

# WAYNE STATE UNIVERSITY

## FINANCIAL REPORT YEAR ENDED SEPTEMBER 30, 2006



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Nancy S. Barrett  
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*Associate Controller*

Patricia R. Douglas  
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# **Wayne State University**

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**Financial Report**  
**September 30, 2006**

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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, 2006 and 2005 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, 2006 and 2005 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 8, 2006 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, 2006. 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 8, 2006

# **Wayne State University**

## **Management's Discussion and Analysis – Unaudited**

### **INTRODUCTION**

The discussion and analysis that follows provides an overview of the financial position of Wayne State University (the "University") at September 30, 2006 and of its operations and cash flows for the year then ended. Selected comparative information is provided for the years ended September 30, 2005 and 2004. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and related notes to facilitate and enhance the reader's understanding of the 2006 Financial Report.

Wayne State University ("WSU") is a nationally recognized public research university with an urban teaching and service mission. The main campus, located in Detroit's University Cultural Center, includes more than 350 undergraduate, graduate, doctoral, certificate and professional programs offered through 11 schools and colleges. With approximately 33,000 students, the University has the 28<sup>th</sup> largest enrollment in the nation and the most diverse student body of any university in Michigan. The University contributes to the state and nation through its research and public service programs. The University is the 10<sup>th</sup> largest employer in the city of Detroit with over 5,000 full-time employees.

Excellence in research is a crucial element in the University's mission. Based on the 2004 National Science Foundation Research and Development Expenditures Survey, the most recent survey results available, the University ranked 68<sup>th</sup> among all universities and 47<sup>th</sup> among public universities in research and development expenditures. A substantial portion of the University's research is conducted at the School of Medicine. The 2004 National Science Foundation Research and Development Survey ranked the University 25<sup>th</sup> in the medical sciences category. In 2005, the WSU Karmanos Cancer Institute won renewal of its national designation by the National Cancer Institute in recognition for outstanding cancer research and care.

### **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, 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 the major sources and uses of cash. 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, including all of its relevant activities. Accordingly, consistent with the GASB principles, the Wayne State University Housing Authority and the Wayne State University Foundation, as controlled organizations, are included in the combined financial statements.

# Wayne State University

## Management's Discussion and Analysis – Unaudited (Continued)

### OVERALL FINANCIAL HIGHLIGHTS

The University's financial position remained strong at September 30, 2006 with assets of \$1.4 billion and liabilities of \$596.3 million. Combined net assets, which represents the residual interest in the University's assets after liabilities are deducted, increased \$27.4 million (3.4%) to \$836.9 million at September 30, 2006.

### Financial Position

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

	(in millions)		
	2006	2005	2004
Total assets	\$ 1,433.2	\$ 1,360.7	\$ 1,309.2
Total liabilities	596.3	551.2	537.3
Net assets	<u>\$ 836.9</u>	<u>\$ 809.5</u>	<u>\$ 771.9</u>

Specific discussion and analysis of the changes in the components of the total assets, total liabilities, and net assets categories are provided on pages 3 – 11.

### Operations

Summarized combined revenues and expenses (operating and nonoperating) for the years ended September 30, 2006, 2005, and 2004 are as follows:

	(in millions)		
	2006	2005	2004
Total revenues	\$ 758.2	\$ 749.1	\$ 699.9
Total expenses	730.8	711.5	703.2
Increase (decrease) in net assets	<u>\$ 27.4</u>	<u>\$ 37.6</u>	<u>\$ (3.3)</u>

# Wayne State University

## Management's Discussion and Analysis – Unaudited (Continued)

Fiscal year 2006 revenues increased \$9.1 million (1.2%) over fiscal year 2005, while expenses increased \$19.3 million (2.7%). During fiscal year 2005 revenues increased \$49.2 million (7.0%) compared to 2004, while 2005 expenses increased \$8.3 million (1.2%) over fiscal year 2004. A more detailed discussion of fluctuations in specific revenue and expense categories along with the activities and events contributing to these changes and trends is included on pages 12-18 of the Management's Discussion and Analysis.

### 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 key indicator of the current financial position of the University, while the change in net assets is a key 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, 2006, 2005, and 2004 is as follows:

	(in millions)		
	2006	2005	2004
Current assets	\$ 412.3	\$ 382.9	\$ 360.7
Noncurrent assets:			
Investments	276.2	234.4	279.9
Noncurrent receivables, net	40.9	40.5	30.4
Unamortized bond issue costs	2.1	1.8	1.9
Capital assets, net	<u>701.7</u>	<u>701.1</u>	<u>636.3</u>
Total assets	1,433.2	1,360.7	1,309.2
Current liabilities	217.8	218.8	200.7
Noncurrent liabilities	<u>378.5</u>	<u>332.4</u>	<u>336.6</u>
Total liabilities	<u>596.3</u>	<u>551.2</u>	<u>537.3</u>
Net assets	<u>\$ 836.9</u>	<u>\$ 809.5</u>	<u>\$ 771.9</u>

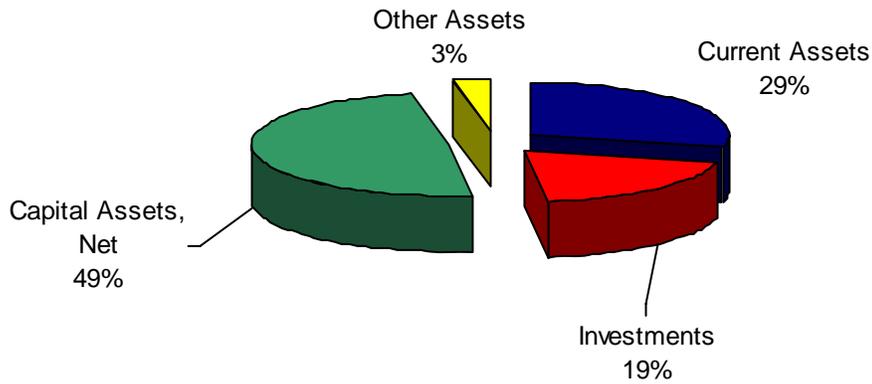
# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

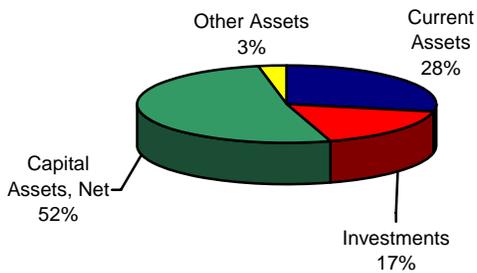
The following charts represent summarized graphical illustrations of the composition of the University's combined balance sheets at September 30, 2006, 2005, and 2004:

### Assets

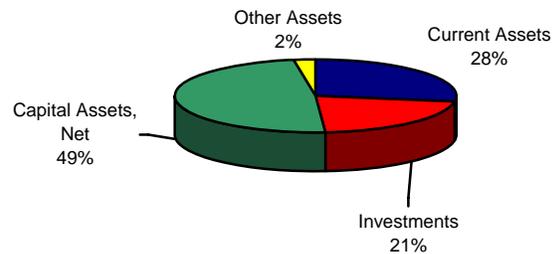
2006



2005



2004

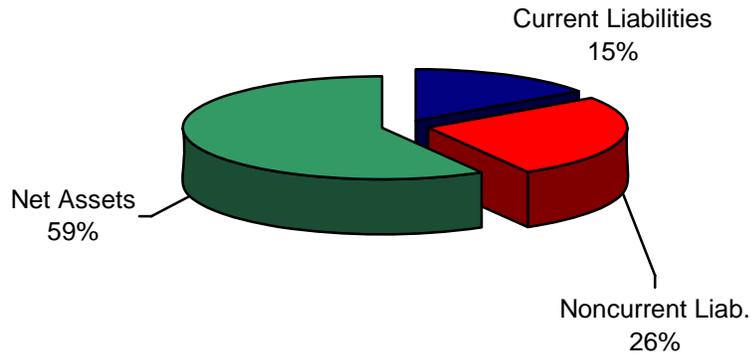


# Wayne State University

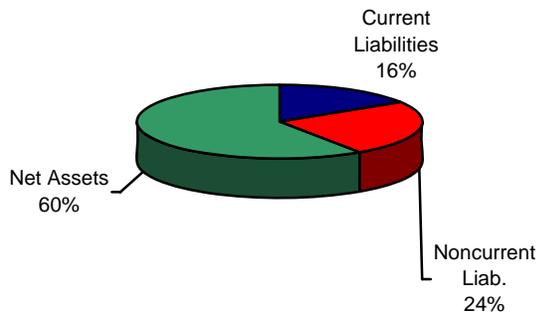
## Management's Discussion and Analysis - Unaudited (Continued)

### Liabilities and Net Assets

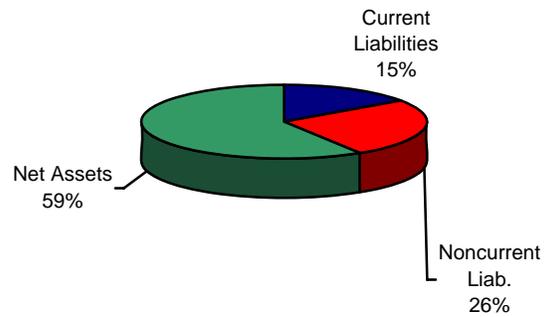
2006



2005



2004



# 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. The composition of total current assets at September 30, 2006, 2005, and 2004 was as follows:

	(in millions)		
	2006	2005	2004
Cash and temporary investments	\$ 276.7	\$ 243.6	\$ 227.5
Current receivables, net	121.2	124.4	121.0
Inventories	1.5	1.4	1.5
Prepaid expenses and other	12.9	13.5	10.7
Total current assets	<u>\$ 412.3</u>	<u>\$ 382.9</u>	<u>\$ 360.7</u>

The 2006 cash and temporary investment increase of \$33.1 million is directly correlated with the increase in earmarked Unrestricted Net Assets (discussed on page 11) resulting from current year operations. Factors contributing to this trend were:

- Increased student tuition and fees and unexpended allocations of funds for projects and initiatives which will be expended in the subsequent year.
- Increased investment income.
- Improved collections and management of grant and contract receivables.
- Plant fund capital gifts received.

During fiscal year 2005 the increase of \$16.1 million in cash and temporary investments occurred primarily due to increases in both investment income and student tuition and fees.

Details of these aspects of operations affecting cash and temporary investments are more fully discussed on pages 12 – 15 of Management's Discussion and Analysis.

There was a slight decrease of \$3.2 million in current receivables when comparing 2006 to 2005, primarily comprised of a \$7.1 million decrease resulting from the aforementioned improvements in grant and contract receivables management, partially offset by a \$3.1 million increase in student tuition receivable related to both increases in credit hours taken by students and tuition rates.

The 2005 increase in current receivables over those reported in 2004 related to increased tuition rates, student enrollment and credit hours taken by students.

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

Current liabilities are comprised of amounts payable within one year and consist primarily of accounts payable and accrued liabilities, deferred income and short-term loans against a line of credit utilized in conjunction with a student loan program. The composition of total current liabilities at September 30, 2006, 2005, and 2004 was as follows:

	(in millions)		
	2006	2005	2004
Accounts payable and accrued liabilities	\$ 75.9	\$ 83.7	\$ 78.3
Deferred income	107.7	101.9	89.2
Deposits	4.6	5.7	7.0
Short-term loans	22.0	21.3	20.4
Current portion of long-term debt	7.6	6.2	5.8
Total current liabilities	<u>\$ 217.8</u>	<u>\$ 218.8</u>	<u>\$ 200.7</u>

At September 30, 2006, current liabilities decreased by \$1.0 million to \$217.8 million when compared to \$218.8 million at September 30, 2005. The net decrease in current liabilities from 2005 to 2006 includes:

- A \$9.0 million decrease in accounts payable related to unpaid invoices at September 30, 2005 on major construction projects completed or in process late in fiscal year 2005.
- A \$5.8 million increase in tuition related deferred income resulting primarily from the 5.8% fall 2006 tuition and fee increases and increased credit hour enrollment for fall 2006.
- A \$2.6 million increase in accrued compensation, primarily attributable to increased accumulated employee vacation time, and the impact of annual employee wage increases.

The 2005 increase in current liabilities was largely attributable to the deferred income related to the 18.5% fall 2005 tuition rate increase.

An overall analysis of the University's current assets and current liabilities indicates favorable current ratios, a measure of its liquidity, of 1.9 at September 30, 2006 and 1.8 in 2005 and 2004.

### Noncurrent Assets and Liabilities

The most significant changes in the noncurrent sections of the balance sheet from 2005 to 2006 are the increase in investments of \$41.8 million and the increase in long-term debt of \$46.0 million. These and other changes are discussed in the Investments and Capital asset and debt activities sections below.

### Investments

The University's investments are classified as either Endowment funds or unexpended Invested bond proceeds. The Wayne State University Foundation manages approximately 99% of the endowment investments. The bond proceed related investments are managed by the University.

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

The table below reflects the composition of investments at September 30, 2006, 2005, and 2004:

	(in millions)		
	2006	2005	2004
Endowment funds	\$ 209.6	\$ 192.2	\$ 173.5
Invested bond proceeds	<u>66.6</u>	<u>42.2</u>	<u>106.4</u>
Total investments	<u>\$ 276.2</u>	<u>\$ 234.4</u>	<u>\$ 279.9</u>

Total investments increased \$41.8 million (17.8%) to \$276.2 million at September 30, 2006, compared to \$234.4 million at September 30, 2005. Invested bond proceeds increased \$24.4 million in fiscal year 2006 as a result of the 2006 general revenue bonds of \$51.3 million issued in September 2006, net of the current year's expenditures of bond proceeds for on-going capital projects. The impact of the favorable investment climate on investment income and currently recognized gifts for endowments (net of distributions from endowment funds spending accounts) resulting from the University's on-going capital campaign, *Wayne First*, account for the increases in endowment investments in both 2006 and 2005.

By comparison, total investments decreased from \$279.9 million at September 30, 2004 to \$234.4 million at September 30, 2005, a decline of \$45.5 million (16.3%). While investment income and gifts to the University for endowments rose during 2005, total investments declined as a result of the expenditure of bond proceeds as the applicable capital projects progressed or were completed.

Endowment funds (including undistributed accretion) consist of both permanent endowments (\$90.4 and \$85.7 million at September 30, 2006 and 2005, respectively) and funds functioning as endowments (\$119.5 and \$108.4 million at September 30, 2006 and 2005, respectively). 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 designated by the University's Board of Governors to function as if they were permanent endowments. Accordingly, these amounts are not subject to donor or other outside restrictions which require the University to preserve the principal in perpetuity. Programs supported by endowments include scholarships, fellowships, professorships, research efforts, and other significant University programs, activities, and initiatives.

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

The table below reflects summarized activity for the University Endowment Accounts for the past three years.

	(in millions)		
	2006	2005	2004
Endowment net assets - beginning of fiscal year	\$ 194.2	\$ 174.3	\$ 155.3
Summary of additions			
Gifts & transfers	6.7	6.9	8.0
Investment income and appreciation	<u>17.3</u>	<u>20.8</u>	<u>18.0</u>
Total additions	24.0	27.7	26.0
Summary of deductions			
Distributions to university beneficiary funds	<u>(8.3)</u>	<u>(7.8)</u>	<u>(7.0)</u>
Endowment net assets - end of fiscal year	<u>\$ 209.9</u>	<u>\$ 194.2</u>	<u>\$ 174.3</u>

The University administers its endowments to support programs in a way that strikes a balance between generating a stream of annual income for current programs while preserving and increasing the purchasing power of the endowment funds for future periods.

### 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, research and other administrative support buildings with the construction of new facilities.

Capital additions totaled \$48.1 million during 2006, compared to \$108.3 million in 2005 and \$60.9 million in 2004. During 2006, capital additions included expenditures for Scott Hall laboratory renovations, the initial costs of the steam boiler project across campus and other renovations to academic, research, and administrative facilities. The 2005 capital additions of \$108.3 million included the completion of the "Towers" residence hall, major renovations to the Chemistry Building, and energy conservation related projects across campus.

Capital asset additions are funded with capital appropriations, bond proceeds, gifts and unrestricted net assets designated for capital purposes.

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

Long-term debt totaled \$354.4, \$306.9 and \$313.2 million at September 30, 2006, 2005, and 2004, respectively. The increase of \$47.5 million from 2005 to 2006 is primarily attributable to the 2006 general revenue bond issuance of \$51.3 million, net of bond principal payments made during fiscal year 2006. The proceeds from the 2006 bond issuance are to finance the construction of steam boiler systems across campus, renovation of the fitness center and the renovation of a University owned facility for the relocation of the Public Safety Department. The decrease in long-term debt from 2004 to 2005 represents scheduled bond principal payments made during fiscal year 2005.

In its role of financial steward, the University works to manage its financial resources effectively, including the use of debt to finance capital projects. In conjunction with the recent bond issuance, the rating services Fitch Rating and Standard & Poor's, affirmed the University's credit rating at "AA-", with the highest achievable rating 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.

### 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, 2006, 2005 and 2004 are summarized as follows:

	(in millions)		
	2006	2005	2004
Invested in capital assets, net of related debt	\$ 408.4	\$ 427.3	\$ 422.5
Restricted:			
Nonexpendable	101.4	96.5	90.6
Expendable	168.9	148.7	123.0
Unrestricted	158.2	137.0	135.8
Total net assets	<u>\$ 836.9</u>	<u>\$ 809.5</u>	<u>\$ 771.9</u>

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. Changes from year to year result from capital additions, issuance and payments of long-term debt, retirement of assets and depreciation expense.
- ◆ Restricted nonexpendable - Represents the corpus portion of gifts to the University's permanent endowment funds, the University's portion of Federal student loans and gifts 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, academic programs, and capital projects). This category of net assets also includes undistributed accretion of permanent endowment investments and other funds functioning as endowments.
- ◆ Unrestricted - Represents funds which are not subject to externally imposed restrictions, however, most of the University's unrestricted net assets are designated by the Board of Governors and management for various academic, research and administrative programs, and 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, 2006, 2005 and 2004, including a brief summary, discussion and analysis is provided below.

#### Revenues

Consistent with GASB Statement No. 35, revenues are categorized as Operating, Nonoperating or Other. Operating revenues generally result from exchange transactions such as payments received for providing services, while nonoperating revenues are primarily non-exchange in nature and other revenues represent capital and endowment transactions. Summarized classifications in each category for the years ended September 30, 2006, 2005, and 2004 are presented below:

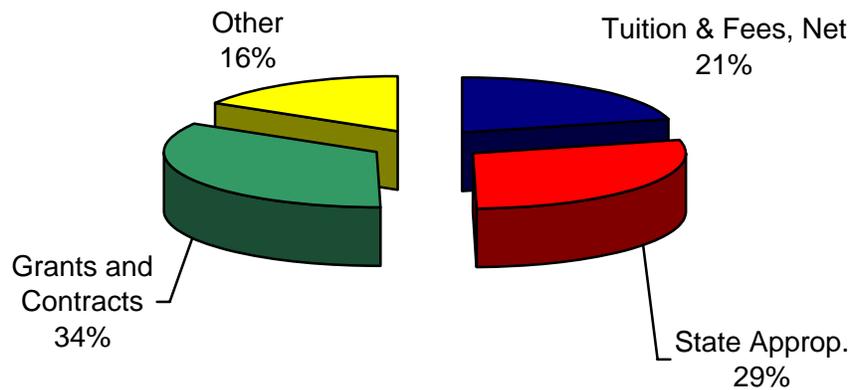
	(in millions)		
	2006	2005	2004
<b>Operating Revenues</b>			
Student tuition and fees	\$ 211.6	\$ 180.1	\$ 168.0
Less: Scholarship allowances	<u>(51.7)</u>	<u>(49.4)</u>	<u>(46.5)</u>
Net student tuition and fees	159.9	130.7	121.5
Grants and contracts	257.5	269.5	257.8
Other	<u>50.4</u>	<u>45.6</u>	<u>39.5</u>
<b>Total operating revenues</b>	<b>467.8</b>	<b>445.8</b>	<b>418.8</b>
<b>Nonoperating Revenues</b>			
State operating appropriations	216.4	223.2	216.9
Gifts	27.0	36.6	29.4
Net investment income	31.7	29.5	23.6
Other	<u>1.3</u>	<u>-</u>	<u>2.3</u>
<b>Total nonoperating revenues</b>	<b>276.4</b>	<b>289.3</b>	<b>272.2</b>
<b>Other Revenues</b>			
State capital appropriations	-	2.5	1.4
Capital and endowment gifts	<u>14.0</u>	<u>11.5</u>	<u>7.5</u>
<b>Total other revenues</b>	<b>14.0</b>	<b>14.0</b>	<b>8.9</b>
<b>Total Revenues</b>	<b><u>\$ 758.2</u></b>	<b><u>\$ 749.1</u></b>	<b><u>\$ 699.9</u></b>

# Wayne State University

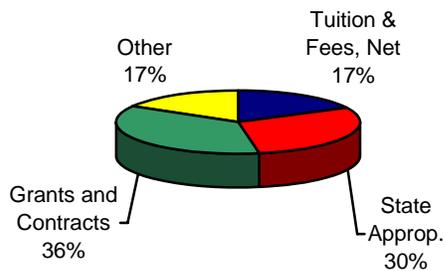
## Management's Discussion and Analysis - Unaudited (Continued)

The following charts represent graphic illustrations of revenues by source for the years ended September 30, 2006, 2005 and 2004.

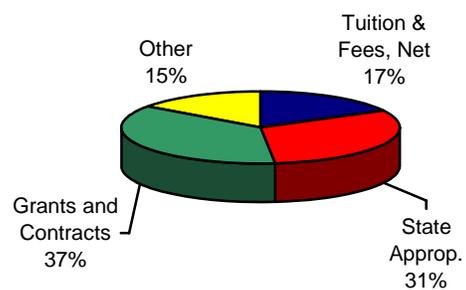
### 2006



### 2005



### 2004



# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

### Significant Revenue Sources

The University's research and public service mission and significant components of instruction are supported primarily by federal, state, and nongovernmental grants and contracts, which in the aggregate, comprises the largest single revenue source to the University. The University's largest single source of General Fund revenue is its state operating appropriation. As a result, the state operating appropriation together with student tuition and fees represent the majority of resources available to fund the University's general operations. The University continues to seek funding from all possible sources, consistent with its mission, to supplement student tuition and fees and state operating appropriations to fund its general operations.

### Operating Revenues

Operating revenues totaled \$467.8 million in fiscal year 2006, compared to \$445.8 and \$418.8 million in fiscal years 2005 and 2004, respectively. The fiscal year 2006 increase of \$22.0 million or 4.9% is related to several aspects of operating revenues as follows:

- An increase in net student tuition and fees of \$29.2 million (22.3%), largely attributable to the tuition increase approved by the University's Board of Governors in July, 2005 as well as the highest student credit hour enrollment in 25 years.
- Auxiliary enterprises revenue, which are included in the "Other" classification in the preceding table increased by \$2.3 million or 10.3% primarily as a result of the Towers residence hall being open for an entire year during 2006 compared to the prior fiscal year when it opened during August 2005, resulting in only two months of student residency and revenue during fiscal year 2005.
- A decrease of \$12.0 million (4.5%) in grant and contract revenue resulting from the expiration of certain multi-year federal grants and contracts that existed in prior fiscal years and were not renewed, and decreases in funding from state and local governmental sources and similar declines from local corporate sponsors, which are somewhat related to the economic climate in the State of Michigan, partially offset the tuition and fees and auxiliary enterprises revenue increases.

The fiscal year 2005 increase of \$27.0 million or 6.5% in operating revenues is attributable to the following:

- Net tuition and fees increased by \$9.2 million or 7.6% as a result of a modest tuition increase approved by the Board of Governors in July, 2004 and more significantly from an increase in absolute enrollment which exceeded 33,000 students.
- Grants and contracts revenue increased \$11.7 million (4.5%) as the University continued to aggressively pursue federal and other research funds. In addition, during 2005 the State began funding the Joseph F. Young, Sr. Psychiatric Program (\$5.6 million) through a different funding mechanism than in the past which resulted in those funds being categorized in the financial statements in the grants and contracts classification. Prior funding for this program was included as part of the state operating appropriations and at that time was reported in that non-operating revenue category.
- Auxiliary enterprises revenue in 2005 increased over the 2004 fiscal year largely as a result of a reclassification of the fitness center operations into the auxiliary activities fund when its general fund subsidy was eliminated and its operations became self-supporting. Other factors contributing to the increase included:
  - Increases in University parking rates effective January 2005
  - Modest increase in the 2005 fiscal year residence hall room and board rates
  - Opening of the third residence hall, the "Towers" during August 2005

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

### Nonoperating and Other Revenues

Nonoperating and other revenues were \$290.4 million in fiscal year 2006, compared to \$303.3 and \$281.1 million in 2005 and 2004, respectively. The primary source of nonoperating revenue is state operating appropriations, which decreased \$6.8 million (3.0%) in total in 2006 and increased by \$6.3 million (2.9%) in 2005. While the 2006 base state operating appropriation was \$4.6 million (2.0%) higher than the 2005 base appropriation, total state operating appropriations were lower in fiscal year 2006.

The aggregate decrease in state operating appropriations from 2005 to 2006 occurred primarily because the University received \$6.8 million of non-recurring funds in October 2004 (FY05) representing a 3% return of the 2004 appropriation reduction.

During 2005, the state operating appropriations were reduced by \$5.6 million for the Joseph F. Young, Sr. Psychiatric Program. These funds were subsequently reallocated to the University by the state through other funding sources and are reflected in grants and contracts revenue in 2005 and 2006.

Gift revenue decreased \$9.6 million dollars from 2005 to 2006 after increasing by \$7.2 from 2004 to 2005. The fluctuations are a result of the timing of gifts associated with the on-going capital campaign. That campaign was in the "silent phase" during 2004 with gifts increasing moderately, annual gifts surged with the announcement and commencement of the "public phase" kick-off in 2005 and have leveled off during 2006.

Net investment income, included in nonoperating revenues, increased approximately \$2.2 million (7.5%) during fiscal year 2006 compared to an increase of \$5.9 million (25.0%) in 2005. As a result of the on-going capital campaign, the bond issuance and other increases in net assets the University has had larger investable balances which have resulted in improved investment returns during 2006 and 2005. Higher short-term interest rates earned on cash and temporary investments partially offset by a decrease in investment returns on endowment funds has been a contributing factor to the increase as well. The increase in 2005 was due to favorable endowment fund performance and higher short-term interest rates earned on cash and temporary investments. Of the current year net investment income from all sources, \$17.3 million is related to the University's endowments with the remaining \$14.4 million representing the investment income for all other University funds. In 2005, \$20.8 million of net investment income was attributable to the University's endowments and \$8.7 million was related to all other University funds.

The University does not currently have any construction projects funded by State Building Authority capital appropriations. During 2005 the state authorized the University to plan a capital project for the construction of the Danto Engineering Development Center at an estimated project cost of \$27.35 million, of which \$15.0 million will be provided by the State based on funding that was approved in August 2006.

Capital and endowment gifts represent funds received from foundations, individuals and other private sources. Total capital and endowment gifts increased \$2.5 million (21.7%) to \$14.0 million in 2006. In fiscal year 2006 capital gifts increased \$2.5 million (36.2%) to \$9.4 million from \$6.9 million in 2005, endowment gifts remained at the same level of \$4.6 million in 2006 and 2005. The on-going capital campaign, *Wayne First*, continues to secure capital gifts for the Danto Engineering Development Center, the Richard J. Marzurek, M.D. Medical Commons Building and the Damon J. Keith Classroom Building and Center for Civil Rights and other capital projects.

# Wayne State University

## Management's Discussion and Analysis - Unaudited (Continued)

### Expenses

Operating and nonoperating expenses by functional classification for the years ended September 30, 2006, 2005 and 2004 are presented below:

	(\$ in millions)					
	2006		2005		2004	
	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
<b>Operating Expenses</b>						
Instruction	\$ 249.5	34.1%	\$ 238.3	33.5%	\$ 233.5	33.2%
Research	149.2	20.4%	148.6	20.9%	151.4	21.5%
Public service	47.9	6.6%	51.6	7.3%	46.3	6.6%
Academic support	58.6	8.0%	56.7	8.0%	58.6	8.3%
Student services	28.4	3.9%	30.2	4.2%	28.6	4.1%
Institutional support	53.8	7.4%	52.9	7.4%	50.8	7.2%
Operation and maintenance of plant	57.4	7.9%	58.2	8.2%	58.9	8.4%
Scholarships and fellowships <sup>(1)</sup>	5.2	0.7%	1.3	0.2%	0.6	0.1%
Auxiliary enterprises	20.7	2.8%	17.4	2.4%	16.7	2.4%
Depreciation expense	44.6	6.1%	41.7	5.9%	43.8	6.2%
<b>Total operating expenses</b>	<b>715.3</b>	<b>97.9%</b>	<b>696.9</b>	<b>97.9%</b>	<b>689.2</b>	<b>98.0%</b>
<b>Nonoperating and other expenses</b>						
Interest expense	12.7	1.7%	11.8	1.7%	10.6	1.5%
Other	2.8	0.4%	2.8	0.4%	3.4	0.5%
<b>Total nonoperating and other expenses</b>	<b>15.5</b>	<b>2.1%</b>	<b>14.6</b>	<b>2.1%</b>	<b>14.0</b>	<b>2.0%</b>
<b>Total Expenses</b>	<b>\$ 730.8</b>	<b>100.0%</b>	<b>\$ 711.5</b>	<b>100.0%</b>	<b>\$ 703.2</b>	<b>100.0%</b>

<sup>(1)</sup>Excluding "scholarship allowances" applied directly to student's tuition and room and board – see pages 12 and 23.

### Operating Expenses

The University continues to maintain its commitment to instruction and research. Combined expenditures for instruction increased \$11.2 million (4.7%) to \$249.5 million in 2006 and \$4.8 million (2.1%) to \$238.3 million in 2005, compared to \$233.5 million in 2004. Combined expenditures for research have remained relatively stable for the 3 year period despite the aforementioned challenging revenue climate.

In an effort to partially mitigate rising tuition costs, the University has increased its scholarships to students. In 2006, the total scholarships granted were \$56.9 million, an increase of \$6.2 million (12.2%) compared to \$50.7 million in 2005. The \$50.7 million from 2005 represented a \$3.6 million (7.6%) increase over 2004. Of the scholarships and fellowships granted the \$5.2, \$1.3 and \$0.6 million reported in 2006, 2005 and 2004, respectively, in the table above were disbursed directly to students; the remaining amounts for 2006 and 2005 of \$51.7 and \$49.4 million, respectively, are reflected on page 20 as reductions to student's tuition and room and board accounts.

# Wayne State University

## Management's Discussion and Analysis – Unaudited (Continued)

The auxiliary enterprises operating expenses increased \$3.3 million (19.0%) to \$20.7 million in 2006 and \$.7 million (4.2%) to \$17.4 million in 2005. The increased costs in 2006 are primarily associated with the operation of the newest residence hall for a complete year and increased expenditures to improve the University's parking facilities. The \$.7 million increase in the auxiliary activities operating expenses in 2005 was largely attributable to the reclassification of the fitness center operations to the auxiliary activities fund.

### Nonoperating and Other Expenses

Interest expense totaled \$12.7, \$11.8 and \$10.6 million in fiscal years 2006, 2005, and 2004, respectively. Interest expense increases are attributable to the increasing bond indebtedness in conjunction with construction of new buildings on campus and other capital projects. The Other expense category showed no significant change from 2005 to 2006.

### STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of the University's cash during the year. A comparative summary of the statement of cash flows for the years ended September 30, 2006, 2005 and 2004 is as follows:

Cash Flows	(in millions)		
	2006	2005	2004
Cash received from operations	\$ 480.3	\$ 459.4	\$ 423.8
Cash expended for operations	(669.8)	(659.6)	(654.9)
Net cash used in operating activities	(189.5)	(200.2)	(231.1)
Net cash provided by noncapital financing activities	251.9	260.8	254.4
Net cash provided by (used in) capital and related financing activities	(19.1)	(120.5)	48.4
Net cash provided by (used in) investing activities	(10.2)	76.0	(74.1)
Net increase (decrease) in cash and temporary investments	33.1	16.1	(2.4)
<b>Cash and Temporary Investments - Beginning of Year</b>	<u>243.6</u>	<u>227.5</u>	<u>229.9</u>
<b>Cash and Temporary Investments - End of Year</b>	<u>\$ 276.7</u>	<u>\$ 243.6</u>	<u>\$ 227.5</u>

GASB requires that general operating 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 state operating appropriations which totaled \$216.4, \$223.2, and \$216.9 million in fiscal years 2006, 2005, and 2004, respectively. Included in cash flows from capital and related financing activities are all plant fund and related long-term debt activities (excluding depreciation and amortization of bond costs) and capital gifts. Cash flows from investing activities show uses of cash to purchase investments, increases in cash and equivalents as a result of selling investments and income earned on cash and temporary investments. The net cash used in and provided by investing activities is comprised of bond proceed related investments sold to finance construction expenditures as they are incurred and the conversion of short-term investments into cash equivalents during the year.

# **Wayne State University**

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

### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Financial times continue to be challenging in the State of Michigan, particularly for higher education. Over the last four years, the University has faced significant financial challenges stemming from the unprecedented cuts in state appropriations, the University's largest single General Fund revenue source. The uncertain level of state operating appropriations, combined with continued increases in the cost of utilities, health care and compensation has required management to institute cost containment measures and operating efficiencies, as well as significant increases in tuition in order to finance the University's general operations. 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.

Private gifts are an increasingly important supplement to the fundamental support provided by state appropriations and student tuition to maintain academic quality and support future initiatives. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

		September 30	
		2006	2005
<b>Assets</b>			
<b>Current Assets</b>			
Cash and temporary investments (Note 2)		\$ 276,736,670	\$ 243,552,859
Current receivables, net (Note 3)		121,243,119	124,411,818
Inventories		1,475,897	1,402,027
Prepaid expenses and deposits		<u>12,798,081</u>	<u>13,580,290</u>
Total current assets		412,253,767	382,946,994
Investments (Note 2)		276,231,950	234,351,775
Noncurrent receivables, net (Note 3)		40,880,406	40,520,056
Unamortized bond issue costs		2,079,640	1,822,328
Capital assets, net (Note 4)		<u>701,728,470</u>	<u>701,062,241</u>
Total noncurrent assets		<u>1,020,920,466</u>	<u>977,756,400</u>
Total assets		<u><b>\$ 1,433,174,233</b></u>	<u><b>\$ 1,360,703,394</b></u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 75,876,648	\$ 83,739,718
Deferred income		107,712,659	101,936,544
Deposits		4,582,078	5,624,596
Short-term loans (Note 3)		22,007,230	21,233,779
Current portion of long-term debt (Note 5)		<u>7,602,456</u>	<u>6,237,894</u>
Total current liabilities		217,781,071	218,772,531
<b>Noncurrent Liabilities</b>			
Federal portion of student loan funds		25,591,528	25,102,840
Accrued employee benefits		6,124,110	6,568,319
Long-term debt (Note 5)		<u>346,753,779</u>	<u>300,711,847</u>
Total noncurrent liabilities		<u>378,469,417</u>	<u>332,383,006</u>
Total liabilities		596,250,488	551,155,537
<b>Net Assets</b>			
Invested in capital assets, net of related debt		408,402,823	427,257,968
Restricted			
Nonexpendable		101,424,737	96,493,014
Expendable		168,895,847	148,787,599
Unrestricted		<u>158,200,338</u>	<u>137,009,276</u>
Total net assets		<u>836,923,745</u>	<u>809,547,857</u>
Total liabilities and net assets		<u><b>\$ 1,433,174,233</b></u>	<u><b>\$ 1,360,703,394</b></u>

# Wayne State University

## Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended September 30	
	2006	2005
<b>Operating Revenues</b>		
Student tuition and fees	\$ 211,558,846	\$ 180,131,105
Less: Scholarship allowances	(51,712,917)	(49,394,670)
Net student tuition and fees	159,845,929	130,736,435
Federal grants and contracts	138,183,401	142,335,194
State and local grants and contracts	22,367,532	28,703,300
Nongovernmental grants and contracts	96,998,413	98,472,191
Departmental activities	24,162,880	21,881,835
Auxiliary enterprises (net of scholarship allowances of \$1,633,933 in 2006 and \$1,445,882 in 2005)	24,598,861	22,332,387
Other operating revenues	1,664,127	1,412,812
Total operating revenues	467,821,143	445,874,154
<b>Operating Expenses (Note 9)</b>		
Instruction	249,506,655	238,343,759
Research	149,158,745	148,601,703
Public service	47,899,590	51,572,052
Academic support	58,669,401	56,722,153
Student services	28,437,182	30,226,536
Institutional support	53,763,883	52,877,457
Operation and maintenance of plant	57,396,106	58,178,069
Scholarships and fellowships	5,244,276	1,321,317
Auxiliary enterprises	20,675,269	17,391,079
Depreciation expense	44,591,220	41,663,751
Total operating expenses	715,342,327	696,897,876
Operating loss	(247,521,184)	(251,023,722)
<b>Nonoperating Revenues (Expenses)</b>		
State operating appropriations	216,387,000	223,236,100
Gifts	27,057,554	36,597,150
Investment income	31,681,313	29,489,912
Interest on capital asset - related debt	(12,721,499)	(11,849,792)
Other	1,331,905	(946,227)
Net nonoperating revenues	263,736,273	276,527,143
Income before other revenues and expenses	16,215,089	25,503,421
<b>Other Revenues (Expenses)</b>		
State capital appropriations	-	2,455,347
Capital gifts	9,405,732	6,921,895
Gifts for permanent endowments	4,561,952	4,599,172
Loss on capital assets retired	(2,806,885)	(1,839,735)
Net other revenues	11,160,799	12,136,679
Increase in net assets	27,375,888	37,640,100
<b>Net Assets</b>		
Beginning of year	809,547,857	771,907,757
End of year	<b>\$ 836,923,745</b>	<b>\$ 809,547,857</b>

## Statements of Cash Flows

	Year Ended September 30	
	2006	2005
<b>Cash Flows from Operating Activities</b>		
Tuition and fees, net	\$ 162,270,611	\$ 142,059,487
Grants and contracts	263,115,238	267,047,036
Auxiliary enterprises	24,963,780	25,907,074
Departmental activities	23,357,714	17,630,032
Loans issued to students	(5,349,765)	(5,868,915)
Collection of loans from students	4,945,684	5,384,061
Scholarships and fellowships	(4,390,778)	(4,397,577)
Payments to suppliers	(170,869,392)	(174,541,489)
Payments to employees	(489,210,701)	(474,826,215)
Other receipts	1,669,222	1,416,021
Net cash used in operating activities	(189,498,387)	(200,190,485)
<b>Cash Flows from Noncapital Financing Activities</b>		
State operating appropriations	216,387,000	223,236,100
Gifts	29,106,570	30,923,311
Gifts for permanent endowments	4,561,952	4,599,172
External student lending receipts	107,852,525	95,417,926
External student lending disbursements	(106,847,692)	(94,513,904)
Other	909,581	1,089,766
Net cash provided by noncapital financing activities	251,969,936	260,752,371
<b>Cash Flows from Capital and Related Financing Activities</b>		
State capital appropriations	-	1,209,075
Capital gifts and grants	5,839,888	2,717,536
Proceeds from issuance of debt and other long term obligations	51,335,000	-
Bond issue costs paid and discount	1,697,050	-
Purchase of capital assets	(59,345,839)	(105,885,083)
Principal paid on capital debt	(5,825,000)	(6,641,176)
Interest paid on capital debt	(12,777,335)	(11,907,598)
Net cash used in capital and related financing activities	(19,076,236)	(120,507,246)
<b>Cash Flows from Investing Activities</b>		
Investment income, net	23,952,212	22,035,227
Proceeds from sales and maturities of investments	112,641,177	181,150,857
Purchase of investments	(146,804,891)	(127,156,400)
Net cash (used in) provided by investing activities	(10,211,502)	76,029,684
<b>Net Increase in Cash and Temporary Investments</b>	33,183,811	16,084,324
<b>Cash and Temporary Investments, beginning of year</b>	243,552,859	227,468,535
<b>Cash and Temporary Investments, end of year</b>	<b>\$ 276,736,670</b>	<b>\$ 243,552,859</b>
Operating loss	\$ (247,521,184)	\$ (251,023,722)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	44,591,220	41,663,751
(Increase) decrease in assets:		
Receivables, net	5,740,868	(698,960)
Prepaid expenses and inventories	708,341	(2,877,041)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	3,403,820	2,206,004
Deposits	(1,064,262)	(1,717,059)
Deferred income	5,129,033	11,135,375
Accrued employee benefits	(486,223)	1,121,167
Net cash used in operating activities	<b>\$ (189,498,387)</b>	<b>\$ (200,190,485)</b>

### Note I - Basis of Presentation and Significant Accounting Policies

#### Overview

Wayne State University (the "University") is a state-supported institution with an enrollment of approximately 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 approximately 99% 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 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*. The balance sheets, statements of revenues, expenses and changes in net assets and statements of 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. Changes from year to year result from capital additions, issuance and payments of long-term debt, retirement of assets and depreciation expense.
- Restricted nonexpendable – Represents the corpus portion of gifts to the University's permanent endowment funds, the University's portion of Federal student loans and gifts 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, academic programs, and capital projects). This category of net assets also includes undistributed accretion of permanent endowment investments and other funds functioning as endowments.
- Unrestricted - Represents funds which are not subject to externally imposed restrictions, however, most of the University's unrestricted net assets are designated by the Board of Governors and management for various academic, research and administrative programs, and capital projects.

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

#### Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on an accrual basis. The University reports its operations 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.

Scholarships and fellowships applied directly to student accounts are netted with student tuition and fees. Scholarships and fellowships disbursed 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 or grants and contracts revenue for services performed on sponsored programs and expenses paid for goods or services. Nonoperating revenues are primarily non-exchange in nature. State appropriations, gifts, and investment activity are recorded as nonoperating 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 may 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 the spending rule distributions are applied. The University's endowment rate spending policy provides for an annual distribution of 4.75% of a three year moving average of the market value of endowment assets, measured at quarterly intervals. Of this annual distribution, 4.25% is transferred to the beneficiary or operating program accounts and 0.5% is used for administration of the University's capital campaign.

**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 represents cash payments made in advance of when the related expenditures will be recognized for financial statement purposes. The balances at September 30, 2006 and 2005 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 period to which it relates.

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

**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 operating appropriations are recognized in the period for which they are appropriated. Grants and contracts revenue is recognized as the related expenditures are incurred. State capital appropriations funded through the State Building Authority are recognized as the University incurs eligible 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 gifts are received.

Donor 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 \$106,800,000 and \$94,500,000 in 2006 and 2005, respectively, for student loans through the U.S. Department of Education 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.

**Reclassifications** - Certain fiscal year 2005 balances have been reclassified to conform to the current year presentation.

### Note 2 - Cash and Investments

The University's cash and investments at September 30, 2006 and 2005 are included on the University's balance sheet in the following categories:

	2006	2005
Cash and temporary investments	\$ 276,736,670	\$ 243,552,859
Investments:		
Endowment fund	209,573,543	192,169,285
Bond proceeds	66,658,407	42,182,490
Total investments	276,231,950	234,351,775
Total cash and investments	\$ 552,968,620	\$ 477,904,634

The University's cash and investments at September 30, 2006 and 2005 consist of the following:

	2006	2005
Certificate of deposit and savings accounts	\$ 25,136,807	\$ 16,371,540
Fixed income investments	378,526,501	329,845,293
Real estate investment pool	10,515,207	-
Hedge fund investments	10,108,000	-
Equity security investments	135,220,761	135,311,090
Other	3,298,911	5,257,894
Checks issued in excess of available cash balances	(9,837,567)	(8,881,183)
Total cash and investments	\$ 552,968,620	\$ 477,904,634

### Deposits

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

Custodial Credit Risk – 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, 2006 and 2005, the carrying amount of the University's deposits was \$27,989,906 and \$16,862,816, respectively. Of that amount, \$663,491 and \$709,324, respectively, was insured. The remaining \$27,326,415 and \$16,153,492 was uninsured and uncollateralized at September 30, 2006 and 2005, respectively. The University does not require deposits to be insured or collateralized. The University is precluded by state law from collateralizing its deposits.

### Note 2 – Cash and Investments (continued)

#### Deposits (continued)

Foreign Currency Risk – 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, 2006 and 2005.

#### Investments

The cash and temporary investments and bond proceed investments are managed in accordance with the Board of Governors' Cash Management Policy. The Wayne State University Foundation (the "Foundation") manages approximately 99% of the endowment investments in accordance with the Statement of Investment Policy ("Endowment Investment Policy") as approved by the Foundation's Board of Trustees. The University also has some investments that are restricted by external agreements or by special donor limitations which are not subject to the above mentioned policies.

The Board of Governors' Cash Management Policy permits investments 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 instruments that have been selected and approved by the Common Fund short and intermediate-term investment pools, including the Global Fund. The 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 in the State of Michigan.

The Endowment Investment Policy sets a general target allocation for investments of 50% U.S. equities, 15% non-U.S. equities, 25% fixed income securities and 5% for both hedge and real estate funds. Each of these target allocations has an allowable range of 45 to 55%, 13 to 17%, 20 to 30% and 0 to 8%, 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 may not be able to recover the value of its investments that are in the possession of an outside party. The University's Cash Management and Endowment investment policies do not limit the value of investments that may be held by an outside party. Investments in external investment pools and 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 \$329,738,224 and \$302,807,182 of its portfolio at September 30, 2006 and 2005, respectively.

Interest Rate Risk – 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 of its investments. Securities exceeding maturities of one year are limited to corporate fixed income securities maturing less than or equal to three years, U.S. 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). Additionally, securities with maturities exceeding one year are limited to 70% of the total short-term cash pool of the University.

### Note 2 - Cash and Investments (continued)

The University held the following types of fixed income investments and maturities, in years, at September 30, 2006 and 2005:

Types of Investments	2006 Maturities (in Years)				Total
	Less Than 1	1-5	6-10	More Than 10	
Repurchase Agreements <sup>(1)</sup>	\$ -	\$ 50,081,063	\$ -	\$ -	\$ 50,081,063
U.S. Treasuries	1,889,390	3,619,638	-	-	5,509,028
U.S. Government Sponsored Enterprises	44,457,079	18,835,373	-	-	63,292,452
Corporate Asset Backed Securities	-	1,384,042	406,656	-	1,790,698
External Investment Pools <sup>(2)</sup>	25,560,220	30,878,333	-	-	56,438,553
Money Market Mutual Fund <sup>(2)(3)</sup>	32,122,262	-	-	-	32,122,262
Corporate Securities	535,093	1,709,091	-	-	2,244,184
Commercial Paper	119,273,598	-	-	-	119,273,598
Fixed Income Institutional Bond Fund <sup>(2)</sup>	-	-	34,960,701	12,519,795	47,480,496
Non-U.S. Fixed Income Securities	120,000	174,167	-	-	294,167
<b>Investment by Maturity</b>	<b>\$ 223,957,642</b>	<b>\$106,681,707</b>	<b>\$35,367,357</b>	<b>\$12,519,795</b>	<b>\$378,526,501</b>

<sup>(1)</sup> Includes bond proceeds that are collateralized by securities that are held by the pledging financial institution's custodian, in the University's name.

<sup>(2)</sup> This is the range in which the average maturity falls for these investment types.

<sup>(3)</sup> Includes bond proceeds of \$15,361,228 that are invested in money market funds.

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 <sup>(1)</sup>	-	54,733,158	-	-	54,733,158
Money Market Mutual Fund <sup>(1)(2)</sup>	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 <sup>(1)</sup>	-	-	51,688,209	-	51,688,209
Non-U.S. Fixed Income Securities	203,750	144,167	-	-	347,917
<b>Investment by Maturity</b>	<b>\$ 188,206,481</b>	<b>\$ 89,950,603</b>	<b>\$51,688,209</b>	<b>\$ -</b>	<b>\$329,845,293</b>

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

<sup>(2)</sup> Includes bond proceeds of \$42,182,490.

### Note 2 – Cash and Investments (continued)

Credit Risk – 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 or counterparty to an investment assumes. The credit risk of the Endowment’s fixed income securities is considered within the 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 the time of manager appointment.

The University fixed income investments by credit ratings at September 30, 2006 and 2005 were as follows:

2006	Credit Rating						Total
	AAA	AA	A	BBB	AI/PI	Not Rated	
Repurchase Agreements	\$ -	\$ 50,081,063	\$ -	\$ -	\$ -	\$ -	\$ 50,081,063
U.S. Treasuries	-	-	-	-	-	5,509,028	5,509,028
U.S. Government Sponsored Enterprises	63,292,452	-	-	-	-	-	63,292,452
Corporate Asset Backed Securities	-	1,790,698	-	-	-	-	1,790,698
External Investment Pools	25,560,220	30,878,333	-	-	-	-	56,438,553
Money Market Mutual Fund	32,122,262	-	-	-	-	-	32,122,262
Corporate Securities	-	-	2,244,184	-	-	-	2,244,184
Commercial Paper	-	-	-	-	119,273,598	-	119,273,598
Fixed Income Institutional Bond Fund	34,960,701	-	-	12,519,795	-	-	47,480,496
Non-U.S. Fixed Income Securities	-	-	-	-	-	294,167	294,167
Investments by Rating	<u>\$ 155,935,635</u>	<u>\$ 82,750,094</u>	<u>\$ 2,244,184</u>	<u>\$ 12,519,795</u>	<u>\$ 119,273,598</u>	<u>\$ 5,803,195</u>	<u>\$ 378,526,501</u>

### Note 2 - Cash and Investments (continued)

2005	Credit Rating						Total
	AAA	AA	A	BBB	A1/PI	Not Rated	
U.S. Treasuries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,599,193	\$ 7,599,193
U.S. Government Sponsored Enterprises	70,376,153	-	-	-	-	-	70,376,153
Corporate Asset Backed Securities	2,600,798	-	-	-	-	-	2,600,798
External Investment Pools	43,416,718	11,316,440	-	-	-	-	54,733,158
Money Market Mutual Fund	57,418,947	-	-	-	-	-	57,418,947
Corporate Securities	-	-	5,115,640	-	-	-	5,115,640
Commercial Paper	-	-	-	-	79,965,278	-	79,965,278
Fixed Income Institutional Bond Fund	51,688,209	-	-	-	-	-	51,688,209
Non-U.S. Fixed Income Securities	-	-	-	-	-	347,917	347,917
<b>Investments by Rating</b>	<b>\$ 225,500,825</b>	<b>\$ 11,316,440</b>	<b>\$ 5,115,640</b>	<b>\$ -</b>	<b>\$ 79,965,278</b>	<b>\$ 7,947,110</b>	<b>\$ 329,845,293</b>

**Concentration of Credit Risk** – The risk of loss attributed to the magnitude of investment in a single issuer of fixed income securities. The University’s Cash Management Policy provides that investment pool funds be sufficiently diversified and 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 the time of manager appointment.

Investments which represent 5% of the University’s combined cash and temporary investments and Endowment investment portfolio as of September 30, 2006 and 2005 are presented below:

2006	2005
Federal National Mortgage Association Securities	Federal National Mortgage Association Securities
	Federal Home Loan Bank Securities

**Foreign Currency Risk** – Represents the risk that changes in exchange rates will adversely affect the fair value of an investment. The University’s Cash Management Policy allows for investment in instruments that have been selected and approved by the Common Fund short and intermediate-term investment pools, including the Global Fund. The University’s portfolio did not include direct investments denominated in foreign currencies at September 30, 2006 and 2005.

### Note 2 – Cash and Investments (continued)

The Endowment Investment Policy does not limit the foreign currency risk. The asset allocation provides a target of 15% for non-U.S. equities (with a maximum limit of 17%), but does not establish limits on non-U.S. fixed income securities. The foreign currency risk of the 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. The University had Endowment fund investments in non-U.S. equities of \$33,989,432, 16.2% of the University's total Endowment fund investments at September 30, 2006. Of this amount, 35% was exposed to European Union Euro currency risk, 25% was exposed to the British pound sterling currency risk and 7% was exposed to Japanese yen currency risk. At September 30, 2005, \$32,006,012 of the University's Endowment fund investments were in non-U.S. equity investments, 16.7% of the University's total Endowment fund investments, were exposed to foreign currency risk. Of this amount, 32% was exposed to European Union Euro currency risk, 22% was exposed to the British pound sterling currency risk and 11% was exposed to Japanese yen currency risk. For 2006 and 2005, the remaining investments in non-U.S. equities had small exposures in the individual currencies of several foreign countries.

At September 30, 2006 and 2005, the University had Endowment fund investments in fixed income institutional mutual funds which totaled \$48,871,319 and \$52,608,819, respectively. In 2006 and 2005, the mutual fund investment managers invested a portion of their total portfolio in securities that were not denominated in the U.S. dollar.

The University's cash and temporary investments provided a return of 4.3% and 2.9% for the years ended September 30, 2006 and 2005, respectively. The University's endowment related investments provided a return of 9.2% and 11.9% for the years ended September 30, 2006 and 2005, respectively.

### Note 3 - Receivables

At September 30, 2006 and 2005, receivables consist of the following:

	2006	2005
Grant and contract receivables	\$ 36,344,941	\$ 43,694,830
Pledged gift receivables	24,171,433	21,942,366
Student notes receivable	48,901,027	49,319,124
Student accounts receivable	51,854,246	48,988,309
State appropriations receivable, capital projects	-	2,033,354
Other	12,163,760	9,726,954
	<u>173,435,407</u>	<u>175,704,937</u>
Less: Provision for loss on receivables	(8,733,910)	(7,970,246)
Less: Unamortized discount to present value on pledged gift receivables	<u>(2,577,972)</u>	<u>(2,802,817)</u>
	162,123,525	164,931,874
Less: Current portion receivables, net	<u>(121,243,119)</u>	<u>(124,411,818)</u>
Total noncurrent receivables, net	<u>\$ 40,880,406</u>	<u>\$ 40,520,056</u>

Payments on pledged gift receivables at September 30, 2006 are expected to occur in the following years ending September 30:

2007	\$ 5,703,896
2008-2017	<u>18,467,537</u>
Total	<u>\$ 24,171,433</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 loss 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 from 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 \$22,450,000 and \$21,400,000 in outstanding loans receivable at September 30, 2006 and 2005, respectively. Under the School as Lender Program, the University disbursed approximately \$55,250,000 and \$51,750,000 in loans to students during the years ended September 30, 2006 and 2005, respectively. All loans associated with this program are sold to a third party within one year. The University sold \$54,200,000 and \$50,750,000 of such loans during the years ended September 30, 2006 and 2005, 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, 2006 and 2005, the University had outstanding loans against the line of credit of \$22,007,000 and \$21,233,000, respectively.

### Note 4 - Capital Assets

Capital assets activity for the years ended September 30, 2006 and 2005 was as follows:

	Balance September 30 2005		Balance September 30 2006
	2005	Additions	Retirements
Land improvements	\$ 17,976,214	\$ 2,451,008	\$ -
Buildings	819,232,569	59,995,199	(207,102)
Library materials	114,317,019	3,913,296	(639,950)
Equipment and software	159,617,656	7,188,148	(12,570,494)
Subtotal - depreciable assets	1,111,143,458	73,547,651	(13,417,546)
Land	30,722,131	-	-
Construction in progress	40,221,249	(25,483,318)	-
Subtotal - nondepreciable assets	70,943,380	(25,483,318)	-
Total	1,182,086,838	48,064,333	(13,417,546)
Less accumulated depreciation:			
Land improvements	9,858,571	676,139	-
Buildings	267,176,031	26,207,061	(200,774)
Library materials	93,873,553	3,933,612	-
Equipment and software	110,116,442	13,774,408	(10,409,888)
Total accumulated depreciation	481,024,597	44,591,220	(10,610,662)
Capital assets, net	\$ 701,062,241	\$ 3,473,113	\$ (2,806,884)

### Note 4 - Capital Assets (continued)

	Balance			Balance
	September 30 2004	Additions	Retirements	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>

Construction in progress represents expenditures for new projects that are underway but not yet completed. As projects are completed, they are removed from construction in progress and recorded as building "additions" and reflected in the aggregate building balance.

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, 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 to the University.

### Note 5 - Long-Term Debt

Long-term debt activity for the year ended September 30, 2006 consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2006, with interest ranging from 4.0% to 5.0%, maturing November 15, 2036	\$ -	\$ 51,335,000	\$ -	\$ 51,335,000	\$ -
General Revenue Bonds, Series 2004A, with interest at 4.12%, maturing November 15, 2034	59,350,000	-	50,000	59,300,000	1,100,000
General Revenue Bonds, Series 2003A, with interest at fixed and variable rates ranging from 1.8% to 3.45%, maturing November 15, 2033	50,650,000	-	1,150,000	49,500,000	1,200,000
General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing November 15, 2018	4,465,000	-	225,000	4,240,000	240,000
General Revenue Bonds, Series 2002, with interest at 4.33%, maturing November 15, 2032	44,850,000	-	750,000	44,100,000	950,000
General Revenue Bonds, Series 2001, Tranche 1, with interest at 4.85%, maturing November 15, 2031	18,350,000	-	400,000	17,950,000	400,000
General Revenue Bonds, Series 2001, Tranche 2, with interest at 4.27%, maturing November 15, 2031	7,150,000	-	150,000	7,000,000	150,000
General Revenue and Refunding Bonds, Series 1999, with interest ranging from 4.75% to 5.50%, maturing November 15, 2029	120,260,000	-	2,675,000	117,585,000	2,795,000
General Revenue Bonds, Series 1993, with interest ranging from 5.40% to 5.65%, maturing November 15, 2012	3,365,000	-	325,000	3,040,000	350,000
Various notes payable at varying interest rates maturing from 2007 through 2011	2,653,657	-	395,900	2,257,757	417,456
Gross long-term debt	311,093,657	51,335,000	6,120,900	356,307,757	7,602,456
Less: Unamortized bond premium (discount)	(4,143,916)	2,024,434	(167,960)	(1,951,522)	-
Total long-term debt	<u>\$ 306,949,741</u>	<u>\$ 53,359,434</u>	<u>\$ 5,952,940</u>	<u>\$ 354,356,235</u>	<u>\$ 7,602,456</u>

### Note 5 - Long-Term Debt (continued)

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 2004A, 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 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	<u>\$ 313,201,351</u>	<u>\$ 401,293</u>	<u>\$ 6,652,903</u>	<u>\$ 306,949,741</u>	<u>\$ 6,237,894</u>

### Note 5 - Long-Term Debt (continued)

The University's General Revenue Bonds are secured by the unrestricted operating revenues of the University. When economically feasible, the University considers defeasance of prior debt issuances to reduce its borrowing cost. The total amount of defeased bonds outstanding at September 30, 2006 and 2005 was \$2,000,000 and \$2,275,000, respectively.

Total principal and interest maturities on all debt obligations as of September 30, 2006, are as follows:

Year(s)	Principal	Interest	Total
2007	\$ 7,602,456	\$ 13,958,206	\$ 21,560,662
2008	7,301,229	14,855,691	22,156,920
2009	8,686,579	14,237,730	22,924,309
2010	8,732,493	14,156,520	22,889,013
2011	10,740,000	13,474,625	24,214,625
2012-2016	50,720,000	61,255,256	111,975,256
2017-2021	59,885,000	49,376,286	109,261,286
2022-2026	73,325,000	34,873,297	108,198,297
2027-2031	84,095,000	17,252,454	101,347,454
2032-2037	45,220,000	3,970,352	49,190,352
	\$ 356,307,757	\$ 237,410,417	\$ 593,718,174

Cash paid for interest was \$14,219,025 in 2006 and \$14,263,375 in 2005.

#### Interest Rate Swaps

Objective of the swaps - As a means of lowering its borrowing costs and to protect against the potential of rising interest rates, the University has entered into ten separate interest rate swaps, including pay-fixed, receive-variable swaps and pay-variable, receive variable basis swaps. In entering into these swaps, the overall borrowing cost is anticipated to be less than what the University would have paid for traditional fixed-rate debt.

### Note 5 - Long-Term Debt (continued)

Terms, fair values and credit risk - The terms, fair values, and credit ratings of the outstanding swaps as of September 30, 2006, were as follows:

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received*	Fair Values
Series 1999 (2 swaps)	\$ 107,500,000	11/15/09	3.58%	67% of LIBOR	\$ (441,596)
Series 2001, Tranche 1	19,000,000	12/04/01	4.85%	SAVRS	(2,155,085)
Series 2001, Tranche 2	7,400,000	12/15/02	4.27%	BMA	(445,674)
Series 2002	45,700,000	12/06/02	4.33%	67% of LIBOR	(3,114,991)
Series 2003A	25,750,000	03/08/04	3.45%	67% of LIBOR/BMA	75,212
Series 2004A	50,500,000	8/16/2004	4.12%	67% of LIBOR	(3,565,752)
Series 2004A	8,850,000	1/25/2006	3.34%	67% of LIBOR	125,079
Series 2006 (2 swaps)	51,335,000	9/18/2006	BMA(1)	67% of LIBOR plus 40.73bps	(286,366)
					<u>\$ (9,809,173)</u>

\* SAVRS Interest rate determined every 35 days via a Dutch auction

LIBOR – London Interbank Offered Rate

BMA – Bond Market Association Index

(1) – Floating rate index

bps – basis points

The notional amounts of the swaps match the principal amounts of the associated debt for all bond issues with the exception of the Series 2003A bonds. A portion of the 2003A bonds remains unhedged.

On October 25, 2005, the University entered into two forward starting interest rate swaps with a total notional amount of \$107,500,000. The purpose of the swap agreements is to refinance the Series 1999 bonds that are callable in November 2009. These forward starting swaps are effective November 15, 2009 and will allow the University to reduce the interest expense currently associated with these bonds.

Effective January 25, 2006, the University entered into an interest rate swap with a total notional amount of \$8,850,000. The purpose of this swap agreement is to hedge the variable interest rate exposure on the Series 2004A bonds that was left unhedged by the Series 2004A swap agreement dated August 16, 2004.

### Note 5 - Long-Term Debt (continued)

Effective September 18, 2006, the University entered into two basis swaps with a total notional amount of \$51,335,000. The purpose of these swaps is to reduce the financing cost of the Series 2006 bonds. The basis swaps will result in monthly net payments with the University paying the counterparties based on the BMA index and the counterparties paying the University based on a percentage of the one-month LIBOR (67%) plus 40.73 basis points. Generally, if the historical relationship between BMA and LIBOR does not change substantially in the future, the basis swaps will produce net payments to the University equal to approximately 40.73 basis points of the outstanding notational amount of the swaps, which will reduce the net financing costs of the bonds by a like amount.

Interest rates are lower at September 30, 2006 than at the inception for most of the swaps, causing many of the swaps to have a negative fair value. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds. The fair values were estimated by using the proprietary pricing model of a pricing service.

Credit risk – As of September 30, 2006, the University was exposed to limited credit risk because some of the swaps had a positive fair value. However, should interest rates increase resulting in positive fair values or increases in positive fair values of the swaps, the University would be exposed to greater credit risk in the amount of the derivative's fair value. Although the University executes swap transactions with various counterparties, six swaps, approximately 50% of the notional amount of swaps outstanding, are held with one counterparty. This counterparty is rated "A+" by Fitch, "A+" by Standard and Poor's ("S&P") and "A1" by Moody's at September 30, 2006. To mitigate the potential for credit risk if the counterparty's credit quality falls below "A", the fair value of the swaps will be fully collateralized by the counterparty with U.S. government securities and posted with a third-party custodian. A second counterparty holds two swaps that represent approximately 35% of the notional amount of the swaps outstanding. This counterparty is rated "AAA" by Standard and Poor's and "Aaa" by Moody's at September 30, 2006. A third counterparty holds two swaps that represent the balance of the notional amount of the swaps outstanding. This counterparty is rated "AA+" by Fitch, "AA+" by Standard and Poor's and "Aa2" by Moody's at September 30, 2006. The latter two counterparties have collateral requirements which increase the collateral required as the fair value of the swaps increases and as the counterparty credit ratings decline. If the counterparty's credit rating falls below "BBB/Baa2" (S&P/Moody's), the fair value of the swap will be fully collateralized with U.S. government securities.

Basis risk – The swaps expose the University to basis risk should the relationship between LIBOR and BMA converge, changing the anticipated spread on the basis swaps. 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 2029 for the Series 1999 bonds, November 2031 for the Series 2001 Tranche 1 and 2 bonds, November 2032 for the Series 2002 bonds, November 2033 for Series 2003A bonds, November 2034 for the Series 2004A bonds and November 2036 for the Series 2006 bonds. The derivative contracts are documented by the International Swap Dealers Association ("ISDA") Master Agreement which includes standard termination events such as failure to pay and bankruptcy. The Schedule to the Master Agreement also provides that the swaps may be terminated by the University if the counterparty's credit quality rating falls below certain specified levels.

### Note 5 - Long-Term Debt (continued)

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 fixed interest rate. 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.

Swap payments and associated debt – As of September 30, 2006, debt service requirements of the fixed and variable interest rate debt and net interest rate swaps, net, assuming current interest rates remain the same for their term, were as follows:

Year(s)	Principal	Interest	Interest Rate	
			Swaps, Net	Total
2007	\$ 3,225,000	\$ 6,757,721	\$ 911,789	\$ 10,894,510
2008	2,975,000	7,769,106	767,083	11,511,189
2009	4,185,000	7,430,353	731,661	12,347,014
2010	4,165,000	7,489,164	725,091	12,379,255
2011	4,630,000	7,124,914	617,692	12,372,606
2012-2016	26,005,000	33,164,034	3,310,608	62,479,642
2017-2021	31,660,000	27,812,778	2,508,454	61,981,232
2022-2026	38,425,000	21,050,851	1,958,656	61,434,507
2027-2031	48,020,000	12,911,731	743,566	61,675,297
2031-2035	41,170,000	3,804,953	(40,505)	44,934,448
Total	<u>\$ 204,460,000</u>	<u>\$ 135,315,605</u>	<u>\$ 12,234,095</u>	<u>\$ 352,009,700</u>

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

### 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 completed 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, 2006 and 2005 were \$25,604,000 and \$24,664,000, respectively.

### Note 7 - Commitments

In connection with the University's ongoing construction program, approximately \$42,192,000 was committed at September 30, 2006. Included in this amount is approximately \$30,400,000 related to the steam boiler project underway in university buildings across campus 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, 2006 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. Claim 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, 2006 and 2005 totaled approximately \$5,600,000 and \$3,800,000, respectively. Specific excess (umbrella) coverage has been purchased by the University for its self-insured workers' compensation and medical insurance programs.

#### Pending Litigation

The University is named as a defendant in certain civil actions. The University is of the opinion that the resulting disposition of these actions will not have a material effect on the 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 the Research and Technology Park in the City of Detroit, Inc., a 501(c)(3) organization. As of September 30, 2006, funds drawn against the construction loan totaled \$9,674,000.

### Note 9 - Natural Classification of Expenses

Operating expenses by natural classification for the years ended September 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Compensation and benefits	\$ 492,127,307	\$ 478,584,820
Supplies and services	173,379,524	175,327,988
Depreciation	44,591,220	41,663,751
Scholarship and fellowships	<u>5,244,276</u>	<u>1,321,317</u>
Total operating expenses	<u>\$ 715,342,327</u>	<u>\$ 696,897,876</u>

# **Supplemental Information**

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## **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, 2006 and 2005. 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 8, 2006

## Combining Balance Sheet September 30, 2006 (with comparative totals for September 30, 2005)

	2006										2005	
	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	Agency Fund	Combined Fund Totals	Combined Fund Totals
<b>ASSETS</b>												
<b>Current assets</b>												
Cash and temporary investments	\$ 148,547,351	\$ 32,127,473	\$ 5,640,148	\$ (258,876)	\$ 17,799,078	\$ 203,855,174	\$ 47,612,697	\$ 11,079,722	\$ 361,745	\$ 13,827,332	\$ 276,736,670	\$ 243,552,859
Current receivables, net	46,831,034	6,310,449	3,991,656	417,665	36,906,666	94,457,470	2,466,755	22,560,186	680,310	1,078,398	121,243,119	124,411,818
Inventories	1,081,375	-	394,522	-	-	1,475,897	-	-	-	-	1,475,897	1,402,027
Prepaid expenses and deposits	12,328,070	8,976	92,204	-	15,938	12,445,188	90,762	-	-	262,131	12,798,081	13,580,290
<b>Total current assets</b>	<b>208,787,830</b>	<b>38,446,898</b>	<b>10,118,530</b>	<b>158,789</b>	<b>54,721,682</b>	<b>312,233,729</b>	<b>50,170,214</b>	<b>33,639,908</b>	<b>1,042,055</b>	<b>15,167,861</b>	<b>412,253,767</b>	<b>382,946,994</b>
Investments	-	-	-	-	-	-	66,658,407	-	209,573,543	-	276,231,950	234,351,775
Noncurrent receivables, net	-	1,533,640	-	2,237	2,557,871	4,093,748	11,000,379	25,786,279	-	-	40,880,406	40,520,056
Unamortized bond issue costs	-	-	-	-	-	-	2,079,640	-	-	-	2,079,640	1,822,328
Capital assets, net	-	-	-	-	-	-	701,728,470	-	-	-	701,728,470	701,062,241
<b>Total noncurrent assets</b>	<b>-</b>	<b>1,533,640</b>	<b>-</b>	<b>2,237</b>	<b>2,557,871</b>	<b>4,093,748</b>	<b>781,466,896</b>	<b>25,786,279</b>	<b>209,573,543</b>	<b>-</b>	<b>1,020,920,466</b>	<b>977,756,400</b>
<b>Total assets</b>	<b>\$ 208,787,830</b>	<b>\$ 39,980,538</b>	<b>\$ 10,118,530</b>	<b>\$ 161,026</b>	<b>\$ 57,279,553</b>	<b>\$ 316,327,477</b>	<b>\$ 831,637,110</b>	<b>\$ 59,426,187</b>	<b>\$ 210,615,598</b>	<b>\$ 15,167,861</b>	<b>\$ 1,433,174,233</b>	<b>\$ 1,360,703,394</b>
<b>LIABILITIES</b>												
<b>Current liabilities</b>												
Accounts payable and accrued liabilities	\$ 35,071,337	\$ 7,470,955	\$ 1,960,836	\$ 144,962	\$ 12,077,910	\$ 56,726,000	\$ 5,203,400	-	\$ 301,596	\$ 13,645,652	\$ 75,876,648	\$ 83,739,718
Deferred income	87,775,699	242,875	5,002,662	-	14,420,596	107,441,832	270,827	-	-	-	107,712,659	101,936,544
Deposits	2,389,313	-	670,556	-	-	3,059,869	-	-	-	1,522,209	4,582,078	5,624,596
Short-term loans	-	-	-	-	-	-	-	22,007,230	-	-	22,007,230	21,233,779
Current portion of long-term debt	-	-	-	-	-	-	7,602,456	-	-	-	7,602,456	6,237,894
<b>Total current liabilities</b>	<b>125,236,349</b>	<b>7,713,830</b>	<b>7,634,054</b>	<b>144,962</b>	<b>26,498,506</b>	<b>167,227,701</b>	<b>13,076,683</b>	<b>22,007,230</b>	<b>301,596</b>	<b>15,167,861</b>	<b>217,781,071</b>	<b>218,772,531</b>
<b>Noncurrent liabilities</b>												
Federal portion of student loan funds	-	-	-	-	-	-	-	25,591,528	-	-	25,591,528	25,102,840
Accrued employee benefits	4,464,930	281,914	336,460	22,796	620,547	5,726,647	-	-	397,463	-	6,124,110	6,568,319
Long-term debt	-	-	-	-	-	-	346,753,779	-	-	-	346,753,779	300,711,847
<b>Total noncurrent liabilities</b>	<b>4,464,930</b>	<b>281,914</b>	<b>336,460</b>	<b>22,796</b>	<b>620,547</b>	<b>5,726,647</b>	<b>346,753,779</b>	<b>25,591,528</b>	<b>397,463</b>	<b>-</b>	<b>378,469,417</b>	<b>332,383,006</b>
<b>Total liabilities</b>	<b>129,701,279</b>	<b>7,995,744</b>	<b>7,970,514</b>	<b>167,758</b>	<b>27,119,053</b>	<b>172,954,348</b>	<b>359,830,462</b>	<b>47,598,758</b>	<b>699,059</b>	<b>15,167,861</b>	<b>596,250,488</b>	<b>551,155,537</b>
<b>NET ASSETS</b>												
Invested in capital assets, net of related debt	-	-	-	-	-	-	408,402,823	-	-	-	408,402,823	427,257,968
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Nonexpendable	-	-	-	-	-	-	-	10,970,093	90,454,644	-	101,424,737	96,493,014
Expendable	-	-	-	-	30,160,500	30,160,500	25,564,536	-	113,170,811	-	168,895,847	148,787,599
Unrestricted	79,086,551	31,984,794	2,148,016	(6,732)	-	113,212,629	37,839,289	857,336	6,291,084	-	158,200,338	137,009,276
<b>Total net assets</b>	<b>79,086,551</b>	<b>31,984,794</b>	<b>2,148,016</b>	<b>(6,732)</b>	<b>30,160,500</b>	<b>143,373,129</b>	<b>471,806,648</b>	<b>11,827,429</b>	<b>209,916,539</b>	<b>-</b>	<b>836,923,745</b>	<b>809,547,857</b>
<b>Total liabilities and net assets</b>	<b>\$ 208,787,830</b>	<b>\$ 39,980,538</b>	<b>\$ 10,118,530</b>	<b>\$ 161,026</b>	<b>\$ 57,279,553</b>	<b>\$ 316,327,477</b>	<b>\$ 831,637,110</b>	<b>\$ 59,426,187</b>	<b>\$ 210,615,598</b>	<b>\$ 15,167,861</b>	<b>\$ 1,433,174,233</b>	<b>\$ 1,360,703,394</b>

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

	2006	2005
Contractually committed, encumbrances	\$ 10,600	\$ 7,800
Appropriated in subsequent year budget	5,700	5,700
Rainy Day Fund	8,200	7,900
Committed for research	19,300	19,000
Academic unit funds carried forward	29,200	19,300
Operating and central unit funds carried forward	5,100	2,600
Funds available for allocation in subsequent years	987	429
<b>Total General Fund unrestricted net assets</b>	<b>\$ 79,087</b>	<b>\$ 62,729</b>

## Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets Year Ended September 30, 2006 (with comparative totals for the year ended September 30, 2005)

	Year Ended September 30											
	2006										2005	
	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
<b>Operating Revenues</b>												
Student tuition and fees	\$ 207,978,074	\$ -	\$ 3,360,452	\$ -	\$ -	\$ 211,338,526	\$ 220,320	\$ -	\$ -	\$ -	\$ 211,558,846	\$ 180,131,105
Less: Scholarship allowances	-	-	-	-	-	-	-	-	-	(51,712,917)	(51,712,917)	(49,394,670)
Net student tuition and fees	207,978,074	-	3,360,452	-	-	211,338,526	220,320	-	-	(51,712,917)	159,845,929	130,736,435
Federal grants and contracts	-	-	-	-	137,617,502	137,617,502	565,899	-	-	-	138,183,401	142,335,194
State and local grants and contracts	-	-	-	-	22,367,532	22,367,532	-	-	-	-	22,367,532	28,703,300
Nongovernmental grants and contracts	-	63,709,003	-	-	33,289,410	96,998,413	-	-	-	-	96,998,413	98,472,191
Departmental activities	9,795,259	13,401,426	-	966,195	-	24,162,880	-	-	-	-	24,162,880	21,881,835
Auxiliary enterprises (net of scholarship allowances of \$1,633,933 in 2006 and \$1,445,882 in 2005)	-	-	26,232,794	-	-	26,232,794	-	-	-	(1,633,933)	24,598,861	22,332,387
Recovery of indirect costs of sponsored programs	37,805,249	-	-	-	(37,805,249)	-	-	-	-	-	-	-
Other operating revenues	1,534,448	-	-	-	-	1,534,448	-	129,679	-	-	1,664,127	1,412,812
<b>Total operating revenues</b>	<b>257,113,030</b>	<b>77,110,429</b>	<b>29,593,246</b>	<b>966,195</b>	<b>155,469,195</b>	<b>520,252,095</b>	<b>786,219</b>	<b>129,679</b>	<b>-</b>	<b>(53,346,850)</b>	<b>467,821,143</b>	<b>445,874,154</b>
<b>Operating Expenses</b>												
Instruction	186,331,274	51,748,797	-	-	14,302,135	252,382,206	-	-	-	(2,875,551)	249,506,655	238,343,759
Research	23,726,229	3,212,855	-	-	124,411,894	151,350,978	-	-	-	(2,192,233)	149,158,745	148,601,703
Public service	1,489,059	19,137,054	-	2,429,533	24,943,755	47,999,401	-	-	-	(99,811)	47,899,590	51,572,052
Academic support	59,141,695	3,937,201	-	-	1,175,170	64,254,066	-	-	-	(5,584,665)	58,669,401	56,722,153
Student services	27,542,279	508,594	-	-	430,590	28,481,463	-	-	-	(44,281)	28,437,182	30,226,536
Institutional support	50,515,267	3,319,160	-	-	114,050	53,948,477	-	-	-	(184,594)	53,763,883	52,877,457
Operation and maintenance of plant	52,076,137	146,426	-	-	944,227	53,166,790	4,254,320	-	-	(25,004)	57,396,106	58,178,069
Scholarships and fellowships	32,095,613	1,111,345	-	-	26,384,168	58,591,126	-	-	-	(53,346,850)	5,244,276	1,321,317
Auxiliary enterprises	-	-	20,683,043	-	-	20,683,043	-	-	-	(7,774)	20,675,269	17,391,079
Depreciation expense	-	-	-	-	-	-	44,591,220	-	-	-	44,591,220	41,663,751
Capital additions, net	-	-	-	-	-	-	(11,013,913)	-	-	11,013,913	-	-
Transfers (in) out:												
Debt service	9,656,773	985,982	8,280,482	-	-	18,923,237	(18,923,237)	-	-	-	-	-
Loan matching	67,095	-	-	-	-	67,095	-	(67,095)	-	-	-	-
Plant improvement and extension	16,022,054	514,224	2,421,045	-	59,959	19,017,282	(19,017,282)	-	-	-	-	-
Other	454,514	1,065,328	-	-	380,701	1,900,543	-	3,441	-	(1,903,984)	-	-
<b>Total operating expenses</b>	<b>459,117,989</b>	<b>84,686,966</b>	<b>31,384,570</b>	<b>2,429,533</b>	<b>193,146,649</b>	<b>770,765,707</b>	<b>(108,892)</b>	<b>(63,654)</b>	<b>(1,903,984)</b>	<b>(53,346,850)</b>	<b>715,342,327</b>	<b>696,897,876</b>
<b>Operating income (loss)</b>	<b>(202,004,959)</b>	<b>(7,576,537)</b>	<b>(1,791,324)</b>	<b>(1,463,338)</b>	<b>(37,677,454)</b>	<b>(250,513,612)</b>	<b>895,111</b>	<b>193,333</b>	<b>1,903,984</b>	<b>-</b>	<b>(247,521,184)</b>	<b>(251,023,722)</b>

## Combining Statement of Revenues, Expenses, Transfers And Changes in Net Assets (Continued) Year Ended September 30, 2006 (with comparative totals for the year ended September 30, 2005)

	Year Ended September 30										2005	
	2006											
	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
<b>Nonoperating Revenues (Expenses)</b>												
State operating appropriations	\$ 210,846,253	\$ -	\$ -	\$ -	\$ 5,540,747	\$ 216,387,000	\$ -	\$ -	\$ -	\$ -	\$ 216,387,000	\$ 223,236,100
Gifts	-	3,063,955	-	1,251,639	22,490,792	26,806,386	-	4,410	246,758	-	27,057,554	36,597,150
Investment income:												
Endowment and similar funds	1,062,477	95,852	-	135	6,978,663	8,137,127	30,286	28,290	(8,195,703)	-	-	-
Other	6,453,975	2,843,220	64,585	159	1,966,260	11,328,199	2,731,520	295,005	17,326,589	-	31,681,313	29,489,912
Interest on capital asset - related debt	-	-	-	-	-	-	(12,721,499)	-	-	-	(12,721,499)	(11,849,792)
Other	-	-	-	-	-	-	1,448,559	(26,743)	(89,911)	-	1,331,905	(946,227)
Net nonoperating revenues (expenses)	218,362,705	6,003,027	64,585	1,251,933	36,976,462	262,658,712	(8,511,134)	300,962	9,287,733	-	263,736,273	276,527,143
Income (loss) before other revenues and expenses	16,357,746	(1,573,510)	(1,726,739)	(211,405)	(700,992)	12,145,100	(7,616,023)	494,295	11,191,717	-	16,215,089	25,503,421
<b>Other Revenues (Expenses)</b>												
State capital appropriations	-	-	-	-	-	-	-	-	-	-	-	2,455,347
Capital gifts	-	-	-	-	-	-	9,405,732	-	-	-	9,405,732	6,921,895
Gifts for permanent endowments	-	-	-	-	-	-	-	-	4,561,952	-	4,561,952	4,599,172
Loss on capital assets retired	-	-	-	-	-	-	(2,806,885)	-	-	-	(2,806,885)	(1,839,735)
Net other revenues	-	-	-	-	-	-	6,598,847	-	4,561,952	-	11,160,799	12,136,679
Increase (decrease) in net assets	16,357,746	(1,573,510)	(1,726,739)	(211,405)	(700,992)	12,145,100	(1,017,176)	494,295	15,753,669	-	27,375,888	37,640,100
<b>Net assets - Beginning of year</b>	<b>62,728,805</b>	<b>33,558,304</b>	<b>3,874,755</b>	<b>204,673</b>	<b>30,861,492</b>	<b>131,228,029</b>	<b>472,823,824</b>	<b>11,333,134</b>	<b>194,162,870</b>	<b>-</b>	<b>809,547,857</b>	<b>771,907,757</b>
<b>Net assets - End of year</b>	<b>\$ 79,086,551</b>	<b>\$ 31,984,794</b>	<b>\$ 2,148,016</b>	<b>\$ (6,732)</b>	<b>\$ 30,160,500</b>	<b>\$ 143,373,129</b>	<b>\$ 471,806,648</b>	<b>\$ 11,827,429</b>	<b>\$ 209,916,539</b>	<b>\$ -</b>	<b>\$ 836,923,745</b>	<b>\$ 809,547,857</b>

	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	Agency Fund	Combined Fund Totals
<b>ASSETS</b>											
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
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
Inventories	1,007,623	-	394,404	-	-	1,402,027	-	-	-	-	1,402,027
Prepaid expenses and deposits	13,157,159	8,975	119,325	-	15,938	13,301,397	16,762	-	-	262,131	13,580,290
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
Investments	-	-	-	-	-	-	42,182,490	-	192,169,285	-	234,351,775
Noncurrent receivables, net	-	5,503,736	-	4,363	1,139,327	6,647,426	6,642,281	27,230,349	-	-	40,520,056
Unamortized bond issue costs	-	-	-	-	-	-	1,822,328	-	-	-	1,822,328
Capital assets, net	-	-	-	-	-	-	701,062,241	-	-	-	701,062,241
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
<b>Total assets</b>	<b>\$ 189,059,814</b>	<b>\$ 40,427,085</b>	<b>\$ 11,093,649</b>	<b>\$ 431,171</b>	<b>\$ 57,912,377</b>	<b>\$ 298,924,096</b>	<b>\$ 796,597,749</b>	<b>\$ 57,669,753</b>	<b>\$ 194,735,968</b>	<b>\$ 12,775,828</b>	<b>\$ 1,360,703,394</b>
<b>LIABILITIES</b>											
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
Deferred income	82,264,094	437,925	4,648,768	-	14,307,982	101,658,769	277,775	-	-	-	101,936,544
Deposits	3,504,386	-	619,744	-	-	4,124,130	-	-	-	1,500,466	5,624,596
Short-term loans	-	-	-	-	-	-	-	21,233,779	-	-	21,233,779
Current portion of long-term debt	-	-	-	-	-	-	6,237,894	-	-	-	6,237,894
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
Noncurrent liabilities											
Federal portion of student loan funds	-	-	-	-	-	-	-	25,102,840	-	-	25,102,840
Accrued employee benefits	4,874,403	317,330	391,856	43,589	585,691	6,212,869	-	-	355,450	-	6,568,319
Long-term debt	-	-	-	-	-	-	300,711,847	-	-	-	300,711,847
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
<b>Total liabilities</b>	<b>126,331,009</b>	<b>6,868,781</b>	<b>7,218,894</b>	<b>226,498</b>	<b>27,050,885</b>	<b>167,696,067</b>	<b>323,773,925</b>	<b>46,336,619</b>	<b>573,098</b>	<b>12,775,828</b>	<b>551,155,537</b>
<b>NET ASSETS</b>											
Invested in capital assets, net of related debt	-	-	-	-	-	-	427,257,968	-	-	-	427,257,968
Restricted	-	-	-	-	-	-	-	-	-	-	-
Nonexpendable	-	-	-	-	-	-	-	10,746,528	85,746,486	-	96,493,014
Expendable	-	-	-	-	30,861,492	30,861,492	15,654,845	-	102,271,262	-	148,787,599
Unrestricted	62,728,805	33,558,304	3,874,755	204,673	-	100,366,537	29,911,011	586,606	6,145,122	-	137,009,276
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
<b>Total liabilities and net assets</b>	<b>\$ 189,059,814</b>	<b>\$ 40,427,085</b>	<b>\$ 11,093,649</b>	<b>\$ 431,171</b>	<b>\$ 57,912,377</b>	<b>\$ 298,924,096</b>	<b>\$ 796,597,749</b>	<b>\$ 57,669,753</b>	<b>\$ 194,735,968</b>	<b>\$ 12,775,828</b>	<b>\$ 1,360,703,394</b>

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

	2005
Contractually committed, encumbrances	\$ 7,800
Appropriated in subsequent year budget	5,700
Rainy Day Fund	7,900
Committed for research	19,000
Academic unit funds carried forward	19,300
Operating and central unit funds carried forward	2,600
Funds available for allocation in subsequent years	429
Total General Fund unrestricted net assets	<u>\$ 62,729</u>

## Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets Year Ended September 30, 2005

	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
<b>Operating Revenues</b>											
Student tuition and fees	\$ 177,658,107	\$ -	\$ 2,247,917	\$ -	\$ -	\$ 179,906,024	\$ 225,081	\$ -	\$ -	\$ -	\$ 180,131,105
Less: Scholarship allowances	-	-	-	-	-	-	-	-	-	(49,394,670)	(49,394,670)
Net student tuition and fees	177,658,107	-	2,247,917	-	-	179,906,024	225,081	-	-	(49,394,670)	130,736,435
Federal grants and contracts	-	-	-	-	141,863,354	141,863,354	471,840	-	-	-	142,335,194
State and local grants and contracts	-	-	-	-	28,703,300	28,703,300	-	-	-	-	28,703,300
Nongovernmental grants and contracts	-	64,034,371	-	-	34,437,820	98,472,191	-	-	-	-	98,472,191
Departmental activities	9,514,537	11,345,223	-	1,022,075	-	21,881,835	-	-	-	-	21,881,835
Auxiliary enterprises (net of scholarship allowances of \$1,445,882)	-	-	23,778,269	-	-	23,778,269	-	-	-	(1,445,882)	22,332,387
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
<b>Total operating revenues</b>	<b>225,746,802</b>	<b>75,379,594</b>	<b>26,026,186</b>	<b>1,022,075</b>	<b>167,677,449</b>	<b>495,852,106</b>	<b>696,921</b>	<b>165,679</b>	<b>-</b>	<b>(50,840,552)</b>	<b>445,874,154</b>
<b>Operating Expenses</b>											
Instruction	176,919,880	48,413,076	-	-	15,202,823	240,535,779	-	-	-	(2,192,020)	238,343,759
Research	26,578,613	2,951,666	-	-	126,432,424	155,962,703	-	-	-	(7,361,000)	148,601,703
Public service	1,662,117	21,554,378	-	3,714,522	24,764,859	51,695,876	-	-	-	(123,824)	51,572,052
Academic support	60,151,283	361,649	-	-	1,055,707	61,568,639	-	-	-	(4,846,486)	56,722,153
Student services	28,650,664	1,262,207	-	-	428,233	30,341,104	-	-	-	(114,568)	30,226,536
Institutional support	50,132,183	2,779,015	-	-	91,474	53,002,672	-	-	-	(125,215)	52,877,457
Operation and maintenance of plant	51,317,574	25,090	-	-	948,911	52,291,575	5,905,679	-	-	(19,185)	58,178,069
Scholarships and fellowships	25,351,592	121,301	-	-	26,688,976	52,161,869	-	-	-	(50,840,552)	1,321,317
Auxiliary enterprises	-	-	17,405,341	-	-	17,405,341	-	-	-	(14,262)	17,391,079
Depreciation expense	-	-	-	-	-	-	41,663,751	-	-	-	41,663,751
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)	-	-
<b>Total operating expenses</b>	<b>445,800,402</b>	<b>79,947,545</b>	<b>26,621,476</b>	<b>3,714,522</b>	<b>196,075,099</b>	<b>752,159,044</b>	<b>(3,128,704)</b>	<b>(118,488)</b>	<b>(1,173,424)</b>	<b>(50,840,552)</b>	<b>696,897,876</b>
<b>Operating income (loss)</b>	<b>(220,053,600)</b>	<b>(4,567,951)</b>	<b>(595,290)</b>	<b>(2,692,447)</b>	<b>(28,397,650)</b>	<b>(256,306,938)</b>	<b>3,825,625</b>	<b>284,167</b>	<b>1,173,424</b>	<b>-</b>	<b>(251,023,722)</b>

## Combining Statement of Revenues, Expenses, Transfers and Changes in Net Assets (Continued) Year Ended September 30, 2005

	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
<b>Nonoperating Revenues (Expenses)</b>											
State operating appropriations	\$ 217,366,044	\$ -	\$ -	\$ -	\$ 5,870,056	\$ 223,236,100	\$ -	\$ -	\$ -	\$ -	\$ 223,236,100
Gifts	-	15,097,633	-	1,507,384	18,917,831	35,522,848	-	8,561	1,065,741	-	36,597,150
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
Interest on capital asset - r - elated debt	-	-	-	-	-	-	(11,849,792)	-	-	-	(11,849,792)
Other	-	-	-	-	-	-	(323,943)	(222,914)	(399,370)	-	(946,227)
<b>Net nonoperating revenues (expenses)</b>	<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>
Income (loss) before other revenues and expens	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
<b>Other Revenues (Expenses)</b>											
State capital appropriations	-	-	-	-	-	-	2,455,347	-	-	-	2,455,347
Capital gifts	-	-	-	-	-	-	6,921,895	-	-	-	6,921,895
Gifts for permanent endowments	-	-	-	-	-	-	-	-	4,599,172	-	4,599,172
Loss on capital assets retired	-	-	-	-	-	-	(1,839,735)	-	-	-	(1,839,735)
Net other revenues	-	-	-	-	-	-	<u>7,537,507</u>	-	<u>4,599,172</u>	-	<u>12,136,679</u>
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
<b>Net assets - Beginning of year</b>	<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>
<b>Net assets - End of year</b>	<b>\$ 62,728,805</b>	<b>\$ 33,558,304</b>	<b>\$ 3,874,755</b>	<b>\$ 204,673</b>	<b>\$ 30,861,492</b>	<b>\$ 131,228,029</b>	<b>\$ 472,823,824</b>	<b>\$ 11,333,134</b>	<b>\$ 194,162,870</b>	<b>\$ -</b>	<b>\$ 809,547,857</b>



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