⁾ Includes bond proceeds of \$106,409,066, and a money market fund comprised primarily of U.S. Government Sponsored Enterprise Investments totaling \$4,006,801.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody's and Standard and Poor's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. To limit its exposure to credit risk, the University's Cash Management Policy limits the minimum acceptable credit rating of individual investments as follows (Moody's/Standard and Poor's): Commercial paper (P1/A1), Municipal obligations (A/A), Corporate Fixed Income Securities (A/A). The University is in compliance with its credit risk policy for its related portfolios.

The Endowment Investment Policy does not limit the credit risk that an issuer of or counterparty to an investment has. The credit risk of the Endowment's fixed income securities is considered within overall portfolio risk when establishing its total expected risk and investment return assumptions. Investments are managed in accordance with asset allocation guidelines and manager guidelines at time of manager appointment.

Note 2 - Cash and Investments (continued)

The University held the following types of fixed income investments and credit ratings at September 30, 2005 and 2004:

2005	Credit Rating			Total
	Investment Grade	Non-investment Grade	Not Rated	
U.S. Treasuries	\$ -	\$ -	\$ 7,599,194	\$ 7,599,194
U.S. Government Sponsored Enterprises	70,376,153	-	-	70,376,153
Corporate Asset Backed Securities	2,600,798	-	-	2,600,798
External Investment Pools ⁽¹⁾	54,733,158	-	-	54,733,158
Money Market Mutual Fund ⁽¹⁾⁽²⁾	57,418,947	-	-	57,418,947
Corporate Securities	5,115,640	-	-	5,115,640
Commercial Paper	79,965,277	-	-	79,965,277
Fixed Income Institutional Bond Fund ⁽¹⁾	51,688,209	-	-	51,688,209
Non-U.S. Fixed Income Securities	-	-	347,917	347,917
Investments by Rating	\$ 321,898,182	\$ -	\$ 7,947,111	\$ 329,845,293

⁽¹⁾ This is the range in which the average credit rating falls for these investment types.

⁽²⁾ Includes bond proceeds of \$42,182,490, and a money market fund comprised primarily of U.S. Government Sponsored Enterprise Investments totaling \$9,794,977.

2004	Credit Rating			Total
	Investment Grade	Non-investment Grade	Not Rated	
U.S. Treasuries	\$ -	\$ -	\$ 8,387,563	\$ 8,387,563
U.S. Agencies	-	-	754,225	754,225
U.S. Government Sponsored Enterprises	57,126,402	-	6,687,376	63,813,778
Corporate Asset Backed Securities	3,220,211	-	82,748	3,302,959
Student Loan Asset Backed Securities	30,050,000	-	-	30,050,000
External Investment Pools ⁽¹⁾	53,865,359	-	-	53,865,359
Money Market Mutual Fund ⁽¹⁾⁽²⁾	119,466,506	-	-	119,466,506
Corporate Securities	14,367,930	1,984,176	816,470	17,168,576
Commercial Paper	34,933,150	-	-	34,933,150
Fixed Income Institutional Bond Fund ⁽¹⁾	25,091,496	-	-	25,091,496
Non-U.S. Fixed Income Securities	-	-	271,251	271,251
Investments by Rating	\$ 338,121,054	\$ 1,984,176	\$ 16,999,633	\$ 357,104,863

⁽¹⁾ This is the range in which the average credit rating falls for these investment types.

⁽²⁾ Includes bond proceeds of \$106,409,066, and a money market fund comprised primarily of U.S. Government Sponsored Enterprise Investments totaling \$4,006,801.

Note 2 - Cash and Investments (continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's Cash Management Policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10% of its assets can be in any particular issue. Direct placements are limited to 20% of total resources with any given institution (banks, companies, or other institutions), including investment pools. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University is in compliance with its concentration of credit risk policy.

The Endowment Investment Policy does not limit the concentration of credit risk that an issuer or counterparty to an investment will not fulfill its obligations. The credit risk of the Endowment's fixed income securities is considered within the overall risk of this portfolio when establishing its total expected risk and investment return assumptions. Investments are managed in accordance with asset allocation guidelines and manager guidelines at time of manager appointment.

As of September 30, 2005, the University's combined Cash and Temporary Investments and Endowment Investment portfolio included 5% of its investments in Federal Home Loan Bank securities and 5% of its investments in Federal National Mortgage Association securities. At September 30, 2004, the University investment portfolio did not have investments in any single issuer that equaled 5% or more.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University's Cash Management Policy allows for the investment in instruments that have been selected and approved by the Common Fund Short and Intermediate-Term investment pools, including their Global Fund. The University did not have any direct investments denominated in foreign currencies at September 30, 2005 and 2004.

The Endowment Investment Policy does not limit the foreign currency risk. The asset allocation does provide a target of 15% for Non-United States equities (with a maximum limit of 17%), but it does not establish any limits on Non-U.S. fixed income securities. The foreign currency risk of these Endowment investments is considered within the overall risk of this portfolio when establishing its total expected risk and investment return assumptions. Investments are managed in accordance with asset allocation guidelines and manager guidelines at the time of manager appointment. As of September 30, 2005, the University had Endowment fund investments in Non-U.S. equities of \$32,006,012, which amounted to 16.7% of the University's total Endowment fund investments, not including commingled funds that were denominated in U.S. dollars. Of this amount, 32% was exposed to European Union euro currency risk, 22% was exposed to the British pound currency risk and 11% was exposed to Japanese yen currency risk. At September 30, 2004, \$26,557,954 of the University's Endowment fund investments in Non-U.S. equity investments was exposed to foreign currency risk, which amounted to 15.3% of the University's total Endowment fund investments. Of this amount, 33% was exposed to European Union euro currency risk, 27% was exposed to the British pound currency risk, and 21% was exposed to Japanese yen currency risk. For 2005 and 2004, the remaining investments in Non-U.S. equities had small exposures in the individual currencies of several foreign countries.

Note 2 - Cash and Investments (continued)

The University's cash and temporary investments provided a return of 2.89% and 1.89% for the years ended September 30, 2005 and 2004, respectively. The University's endowment related investments provided a return of 11.9 % and 11.0% for the years ended September 30, 2005 and 2004, respectively.

Note 3 - Receivables

At September 30, 2005 and 2004, receivables consist of the following:

	2005	2004
Receivables from sponsoring agencies	\$ 43,694,830	\$ 40,663,029
Pledged gift receivables	21,942,366	8,403,386
Student notes receivables	49,319,124	49,408,560
Student accounts receivable	48,988,309	43,015,645
State appropriations receivable, capital projects	2,033,354	1,287,083
Other	9,726,954	14,312,893
	<u>175,704,937</u>	<u>157,090,596</u>
Less: Provision for loss on receivables	(7,970,246)	(5,226,354)
Less: Unamortized discount to present value on pledged gift receivables	(2,802,817)	(441,773)
	<u>164,931,874</u>	<u>151,422,469</u>
Less: Current portion receivables, net	(124,411,818)	(121,064,397)
Total noncurrent receivables, net	<u>\$ 40,520,056</u>	<u>\$ 30,358,072</u>

Payments on pledged gift receivables at September 30, 2005 are expected to occur in the following years ending September 30:

2006	\$ 4,842,478
2007-2016	<u>17,099,888</u>
Total	<u>\$ 21,942,366</u>

Student notes receivable consist of loans to students made from federal and University resources. The principal repayment and interest rate terms on these loans vary considerably. The provision for losses on receivables, which is applicable to the student notes receivables above, 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.

Note 3 - Receivables (continued)

The University's participation in the School as Lender Program, resulted in approximately \$21,400,000 and \$20,400,000 in outstanding loans receivable at September 30, 2005 and 2004, respectively. Under the School as Lender Program, the University disbursed approximately \$51,750,000 and \$32,800,000 in loans to students during the years ended September 30, 2005 and 2004, respectively. All loans associated with this program are sold to a third party within one year. The University sold \$50,750,000 and \$18,100,000 of such loans during the years ended September 30, 2005 and 2004, respectively.

The University has secured a line of credit with a bank to fund loans issued in conjunction with the School as Lender program. At September 30, 2005 and 2004, the University had outstanding loans against the line of credit of \$21,233,779 and \$20,398,778, respectively.

Note 4 - Capital Assets

Capital assets activity for the years ended September 30, 2005 and 2004 was as follows:

	Balance September 30 2004	Additions	Retirements	Balance September 30 2005
Land improvements	\$ 17,917,356	\$ 58,858	\$ -	\$ 17,976,214
Buildings	749,550,335	69,682,234	-	819,232,569
Library materials	110,757,695	4,107,574	(548,250)	114,317,019
Equipment and software	188,351,171	11,023,784	(39,757,299)	159,617,656
Subtotal - depreciable assets	1,066,576,557	84,872,450	(40,305,549)	1,111,143,458
Land	29,652,256	1,118,713	(48,838)	30,722,131
Construction in progress	17,952,078	22,269,171	-	40,221,249
Subtotal - nondepreciable assets	47,604,334	23,387,884	(48,838)	70,943,380
Total	1,114,180,891	108,260,334	(40,354,387)	1,182,086,838
Less accumulated depreciation:				
Land improvements	9,179,536	679,035	-	9,858,571
Buildings	243,193,488	23,982,543	-	267,176,031
Library materials	89,831,712	4,041,841	-	93,873,553
Equipment and software	135,670,762	12,960,332	(38,514,652)	110,116,442
Total accumulated depreciation	477,875,498	41,663,751	(38,514,652)	481,024,597
Capital assets, net	<u>\$ 636,305,393</u>	<u>\$ 66,596,583</u>	<u>\$ (1,839,735)</u>	<u>\$ 701,062,241</u>

Note 4 - Capital Assets (continued)

	Balance September 30 2003	Additions	Retirements	Balance September 30 2004
Land improvements	\$ 16,622,988	\$ 1,294,368	\$ -	\$ 17,917,356
Buildings	721,005,166	33,355,594	(4,810,425)	749,550,335
Library materials	107,185,630	3,911,165	(339,100)	110,757,695
Equipment and software	189,311,745	8,514,840	(9,475,414)	188,351,171
Subtotal - depreciable assets	1,034,125,529	47,075,967	(14,624,939)	1,066,576,557
Land	29,669,809	-	(17,553)	29,652,256
Construction in progress	4,155,221	13,796,857	-	17,952,078
Subtotal - nondepreciable assets	33,825,030	13,796,857	(17,553)	47,604,334
Total	1,067,950,559	60,872,824	(14,642,492)	1,114,180,891
Less accumulated depreciation:				
Land improvements	8,550,739	628,797	-	9,179,536
Buildings	225,850,446	21,630,923	(4,287,881)	243,193,488
Library materials	85,664,766	4,166,946	-	89,831,712
Equipment and software	126,522,668	17,341,450	(8,193,356)	135,670,762
Total accumulated depreciation	446,588,619	43,768,116	(12,481,237)	477,875,498
Capital assets, net	<u>\$ 621,361,940</u>	<u>\$ 17,104,708</u>	<u>\$ (2,161,255)</u>	<u>\$ 636,305,393</u>

Construction in progress additions represent expenditures for uncompleted new projects, net of the amounts of construction in progress from the preceding years which were placed into service as depreciable capital assets during the current fiscal year.

Several of the buildings on campus were financed through the issuance of bonds by the State of Michigan Building Authority (SBA). The SBA bonds are secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement entered into between the SBA, the State of Michigan and the University. During the lease term, the SBA will hold title to the buildings and land, the State of Michigan will make all lease payments to the SBA, and the University will be responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer title to the buildings and land to the University.

Note 5 - Long-Term Debt

Long-term debt activity for the year ended September 30, 2005 consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2004, with interest at 4.12%, maturing November 15, 2034	\$ 59,350,000	\$ -	\$ -	\$ 59,350,000	\$ 50,000
General Revenue Bonds, Series 2003A, with interest at fixed and variable rates ranging from 1.8% to 3.45%, maturing November 15, 2033	51,550,000	-	900,000	50,650,000	1,150,000
General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing November 15, 2018	4,680,000	-	215,000	4,465,000	225,000
General Revenue Bonds, Series 2002, with interest at 4.33%, maturing November 15, 2032	45,700,000	-	850,000	44,850,000	750,000
General Revenue Bonds, Series 2001, Tranche 1, with interest at 4.85%, maturing November 15, 2031	18,650,000	-	300,000	18,350,000	400,000
General Revenue Bonds, Series 2001, Tranche 2, with interest at 4.27%, maturing November 15, 2031	7,250,000	-	100,000	7,150,000	150,000
General Revenue and Refunding Bonds, Series 1999, with interest ranging from 4.50% to 5.50%, maturing November 15, 2029	122,810,000	-	2,550,000	120,260,000	2,675,000
General Revenue Bonds, Series 1993, with interest ranging from 5.30% to 5.65%, maturing November 15, 2012	3,670,000	-	305,000	3,365,000	325,000
Various notes payable for equipment, land, and additions at varying interest rates maturing from 2006 through 2011	3,853,227	401,293	1,600,863	2,653,657	512,894
Gross long-term debt	317,513,227	401,293	6,820,863	311,093,657	6,237,894
Less: Unamortized bond discount	(4,311,876)	-	(167,960)	(4,143,916)	-
Total long-term debt	\$ 313,201,351	\$ 401,293	\$ 6,652,903	\$ 306,949,741	\$ 6,237,894

Note 5 - Long-Term Debt (continued)

Long-term debt activity for the year ended September 30, 2004 consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2004, with interest at 4.12%, maturing November 15, 2034	\$ -	\$ 59,350,000	\$ -	\$ 59,350,000	\$ -
General Revenue Bonds, Series 2003A, with interest at fixed and variable rates ranging from 1.8% to 3.45%, maturing November 15, 2033	-	51,550,000	-	51,550,000	900,000
General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing November 15, 2018	-	4,680,000	-	4,680,000	215,000
General Revenue Bonds, Series 2002, with interest at 4.33%, maturing November 15, 2032	45,700,000	-	-	45,700,000	850,000
General Revenue Bonds, Series 2001, Tranche 1, with interest at 4.85%, maturing November 15, 2031	19,000,000	-	350,000	18,650,000	300,000
General Revenue Bonds, Series 2001, Tranche 2, with interest at 4.27%, maturing November 15, 2031	7,400,000	-	150,000	7,250,000	100,000
General Revenue and Refunding Bonds, Series 1999, with interest ranging from 4.125% to 5.50%, maturing November 15, 2029	125,250,000	-	2,440,000	122,810,000	2,550,000
General Revenue Bonds, Series 1993, with interest ranging from 5.20% to 5.65%, maturing November 15, 2012	3,955,000	-	285,000	3,670,000	305,000
Various notes payable for equipment, land, and additions at varying interest rates maturing from 2005 through 2013	4,561,297	183,055	891,125	3,853,227	614,359
Gross long-term debt	205,866,297	115,763,055	4,116,125	317,513,227	5,834,359
Less: Unamortized bond discount	(3,868,157)	(601,900)	(158,181)	(4,311,876)	-
Total long-term debt	\$ 201,998,140	\$ 115,161,155	\$ 3,957,944	\$ 313,201,351	\$ 5,834,359

The University's General Revenue Bonds are secured by the unrestricted operating revenues of the University. When possible, the University defeases prior debt issuances to reduce its borrowing cost. The total amount of defeased bonds outstanding at September 30, 2005 and 2004 totaled \$2,275,000 and \$2,525,000, respectively.

Note 5 - Long-Term Debt (continued)

Total principal and interest maturities on all debt obligations as of September 30, 2005, are as follows:

Years	Principal	Interest	Total
2006	\$ 6,237,894	\$ 10,543,479	\$ 16,781,373
2007	7,538,572	10,121,827	17,660,399
2008	7,260,752	10,160,930	17,421,682
2009	7,815,429	9,671,713	17,487,142
2010	7,841,010	9,606,685	17,447,695
2011-2015	45,520,000	42,368,898	87,888,898
2016-2020	51,790,000	33,660,711	85,450,711
2021-2025	61,650,000	23,519,936	85,169,936
2026-2030	78,090,000	11,042,436	89,132,436
2030-2034	37,350,000	1,433,836	38,783,836
	<u>\$ 311,093,657</u>	<u>\$ 162,130,451</u>	<u>\$ 473,224,108</u>

Cash paid for interest was \$14,263,375 in 2005 and \$11,147,706 in 2004.

Interest Rate Swaps

Objective of the swaps - As a means to lower its borrowing costs and in order to protect against the potential of rising interest rates, the University entered into five separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the University would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk - The terms, fair values, and credit ratings of the outstanding swaps as of September 30, 2005, were as follows.

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received*	Fair Values
Series 2001, Tranche 1	\$ 19,000,000	12/04/01	4.85%	SAVRS	\$ (2,647,253)
Series 2001, Tranche 2	7,400,000	12/15/02	4.27%	BMA	(666,307)
Series 2002	45,700,000	12/06/02	4.33%	BMA	(4,559,591)
Series 2003A	25,750,000	15-30 years	3.45%	67% of LIBOR /BMA	(467,427)
Series 2004	50,500,000	30 years	4.12%	67% of LIBOR/BMA	(4,663,913)
					<u>\$(13,004,491)</u>

The notional amounts of the swaps match the principal amounts of the associated debt, for all of the bond issues, except the Series 2003A and Series 2004 bonds.

Note 5 - Long-Term Debt (continued)

- * SAVRS Interest rate determined every 35 days via a Dutch auction
- LIBOR – London Interbank Offered Rate
- BMA – Bond Market Association Index

Because interest rates have declined, all swaps had a negative fair value as of September 30, 2005. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. The fair values were estimated by using the proprietary pricing model of a pricing service.

Credit risk - As of September 30, 2005, the University was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. All of the swaps are held by one counterparty. The swap counterparty was rated "A+" by Fitch Ratings, "A" by Standard & Poor's, and "A1" by Moody's Investors Service as of September 30, 2005. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A", the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk - As noted above, the swap exposes the University to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk - The swap termination dates are November 2031 for the Series 2001 Tranche 1 and 2 bonds, November 2032 for the Series 2002 bonds, November 2033 for Series 2003A bonds and November 2034 for the Series 2004 bonds. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the University if the counterparty's credit quality rating falls below "A+" as issued by Fitch Ratings, or "A" as issued by Standard & Poor's, or "A2" as issued by Moody's Investors Service.

The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

Note 5 - Long-Term Debt (continued)

Interest Rate Swaps (continued)

Swap payments and associated debt - As of September 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows.

Years	Principal	Interest	Interest Rate Swaps, Net	Total
2006	2,500,000	\$ 3,985,503	\$ 3,104,255	\$ 9,589,758
2007	3,800,000	3,723,647	3,003,983	10,527,630
2008	3,450,000	3,938,061	2,933,991	10,322,052
2009	3,950,000	3,629,464	2,812,838	10,392,302
2010	3,800,000	3,762,645	2,804,325	10,366,970
2011-2015	23,050,000	16,581,277	12,764,868	52,396,145
2016-2020	28,150,000	13,707,862	10,586,469	52,444,331
2021-2025	33,100,000	10,258,999	8,071,720	51,430,719
2026-2030	41,200,000	6,121,924	4,775,875	52,097,799
2030-2035	37,350,000	1,433,836	1,096,931	39,880,767
Total	<u>\$ 180,350,000</u>	<u>\$ 67,143,218</u>	<u>\$ 51,955,255</u>	<u>\$ 299,448,473</u>

As rates vary, variable-rate bond interest payments and net payments will vary.

Subsequent event - On October 25, 2005, the University entered into forward starting swaps with a total notional amount of \$107,500,000. These swaps will be effective as of November 15, 2009 and terminate November 15, 2029. The fixed interest rate to be paid will be 3.579% and the variable interest rate to be received will be 67% of LIBOR. The purpose of these swap agreements is to refinance the Series 1999 bonds that are callable in November 2009. This forward starting swap will allow the University to reduce the interest expense currently associated with these bonds.

Note 6 - Defined Contribution 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 his/her salary. The University's contributions for each employee are fully vested immediately. University contributions to the plan for the years ended September 30, 2005 and 2004 were \$24,664,000 and \$23,800,000, respectively.

Note 7 - Commitments

In connection with the University's ongoing construction program, approximately \$37,922,000 was committed at September 30, 2005. Included in this amount is approximately \$16,500,000 related to the Scott Hall Laboratory renovations, \$6,500,000 related to the Chemistry Building Laboratory renovations, and various other construction projects. These commitments will be funded through a combination of sources including external long-term financing, gifts, investment income, and various other University resources.

Note 8 - 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 participate 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 combined periodic payments and accumulated operational reserves for any given year. The maximum possible additional assessment for the University for the year ended September 30, 2005 is approximately \$1.8 million. The University has not been subjected to additional assessments since the formation of MUSIC in 1987.

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, 2005 and 2004 totaled approximately \$3,800,000 and \$4,600,000, respectively. Specific excess (umbrella) coverage has been purchased by the University for its self-insured workers' compensation and medical insurance programs.

Note 8 - Contingencies (continued)

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 combined financial statements.

Loan Guarantees

The University has guaranteed an operating line of credit of \$500,000 and a construction loan of \$10 million for Research and Technology Park in the City of Detroit, Inc., a 501(c)(3) organization. As of September 30, 2005, funds drawn against the construction loan totaled \$8 million.

Note 9 - Natural Classification of Expenses

Operating expenses by natural classification for the years ended September 30, 2005 and 2004 are summarized as follows:

	2005	2004
Compensation and benefits	\$ 478,584,820	\$ 465,651,342
Supplies and services	175,327,988	179,138,567
Depreciation	41,663,751	43,768,116
Scholarship and fellowships	1,321,317	625,151
Total operating expenses	<u>\$ 696,897,876</u>	<u>\$ 689,183,175</u>

Additional Information

Report on Supplemental Information

Board of Governors
Wayne State University

We have audited the financial statements of Wayne State University for the years ended September 30, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

December 9, 2005

Combining Balance Sheet September 30, 2005 (with comparative totals for September 30, 2004)

	2005										2004	
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Agency Fund	Combined Fund Totals	Combined Fund Totals
ASSETS												
Current assets												
Cash and temporary investments	\$ 131,184,884	\$ 30,227,097	\$ 6,627,607	\$ 114,340	\$ 12,718,297	\$ 180,872,225	\$ 39,972,370	\$ 8,924,109	\$ 2,095,824	\$ 11,688,331	\$ 243,552,859	\$ 227,468,535
Current receivables, net	43,710,148	4,687,277	3,952,313	312,468	44,038,815	96,701,021	4,899,277	21,515,295	470,859	825,366	124,411,818	121,064,397
Inventories	1,007,623	-	394,404	-	-	1,402,027	-	-	-	-	1,402,027	1,512,904
Prepaid expenses and deposits	13,157,159	8,975	119,325	-	15,938	13,301,397	16,762	-	-	262,131	13,580,290	10,692,372
Total current assets	189,059,814	34,923,349	11,093,649	426,808	56,773,050	292,276,670	44,888,409	30,439,404	2,566,683	12,775,828	382,946,994	360,738,208
Investments	-	-	-	-	-	-	42,182,490	-	192,169,285	-	234,351,775	279,907,413
Noncurrent receivables, net	-	5,503,736	-	4,363	1,139,327	6,647,426	6,642,281	27,230,349	-	-	40,520,056	30,358,072
Unamortized bond issue costs	-	-	-	-	-	-	1,822,328	-	-	-	1,822,328	1,879,215
Capital assets, net	-	-	-	-	-	-	701,062,241	-	-	-	701,062,241	636,305,393
Total noncurrent assets	-	5,503,736	-	4,363	1,139,327	6,647,426	751,709,340	27,230,349	192,169,285	-	977,756,400	948,450,093
Total assets	\$ 189,059,814	\$ 40,427,085	\$ 11,093,649	\$ 431,171	\$ 57,912,377	\$ 298,924,096	\$ 796,597,749	\$ 57,669,753	\$ 194,735,968	\$ 12,775,828	\$ 1,360,703,394	\$ 1,309,188,301
LIABILITIES												
Current liabilities												
Accounts payable and accrued liabilities	\$ 35,688,126	\$ 6,113,526	\$ 1,558,526	\$ 182,909	\$ 12,157,212	\$ 55,700,299	\$ 16,546,409	\$ -	\$ 217,648	\$ 11,275,362	\$ 83,739,718	\$ 78,277,061
Deferred income	82,264,094	437,925	4,648,768	-	14,307,982	101,658,769	277,775	-	-	-	101,936,544	89,237,055
Deposits	3,504,386	-	619,744	-	-	4,124,130	-	-	-	1,500,466	5,624,596	6,981,239
Short-term loans	-	-	-	-	-	-	-	21,233,779	-	-	21,233,779	20,398,778
Current portion of long-term debt	-	-	-	-	-	-	6,237,894	-	-	-	6,237,894	5,834,359
Total current liabilities	121,456,606	6,551,451	6,827,038	182,909	26,465,194	161,483,198	23,062,078	21,233,779	217,648	12,775,828	218,772,531	200,728,492
Noncurrent liabilities												
Federal portion of student loan funds	-	-	-	-	-	-	-	25,102,840	-	-	25,102,840	24,093,358
Accrued employee benefits	4,874,403	317,330	391,856	43,589	585,691	6,212,869	-	-	355,450	-	6,568,319	5,091,702
Long-term debt	-	-	-	-	-	-	300,711,847	-	-	-	300,711,847	307,366,992
Total noncurrent liabilities	4,874,403	317,330	391,856	43,589	585,691	6,212,869	300,711,847	25,102,840	355,450	-	332,383,006	336,552,052
Total liabilities	126,331,009	6,868,781	7,218,894	226,498	27,050,885	167,696,067	323,773,925	46,336,619	573,098	12,775,828	551,155,537	537,280,544
NET ASSETS												
Invested in capital assets, net of related debt	-	-	-	-	-	-	427,257,968	-	-	-	427,257,968	422,498,303
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Nonexpendable	-	-	-	-	-	-	-	10,746,528	85,746,486	-	96,493,014	90,637,745
Expendable	-	-	-	-	30,861,492	30,861,492	1,304,089	-	102,271,262	-	134,436,843	115,588,375
Unrestricted	62,728,805	33,558,304	3,874,755	204,673	-	100,366,537	44,261,767	586,606	6,145,122	-	151,360,032	143,183,334
Total net assets	62,728,805	33,558,304	3,874,755	204,673	30,861,492	131,228,029	472,823,824	11,333,134	194,162,870	-	809,547,857	771,907,757
Total liabilities and net assets	\$ 189,059,814	\$ 40,427,085	\$ 11,093,649	\$ 431,171	\$ 57,912,377	\$ 298,924,096	\$ 796,597,749	\$ 57,669,753	\$ 194,735,968	\$ 12,775,828	\$ 1,360,703,394	\$ 1,309,188,301

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

	2005	2004
Contractually committed, encumbrances	\$ 7,800	\$ 11,500
Appropriated in subsequent year budget	5,700	5,700
Rainy Day Fund	7,900	7,600
Committed for research	19,000	17,200
Academic unit funds carried forward	7,800	6,500
Operating unit funds carried forward	14,100	12,400
Funds available for allocation in subsequent years	429	495
Total General Fund unrestricted net assets	\$ 62,729	\$ 61,395

Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets Year Ended September 30, 2005 (with comparative totals for the year ended September 30, 2004)

	Year Ended September 30											
	2005										2004	
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Sub-total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Adjustment	Combined Total	Combined Total
Operating Revenues												
Student tuition and fees	\$ 177,658,107	\$ -	\$ 2,247,917	\$ -	\$ -	\$ 179,906,024	\$ 225,081	\$ -	\$ -	\$ -	\$ 180,131,105	\$ 167,943,273
Less: Scholarship allowances	-	-	-	-	-	-	-	-	(49,394,670)	(49,394,670)	(46,446,364)	
Net student tuition and fees	177,658,107	-	2,247,917	-	-	179,906,024	225,081	-	(49,394,670)	130,736,435	121,496,909	
Federal grants and contracts	-	-	-	-	141,863,354	141,863,354	471,840	-	-	142,335,194	134,839,039	
State and local grants and contracts	-	-	-	-	28,703,300	28,703,300	-	-	-	28,703,300	22,258,139	
Nongovernmental grants and contracts	-	64,034,371	-	-	34,437,820	98,472,191	-	-	-	98,472,191	100,704,456	
Departmental activities	9,514,537	11,345,223	-	1,022,075	-	21,881,835	-	-	-	21,881,835	16,944,498	
Auxiliary enterprises (net of scholarship allowances of \$1,445,882 in 2005 and \$1,750,707 in 2004)	-	-	23,778,269	-	-	23,778,269	-	-	(1,445,882)	22,332,387	20,464,946	
Recovery of indirect costs of sponsored programs	37,327,025	-	-	-	(37,327,025)	-	-	-	-	-	-	
Other operating revenues	1,247,133	-	-	-	-	1,247,133	-	165,679	-	1,412,812	2,092,947	
Total operating revenues	225,746,802	75,379,594	26,026,186	1,022,075	167,677,449	495,852,106	696,921	165,679	(50,840,552)	445,874,154	418,800,934	
Operating Expenses												
Instruction	176,919,880	48,413,076	-	-	15,202,823	240,535,779	-	-	(2,192,020)	238,343,759	233,512,055	
Research	26,578,613	2,951,666	-	-	126,432,424	155,962,703	-	-	(7,361,000)	148,601,703	151,426,342	
Public service	1,662,117	21,554,378	-	3,714,522	24,764,859	51,695,876	-	-	(123,824)	51,572,052	46,298,270	
Academic support	60,151,283	361,649	-	-	1,055,707	61,568,639	-	-	(4,846,486)	56,722,153	58,588,464	
Student services	28,650,664	1,262,207	-	-	428,233	30,341,104	-	-	(114,568)	30,226,536	28,570,519	
Institutional support	50,132,183	2,779,015	-	-	91,474	53,002,672	-	-	(125,215)	52,877,457	50,757,547	
Operation and maintenance of plant	51,317,574	25,090	-	-	948,911	52,291,575	5,905,679	-	(19,185)	58,178,069	58,934,279	
Scholarships and fellowships	25,351,592	121,301	-	-	26,688,976	52,161,869	-	-	(50,840,552)	1,321,317	625,151	
Auxiliary enterprises	-	-	17,405,341	-	-	17,405,341	-	-	(14,262)	17,391,079	16,702,432	
Depreciation expense	-	-	-	-	-	-	41,663,751	-	-	41,663,751	43,768,116	
Capital additions, net	-	-	-	-	-	-	(14,796,560)	-	14,796,560	-	-	
Transfers (in) out:												
Debt service	10,014,043	878,712	6,534,784	-	-	17,427,539	(17,427,539)	-	-	-	-	
Loan matching	120,659	-	-	-	-	120,659	-	(120,659)	-	-	-	
Plant improvement and extension	14,733,686	1,061,996	2,681,351	-	(2,998)	18,474,035	(18,474,035)	-	-	-	-	
Other	168,108	538,455	-	-	464,690	1,171,253	-	2,171	(1,173,424)	-	-	
Total operating expenses	445,800,402	79,947,545	26,621,476	3,714,522	196,075,099	752,159,044	(3,128,704)	(118,488)	(1,173,424)	696,897,876	689,183,175	
Operating income (loss)	(220,053,600)	(4,567,951)	(595,290)	(2,692,447)	(28,397,650)	(256,306,938)	3,825,625	284,167	1,173,424	(251,023,722)	(270,382,241)	

Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets (Continued) Year Ended September 30, 2005 (with comparative totals for the year ended September 30, 2004)

	Year Ended September 30											
	2005											2004
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Sub-total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Adjustment		Combined Total
Nonoperating Revenues (Expenses)												
State operating appropriations	\$ 217,366,044	\$ -	\$ -	\$ -	\$ 5,870,056	\$ 223,236,100	\$ -	\$ -	\$ -	\$ -	\$ 223,236,100	\$ 216,865,900
Gifts	-	15,097,633	-	1,507,384	18,917,831	35,522,848	-	8,561	1,065,741	-	36,597,150	29,353,815
Investment income:												
Endowment and similar funds	406,376	98,549	-	141	6,831,208	7,336,274	31,082	28,974	(7,396,330)	-	-	-
Other	3,615,005	518,884	93,650	(172)	1,661,132	5,888,499	2,621,187	158,215	20,822,011	-	29,489,912	23,648,868
Interest on capital asset related debt	-	-	-	-	-	-	(11,849,792)	-	-	-	(11,849,792)	(10,583,858)
Other	-	-	-	-	-	-	(323,943)	(222,914)	(399,370)	-	(946,227)	2,281,781
Net nonoperating revenues (expenses)	<u>221,387,425</u>	<u>15,715,066</u>	<u>93,650</u>	<u>1,507,353</u>	<u>33,280,227</u>	<u>271,983,721</u>	<u>(9,521,466)</u>	<u>(27,164)</u>	<u>14,092,052</u>	<u>-</u>	<u>276,527,143</u>	<u>261,566,506</u>
Income (loss) before other revenues and expenses	1,333,825	11,147,115	(501,640)	(1,185,094)	4,882,577	15,676,783	(5,695,841)	257,003	15,265,476	-	25,503,421	(8,815,735)
Other Revenues (Expenses)												
State capital appropriations	-	-	-	-	-	-	2,455,347	-	-	-	2,455,347	1,444,133
Capital gifts	-	-	-	-	-	-	6,921,895	-	-	-	6,921,895	2,224,500
Loss on capital assets retired	-	-	-	-	-	-	(1,839,735)	-	-	-	(1,839,735)	(3,361,255)
Private gifts for endowment purposes	-	-	-	-	-	-	-	-	4,599,172	-	4,599,172	5,281,172
Net other revenues	-	-	-	-	-	-	7,537,507	-	4,599,172	-	12,136,679	5,888,550
Increase (decrease) in net assets	1,333,825	11,147,115	(501,640)	(1,185,094)	4,882,577	15,676,783	1,841,666	257,003	19,864,648	-	37,640,100	(3,227,185)
Net assets - Beginning of year	61,394,980	22,411,189	4,376,395	1,389,767	25,978,915	115,551,246	470,982,158	11,076,131	174,298,222	-	771,907,757	775,134,942
Net assets - End of year	\$ 62,728,805	\$ 33,558,304	\$ 3,874,755	\$ 204,673	\$ 30,861,492	\$ 131,228,029	\$ 472,823,824	\$ 11,333,134	\$ 194,162,870	\$ -	\$ 809,547,857	\$ 771,907,757

Wayne State University

Combining Balance Sheet September 30, 2004

	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Agency Fund	Combined Fund Totals
ASSETS											
Current assets											
Cash and temporary investments	\$ 120,158,985	\$ 21,974,985	\$ 6,066,805	\$ (386,806)	\$ 15,506,760	\$ 163,320,729	\$ 45,771,351	\$ 6,777,006	\$ 722,991	\$ 10,876,458	\$ 227,468,535
Current receivables, net	37,853,009	6,067,644	5,801,461	1,958,719	41,013,284	92,694,117	6,667,273	20,533,120	363,084	806,803	121,064,397
Inventories	993,757	-	519,147	-	-	1,512,904	-	-	-	-	1,512,904
Prepaid expenses and deposits	10,164,677	8,975	123,890	-	15,938	10,313,480	116,762	-	-	262,130	10,692,372
Total current assets	169,170,428	28,051,604	12,511,303	1,571,913	56,535,982	267,841,230	52,555,386	27,310,126	1,086,075	11,945,391	360,738,208
Investments	-	-	-	-	-	-	106,409,066	-	173,498,347	-	279,907,413
Noncurrent receivables, net	-	701,767	-	5,450	184,231	891,448	1,208,483	28,258,141	-	-	30,358,073
Unamortized bond issue costs	-	-	-	-	-	-	-	-	-	-	1,879,215
Capital assets, net	-	-	-	-	-	-	636,305,393	-	-	-	636,305,393
Total noncurrent assets	-	701,767	-	5,450	184,231	891,448	745,802,157	28,258,141	173,498,347	-	948,450,093
Total assets	\$ 169,170,428	\$ 28,753,371	\$ 12,511,303	\$ 1,577,363	\$ 56,720,213	\$ 268,732,678	\$ 798,357,543	\$ 55,568,267	\$ 174,584,422	\$ 11,945,391	\$ 1,309,188,301
LIABILITIES											
Current liabilities											
Accounts payable and accrued liabilities	\$ 30,912,732	\$ 5,802,753	\$ 4,134,311	\$ 163,990	\$ 12,275,519	\$ 53,289,305	\$ 13,896,214	\$ -	\$ 286,200	\$ 10,805,342	\$ 78,277,061
Deferred income	68,000,561	337,537	2,807,499	-	17,813,638	88,959,235	277,820	-	-	-	89,237,055
Deposits	5,110,767	-	730,423	-	-	5,841,190	-	-	-	1,140,049	6,981,239
Short-term loans	-	-	-	-	-	-	-	20,398,778	-	-	20,398,778
Current portion of long-term debt	-	-	-	-	-	-	5,834,359	-	-	-	5,834,359
Total current liabilities	104,024,060	6,140,290	7,672,233	163,990	30,089,157	148,089,730	20,008,393	20,398,778	286,200	11,945,391	200,728,492
Noncurrent liabilities											
Federal portion of student loan funds	-	-	-	-	-	-	-	24,093,358	-	-	24,093,358
Accrued employee benefits	3,751,388	201,892	462,675	23,606	652,141	5,091,702	-	-	-	-	5,091,702
Long-term debt	-	-	-	-	-	-	307,366,992	-	-	-	307,366,992
Total noncurrent liabilities	3,751,388	201,892	462,675	23,606	652,141	5,091,702	307,366,992	24,093,358	-	-	336,552,052
Total liabilities	107,775,448	6,342,182	8,134,908	187,596	30,741,298	153,181,432	327,375,385	44,492,136	286,200	11,945,391	537,280,544
NET ASSETS											
Invested in capital assets, net of related debt	-	-	-	-	-	-	422,498,303	-	-	-	422,498,303
Restricted	-	-	-	-	-	-	-	-	-	-	-
Nonexpendable	-	-	-	-	-	-	45,970	10,457,885	80,133,890	-	90,637,745
Expendable	-	-	-	-	25,978,915	25,978,915	1,049,932	-	88,559,528	-	115,588,375
Unrestricted	61,394,980	22,411,189	4,376,395	1,389,767	-	89,572,331	47,387,953	618,246	5,604,804	-	143,183,334
Total net assets	61,394,980	22,411,189	4,376,395	1,389,767	25,978,915	115,551,246	470,982,158	11,076,131	174,298,222	-	771,907,757
Total liabilities and net assets	\$ 169,170,428	\$ 28,753,371	\$ 12,511,303	\$ 1,577,363	\$ 56,720,213	\$ 268,732,678	\$ 798,357,543	\$ 55,568,267	\$ 174,584,422	\$ 11,945,391	\$ 1,309,188,301

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

	2004
Contractually committed, encumbrances	\$ 11,500
Appropriated in subsequent year budget	5,700
Rainy Day Fund	7,600
Committed for research	17,200
Academic unit funds carried forward	6,500
Operating unit funds carried forward	12,400
Funds available for allocation in subsequent years	495
Total General Fund unrestricted net assets	\$ 61,395

Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets Year Ended September 30, 2004

	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Sub-total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Adjustment	Combined Total
Operating Revenues											
Student tuition and fees	\$ 165,418,781	\$ -	\$ 2,302,096	\$ -	\$ -	\$ 167,720,877	\$ 222,396	\$ -	\$ -	\$ -	\$ 167,943,273
Less: Scholarship allowances	-	-	-	-	-	-	-	-	-	(46,446,364)	(46,446,364)
Net student tuition and fees	165,418,781	-	2,302,096	-	-	167,720,877	222,396	-	-	(46,446,364)	121,496,909
Federal grants and contracts	-	-	-	-	132,901,907	132,901,907	1,937,132	-	-	-	134,839,039
State and local grants and contracts	-	-	-	-	20,758,139	20,758,139	1,500,000	-	-	-	22,258,139
Nongovernmental grants and contracts	-	59,831,200	-	-	40,873,256	100,704,456	-	-	-	-	100,704,456
Departmental activities	7,083,579	8,435,937	-	1,424,982	-	16,944,498	-	-	-	-	16,944,498
Auxiliary enterprises (net of scholarship allowances of \$1,750,707)	-	-	22,215,653	-	-	22,215,653	-	-	-	(1,750,707)	20,464,946
Recovery of indirect costs of sponsored programs	34,472,066	-	-	-	(34,472,066)	-	-	-	-	-	-
Other operating revenues	1,950,111	-	-	-	-	1,950,111	-	142,836	-	-	2,092,947
Total operating revenues	208,924,537	68,267,137	24,517,749	1,424,982	160,061,236	463,195,641	3,659,528	142,836	-	(48,197,071)	418,800,934
Operating Expenses											
Instruction	168,284,814	45,761,542	-	-	21,156,096	235,202,452	-	-	-	(1,690,397)	233,512,055
Research	24,378,267	3,686,687	-	-	128,246,774	156,311,728	-	-	-	(4,885,386)	151,426,342
Public service	1,834,693	18,762,326	-	2,870,803	22,857,826	46,325,648	-	-	-	(27,378)	46,298,270
Academic support	57,331,305	4,330,072	-	-	1,295,738	62,957,115	-	-	-	(4,368,651)	58,588,464
Student services	27,531,004	515,358	-	-	538,134	28,584,496	-	-	-	(13,977)	28,570,519
Institutional support	48,140,235	2,628,555	-	-	115,279	50,884,069	-	-	-	(126,522)	50,757,547
Operation and maintenance of plant	49,354,466	-	-	-	867,190	50,221,656	8,750,859	-	-	(38,236)	58,934,279
Scholarships and fellowships	24,790,947	16,868	-	-	24,014,407	48,822,222	-	-	-	(48,197,071)	625,151
Auxiliary enterprises	-	-	16,782,417	-	-	16,782,417	-	-	-	(79,985)	16,702,432
Depreciation expense	-	-	-	-	-	-	43,768,116	-	-	-	43,768,116
Capital additions, net	-	-	-	-	-	-	(11,230,532)	-	-	11,230,532	-
Transfers (in) out:											
Debt service	7,327,251	-	6,073,991	-	-	13,401,242	(13,401,242)	-	-	-	-
Loan matching	173,382	-	-	-	-	173,382	-	(173,382)	-	-	-
Plant improvement and extension	8,289,353	10,512,150	4,804,909	-	(24,695)	23,581,717	(23,581,717)	-	-	-	-
Other	144,737	341,709	-	-	2,039,498	2,525,944	-	35,828	(2,561,772)	-	-
Total operating expenses	417,580,454	86,555,267	27,661,317	2,870,803	201,106,247	735,774,088	4,305,484	(137,554)	(2,561,772)	(48,197,071)	689,183,175
Operating income (loss)	(208,655,917)	(18,288,130)	(3,143,568)	(1,445,821)	(41,045,011)	(272,578,447)	(645,956)	280,390	2,561,772	-	(270,382,241)

Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets (Continued) Year Ended September 30, 2004

	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Sub-total Current Funds	Plant Fund	Student Loan Fund	Endowment & Similar Funds	Adjustment	Combined Total
Nonoperating Revenues (Expenses)											
State operating appropriations	\$ 205,888,574	\$ -	\$ -	\$ -	\$ 10,977,326	\$ 216,865,900	\$ -	\$ -	\$ -	\$ -	\$ 216,865,900
Gifts	-	8,651,921	-	2,123,861	18,433,853	29,209,635	-	8,515	135,665	-	29,353,815
Investment income:											
Endowment and similar funds	-	103,240	-	1,625	6,859,509	6,964,374	32,560	29,941	(7,026,875)	-	-
Other	2,086,055	145,999	122,745	(118)	1,790,011	4,144,692	1,193,093	239,167	18,071,916	-	23,648,868
Interest on capital asset related debt	-	-	-	-	-	-	(10,583,858)	-	-	-	(10,583,858)
Other	-	-	-	-	-	-	2,495,325	(195,522)	(18,022)	-	2,281,781
Net nonoperating revenues (expenses)	<u>207,974,629</u>	<u>8,901,160</u>	<u>122,745</u>	<u>2,125,368</u>	<u>38,060,699</u>	<u>257,184,601</u>	<u>(6,862,880)</u>	<u>82,101</u>	<u>11,162,684</u>	<u>-</u>	<u>261,566,506</u>
Income (loss) before other revenues and expenses	(681,288)	(9,386,970)	(3,020,823)	679,547	(2,984,312)	(15,393,846)	(7,508,836)	362,491	13,724,456	-	(8,815,735)
Other Revenues (Expenses)											
State capital appropriations	-	-	-	-	-	-	1,444,133	-	-	-	1,444,133
Capital gifts	-	-	-	-	-	-	2,224,500	-	-	-	2,224,500
Loss on capital assets retired	-	-	-	-	-	-	(3,361,255)	-	-	-	(3,361,255)
Private gifts for endowment purposes	-	-	-	-	-	-	-	-	5,281,172	-	5,281,172
Net other revenues	-	-	-	-	-	-	307,378	-	5,281,172	-	5,588,550
Increase (decrease) in net assets	(681,288)	(9,386,970)	(3,020,823)	679,547	(2,984,312)	(15,393,846)	(7,201,458)	362,491	19,005,628	-	(3,227,185)
Net assets - Beginning of year	<u>62,076,268</u>	<u>31,798,159</u>	<u>7,397,218</u>	<u>710,220</u>	<u>28,963,227</u>	<u>130,945,092</u>	<u>478,183,616</u>	<u>10,713,640</u>	<u>155,292,594</u>	<u>-</u>	<u>775,134,942</u>
Net assets - End of year	<u>\$ 61,394,980</u>	<u>\$ 22,411,189</u>	<u>\$ 4,376,395</u>	<u>\$ 1,389,767</u>	<u>\$ 25,978,915</u>	<u>\$ 115,551,246</u>	<u>\$ 470,982,158</u>	<u>\$ 11,076,131</u>	<u>\$ 174,298,222</u>	<u>\$ -</u>	<u>\$ 771,907,757</u>



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