



WAYNE STATE UNIVERSITY

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2007



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Wayne State University

Financial Report
September 30, 2007

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Independent Auditor's Report

To the Board of Governors
Wayne State University

We have audited the accompanying balance sheet of Wayne State University as of September 30, 2007 and 2006 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, 2007 and 2006 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 January 11, 2008 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, 2007. 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.

To the Board of Governors
Wayne State University

The management's discussion and analysis presented on pages 3 through 22 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

January 11, 2008

Wayne State University

Management's Discussion and Analysis - Unaudited

Introduction

The following discussion and analysis provides an overview of the financial position of Wayne State University (the "University") at September 30, 2007 and of its operations and cash flows for the year then ended. Selected comparative information is provided for the years ended September 30, 2006 and 2005. 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 2007 financial report.

Wayne State University is a nationally recognized public research university with urban roots and a global reputation. 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 enrollment in excess of 33,200 students, the University has the 30th 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 eighth largest employer in the city of Detroit with over 5,000 full-time employees.

Excellence in research is essential to the University's mission. Based on the 2006 National Science Foundation Research and Development Expenditures Survey, the University ranked 75th among all universities and 52nd among public universities in research and development expenditures. A substantial portion of the University's research is conducted at the School of Medicine, the nation's largest single-campus medical school. The 2006 National Science Foundation Research and Development Survey ranked the University 48th in the medical sciences category. Wayne State University, as one of the state's largest three research universities, is a partner in the newly created University Research Corridor (URC). The URC is helping communicate the vital role the three major research universities play in revitalizing the state economy through transferring technology to the marketplace, educating the workforce, and attracting talent to the state.

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, 2007 with assets of \$1.5 billion and liabilities of \$627.9 million. Combined net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$39.0 million (4.7 percent) to \$875.9 million at September 30, 2007.

Financial Position

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

	2007	2006	2005
	(in millions)		
Total assets	\$ 1,503.8	\$ 1,433.2	\$ 1,360.7
Total liabilities	<u>627.9</u>	<u>596.3</u>	<u>551.2</u>
Net assets	<u><u>\$ 875.9</u></u>	<u><u>\$ 836.9</u></u>	<u><u>\$ 809.5</u></u>

Specific discussion and analysis of the changes in the components of the assets, liabilities, and net assets categories are provided on pages 5-13.

Operations

Summarized combined revenues and expenses (operating and nonoperating) for the years ended September 30, 2007, 2006, and 2005 are as follows:

	2007	2006	2005
	(in millions)		
Total revenues	\$ 776.9	\$ 759.8	\$ 750.4
Total expenses	<u>737.9</u>	<u>732.4</u>	<u>712.8</u>
Increase in net assets	<u><u>\$ 39.0</u></u>	<u><u>\$ 27.4</u></u>	<u><u>\$ 37.6</u></u>

During 2007, revenues increased \$17.1 million (2.3 percent) compared to 2006, while expenses increased \$5.5 million (0.8 percent). During 2006, revenues increased \$9.4 million (1.3 percent) compared to 2005, while 2006 expenses increased \$19.6 million (2.7 percent) over 2005. A more detailed explanation of fluctuations in specific revenue and expense categories, including a discussion of the activities and events contributing to these changes and trends, is included on pages 14-21 of the management's discussion and analysis.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Balance Sheet

The balance sheet presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities, net assets, is one 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, 2007, 2006, and 2005 is as follows:

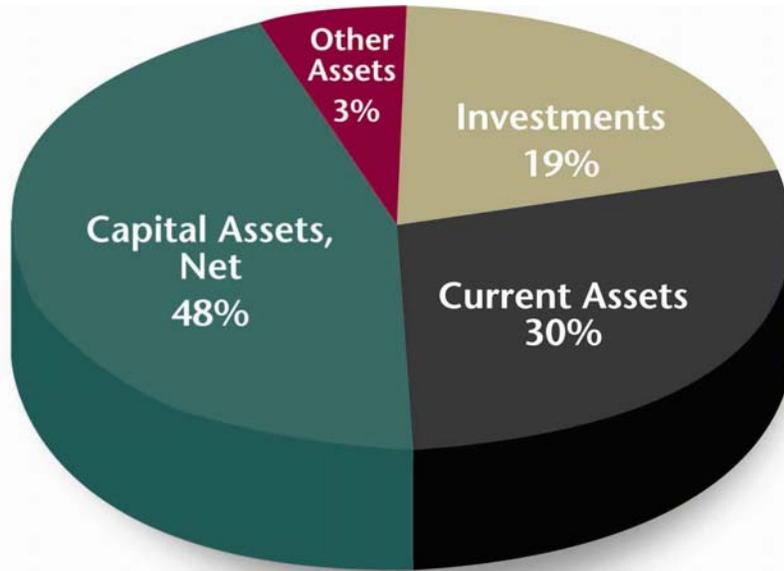
	2007	2006	2005
	(in millions)		
Current assets	\$ 452.0	\$ 412.3	\$ 380.1
Noncurrent assets:			
Investments	278.8	276.2	237.2
Noncurrent receivables - Net	40.2	40.9	40.5
Unamortized bond issue costs	2.0	2.1	1.8
Capital assets - Net	730.8	701.7	701.1
Total assets	<u>1,503.8</u>	<u>1,433.2</u>	<u>1,360.7</u>
Current liabilities	255.4	217.8	218.8
Noncurrent liabilities:			
Federal portion of student loan funds	26.1	25.6	25.1
Accrued employee benefits	6.7	6.1	6.6
Long-term debt	339.7	346.8	300.7
Total liabilities	<u>627.9</u>	<u>596.3</u>	<u>551.2</u>
Net assets	<u>\$ 875.9</u>	<u>\$ 836.9</u>	<u>\$ 809.5</u>

Wayne State University

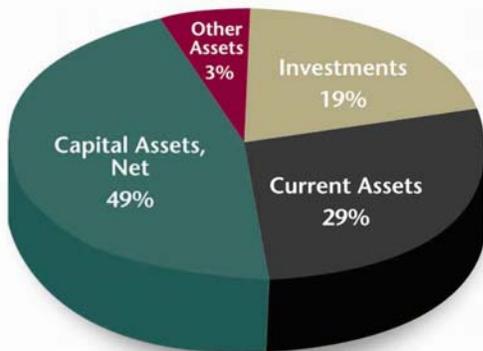
Management's Discussion and Analysis - Unaudited (Continued)

The following charts represent summarized graphical illustrations of the composition of the University's combined balance sheet, as a percentage of total assets, at September 30, 2007, 2006, and 2005:

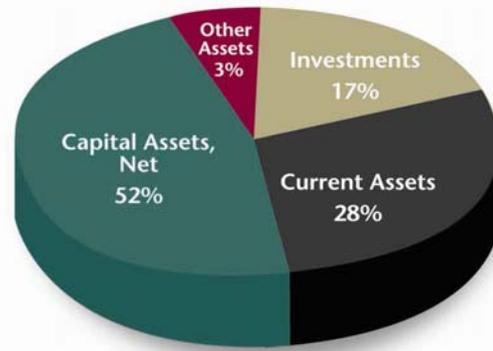
Assets



2007



2006

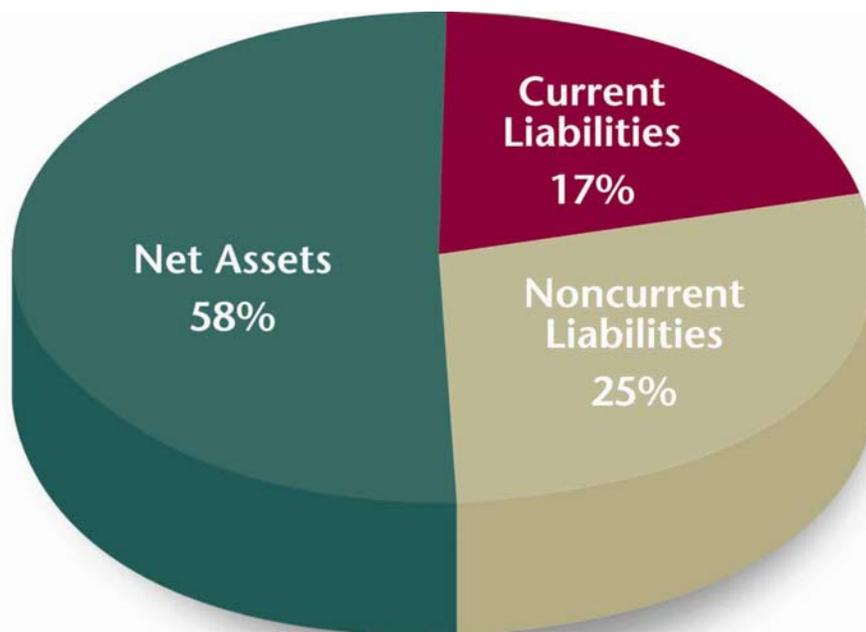


2005

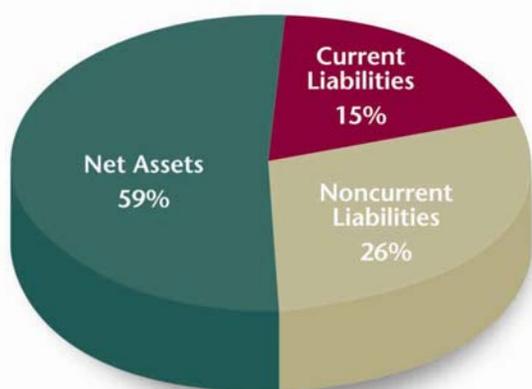
Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

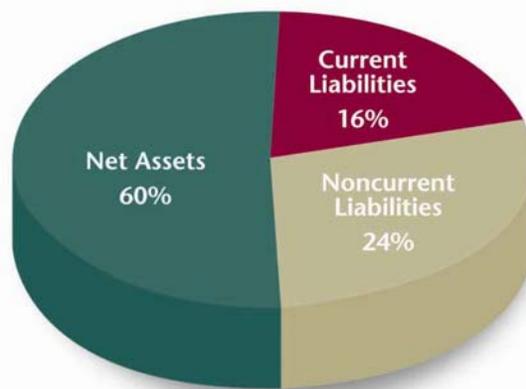
Liabilities and Net Assets



2007



2006



2005

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, 2007, 2006, and 2005 was as follows:

	2007	2006	2005
	(in millions)		
Cash and temporary investments	\$ 303.5	\$ 276.7	\$ 240.8
Current receivables - Net	130.4	121.2	124.4
Inventories	1.5	1.5	1.4
Prepaid expenses and other	16.60	12.90	13.50
Total current assets	<u>\$ 452.0</u>	<u>\$ 412.3</u>	<u>\$ 380.1</u>

At September 30, 2007, current assets increased \$39.7 million (9.6 percent) to \$452.0 million compared to \$412.3 million at September 30, 2006. The increase in current assets is attributable to an:

- Increase in cash and temporary investments of \$26.8 million (9.7 percent), resulting primarily from increases in fall term tuition revenue whereby the receipt of these funds generally precedes the related expenditures. Other contributing factors include the improved collections on grant receivables and the receipt of certain funds for the benefit of other institutions which are included in cash in the Agency Fund.
- Increase in current receivables of \$9.2 million (7.6 percent), of which \$3.7 million is attributable to increased tuition and fee receivables, \$4.0 million of the increases related to salary reimbursement receivables from the University Physicians Group (UPG) resulting from accounting changes in the flow of funds to and from the UPG during 2007, and \$.7 million to an increase in accrued interest receivables related to investment earnings
- Increase in prepaid financial aid for fall 2007 term of \$4.2 million (37.8 percent)

The 2006 cash and temporary investment increase of \$35.9 million (14.9 percent) from 2005 was directly correlated with the increase in earmarked unrestricted net assets resulting from operations. Factors contributing to this trend were:

- Increased student tuition and fees, because of the condition discussed above for 2007
- Unexpended allocations of funds for projects and initiatives which were expended in 2007
- Increased investment income
- Improved collections and management of grant and contract receivables
- Plant fund capital gifts received but unexpended at year end

Current receivables decreased \$3.2 million 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 receivables related to both increases in credit hours taken by students and tuition rates.

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, 2007, 2006, and 2005 was as follows:

	2007	2006	2005
	(in millions)		
Accounts payable and accrued liabilities	\$ 91.7	\$ 75.9	\$ 83.7
Deferred income	122.1	107.7	101.9
Deposits	9.3	4.6	5.7
Short-term loans	24.9	22.0	21.3
Current portion of long-term debt	7.4	7.6	6.2
Total current liabilities	<u>\$ 255.4</u>	<u>\$ 217.8</u>	<u>\$ 218.8</u>

At September 30, 2007, current liabilities increased \$37.6 million (17.3 percent) to \$255.4 million compared to \$217.8 million at September 30, 2006. The increases in current liabilities from 2006 to 2007 include a:

- \$15.8 million increase in accounts payable and accrued liabilities primarily related to invoices and contractors' retentions due on major in-process construction activity and projects in the Plant Fund at September 30, 2007
- \$14.4 million increase in deferred income resulting from a \$16.8 million increase in deferred tuition and fees related to increased tuition and fee rates, student enrollment, and increase in the aggregate credit hours taken by students for the fall 2007 semester (as more fully discussed in Note 1, tuition and fee revenue is prorated between two fiscal years resulting in the recording of the deferred income liability). The deferred tuition amount was offset by approximately \$2 million in declines in deferred income relating to grants and contracts.
- \$4.0 million increase in deposits attributable to the receipt of certain funds in the Agency Fund due to and for the benefit of other entities, for which the University is merely the fiduciary

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

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

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

An overall analysis of the University's current assets and current liabilities indicates favorable current ratios, a measure of its liquidity, of 1.8, 1.9, and 1.7 at September 30, 2007, 2006, and 2005, respectively.

Noncurrent Assets and Liabilities

The most significant changes in the noncurrent sections of the balance sheet from 2006 to 2007 were the increase in net capital assets of \$29.1 million and the decrease in long-term debt of \$7.1 million. These and other changes are discussed in the investments and capital asset and debt activities sections on pages 11 -12.

Investments

The University's investments are included in either the Endowment Fund or the Plant Fund. The investments in the Plant Fund consist primarily of invested bond proceeds. The Wayne State University Foundation manages approximately 99 percent of the endowment investments. The invested bond proceeds are managed by the University.

The table below reflects the composition of investments at September 30, 2007, 2006, and 2005:

	2007	2006	2005
	(in millions)		
Endowment Fund	\$ 241.8	\$ 209.6	\$ 192.2
Plant Fund:			
Invested bond proceeds	35.7	65.4	42.2
Other	1.3	1.2	2.8
Total investments	<u>\$ 278.8</u>	<u>\$ 276.2</u>	<u>\$ 237.2</u>

Total investments increased \$2.6 million (0.9 percent) to \$278.8 million at September 30, 2007, compared to \$276.2 million at September 30, 2006. Endowment Fund investments increased \$32.2 million (15.4 percent). The impact of the favorable market trends on investment income and the continuing recognition of gifts for endowments resulting from the University's on-going capital campaign, *Wayne First*, net of distributions from the Endowment Fund to spending accounts, comprise the increases in endowment investments in both 2007 and 2006. The decrease in invested bond proceeds of \$29.7 million (45.4 percent) in 2007 represents the planned continuing capital expenditure of bond proceeds on the underlying projects, which are either on-going construction in progress or projects completed during 2007.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

During 2006, total investments increased \$39.0 million (16.4 percent) to \$276.2 million at September 30, 2006, compared to \$237.2 million at September 30, 2005. Of the \$39.0 million increase, \$23.2 million related to invested bond proceeds resulting from the issuance of \$51.3 million general revenue bonds during 2006, less the expenditures during the year from those and other invested bond proceeds, from prior issuances, on capital projects.

The Endowment Fund consists of both permanent endowments (\$96.9 million and \$90.4 million at September 30, 2007 and 2006, respectively) and funds functioning as endowments (\$147.1 million and \$119.5 million at September 30, 2007 and 2006, respectively) including undistributed accretion on both permanent endowments and funds functioning as endowments. 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, funds functioning as endowments 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.

The table below reflects summarized activity for the University's Endowment Fund for the past three years.

	2007	2006	2005
	(in millions)		
Endowment net assets - Beginning of year	\$ 209.9	\$ 194.2	\$ 174.3
Summary of additions:			
Gifts and transfers	7.6	6.7	6.9
Investment income and appreciation	<u>35.8</u>	<u>17.3</u>	<u>20.8</u>
Total additions	43.4	24.0	27.7
Summary of deductions - Distributions to spending accounts	<u>(9.3)</u>	<u>(8.3)</u>	<u>(7.8)</u>
Endowment net assets - End of year	<u>\$ 244.0</u>	<u>\$ 209.9</u>	<u>\$ 194.2</u>

The University manages its endowment funds 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.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Capital Assets

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. In an effort to eliminate the University's reliance on purchased steam, the University is constructing 30 new steam boiler plants which will service either a specific building or cluster of buildings throughout campus when completed.

Capital additions during 2007 totaled \$81.0 million, compared to \$48.1 million in 2006 and \$108.3 million in 2005. The 2007 capital additions included expenditures for completed or in-process construction of the South University Village Parking Structure, the boiler project, major renovations to an existing building that will house the University's public safety department, Mott Center renovations, fitness center renovations, and renovations of other University facilities. The 2006 capital additions included expenditures for Scott Hall laboratory renovations, initial costs of the steam boiler project, and other renovations to academic, research, and administrative facilities.

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

Debt Activities

Long-term debt totaled \$347.1 million, \$354.4 million, and \$306.9 million at September 30, 2007, 2006, and 2005, respectively. The decrease in long-term debt of \$7.3 million from 2006 to 2007 represents scheduled bond principal payments made during 2007. The increase of \$47.5 million from 2005 to 2006 was attributable to the 2006 general revenue bond issuance of \$51.3 million, net of the scheduled bond principal payments made during 2006. The proceeds from the 2006 bond issuance are financing the construction of the 30 new steam boiler plants throughout the campus, renovation of the fitness center, and the renovation of a University-owned facility for the relocation of the University's public safety department.

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 bond issuance in October 2007, the rating services of 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.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

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, 2007, 2006, and 2005 are summarized as follows:

	2007	2006	2005
	(in millions)		
Invested in capital assets - Net of related debt	\$ 400.1	\$ 408.4	\$ 427.3
Restricted:			
Nonexpendable	108.1	101.4	96.5
Expendable	206.8	167.9	148.7
Unrestricted	160.9	159.2	137.0
Total net assets	<u>\$ 875.9</u>	<u>\$ 836.9</u>	<u>\$ 809.5</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** - Represents gifts which are subject to externally imposed restrictions governing their use (scholarships, academic programs, and capital projects). This category of net assets also includes undistributed accretion of permanent endowment investments and 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 revenues and expenses recognized during the fiscal year. Prior fiscal years' data is provided for comparative purposes.

Revenues

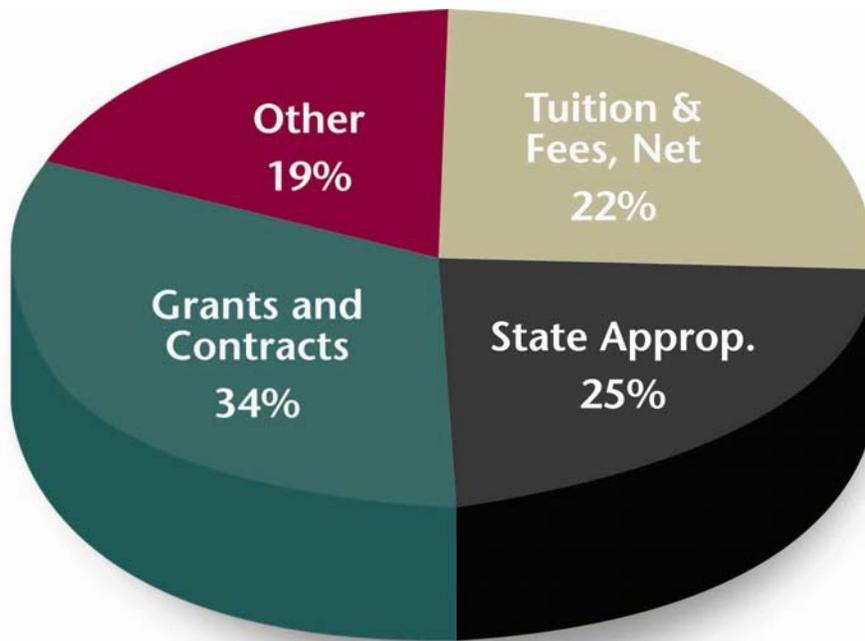
Consistent with GASB Statement No. 35, revenues are categorized as operating, nonoperating, or other. Operating revenues generally result from exchange transactions such as payments received for providing services, while nonoperating revenues are primarily nonexchange in nature and other revenues represent capital and endowment transactions. Summarized classifications in each category for the years ended September 30, 2007, 2006, and 2005 are presented below:

	2007	2006	2005
	(in millions)		
Operating Revenues			
Student tuition and fees	\$ 232.2	\$ 211.6	\$ 180.1
Less scholarship allowances	(61.6)	(50.1)	(48.0)
Net student tuition and fees	170.6	161.5	132.1
Grants and contracts	256.5	257.5	269.5
Other	51.2	50.4	45.5
Total operating revenues	478.3	469.4	447.1
Nonoperating Revenues			
State operating appropriation	196.8	216.4	223.2
Gifts	30.8	27.0	36.6
Investment income	54.4	31.7	29.5
Other	-	1.3	-
Total nonoperating revenues	282.0	276.4	289.3
Other Revenues			
State capital appropriations	-	-	2.5
Capital and endowment gifts	16.6	14.0	11.5
Total other revenues	16.6	14.0	14.0
Total revenues	<u>\$ 776.9</u>	<u>\$ 759.8</u>	<u>\$ 750.4</u>

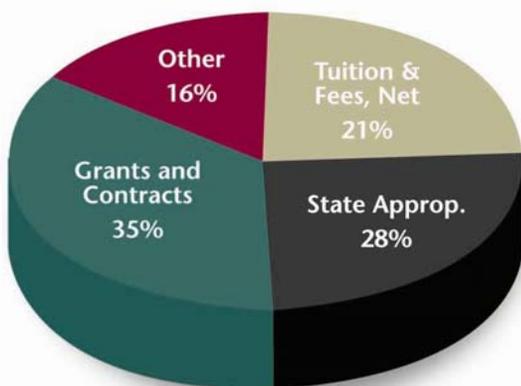
Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

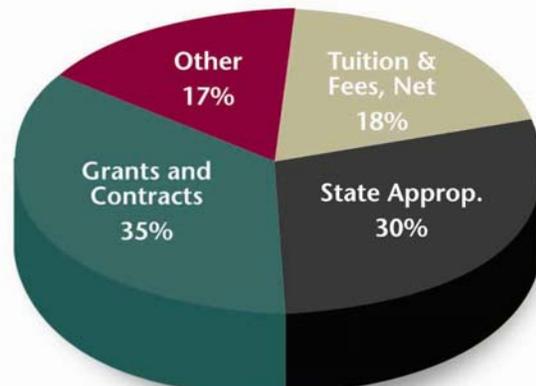
The following charts represent graphic illustrations of revenues by source for the years ended September 30, 2007, 2006, and 2005.



2007



2006



2005

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Major 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, comprise the largest single revenue source to the University. The state operating appropriation, together with student tuition and fees, represents the majority of resources available to fund the University's General Fund operations.

Operating Revenues

Operating revenues totaled \$478.3 million in 2007, compared to \$469.4 million and \$447.1 million in 2006 and 2005, respectively.

The 2007 increase of \$8.9 million (1.9 percent) was influenced by several factors:

- An increase in net student tuition and fees of \$9.1 million (5.6 percent). As discussed in Note 1, for financial statement reporting purposes, gross tuition revenues reported are reduced by "scholarship allowances," representing financial aid granted to students to cover their tuition and fee assessments, to arrive at net tuition and fees. Gross student tuition and fees increased \$20.6 million (9.7 percent) from \$211.6 million in 2006 to \$232.2 million in 2007, which was attributable to the tuition rate increases approved by the University's Board of Governors in July 2006 and 2007, higher student enrollment, and continuing increases in registered student credit hours in both years. To mitigate rising tuition costs, the University increased its commitment for financial aid to students from \$50.1 million in 2006 to \$61.6 million in 2007, an increase of \$11.5 million (23.0 percent)
- A decline of \$1.0 million in grants and contracts revenue comprised of:
 - A decline in Detroit Medical Center (DMC) contract revenue of approximately \$5.5 million (15.2 percent) resulting from evolving contract changes between the DMC and the University
 - A net increase of approximately \$4 million in all other grants and contracts revenue including increases of \$2.4 million from UPG and \$2.9 million from two National Institutes of Health facilities grants relating to the Mott Center renovations

The 2006 increase of \$22.3 million (5.0 percent) related to the following:

- An increase in net student tuition and fees of \$29.4 million (22.3 percent), largely attributable to the tuition increase approved by the University's board of governors in July 2005 and 2006 as well as the highest student credit hour enrollment in 25 years
- Auxiliary enterprises revenue, which is included in the "other" classification in the preceding table, increased by \$2.3 million or 10.4 percent 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

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

- A decrease of \$12.0 million (4.5 percent) in grants and contracts 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, somewhat related to the general economic climate in the state of Michigan.

Nonoperating and Other Revenues

Nonoperating and other revenues were \$298.6 million in 2007, compared to \$290.4 million and \$303.3 million in 2006 and 2005, respectively. The state operating appropriation is a primary source of the University's nonoperating and other revenues. During 2007, the state operating appropriation was \$196.8 million, a \$19.6 million (9.1 percent) decrease from the 2006 amount of \$216.4 million. The 2007 appropriation approved by the legislature, initially \$220.3 million, was \$5.4 million (2.5 percent) higher than in 2006. However, during the year, the State imposed reductions which resulted in the \$19.6 million decline. Reductions were comprised of a \$3.2 million permanent reduction to the University's operating appropriation and two \$10 million payment reductions, to be deferred until after September 30, 2007. While the \$20 million in payment reductions were restored in October 2007, generally accepted accounting principles precluded inclusion of these amounts in revenues in the 2007 financial statements.

Gift revenue, excluding capital and endowment gifts, increased \$3.8 million (14.1 percent) to \$30.8 million in 2007 compared to \$27.0 million in 2006. The 2006 amount of \$27.0 million represented a \$9.6 million decline (26.2 percent) from the 2005 gift revenue of \$36.6 million.

Generally accepted accounting principles dictate the type and timing of gifts recognized for financial statement reporting. Gifts included in the financial statements include cash, stocks, and unconditional pledges to operating and plant funds, and gifts-in-kind which meet the University's asset capitalization guidelines. Gift types and categories reported for capital campaign reporting purposes also include other sources and types of gifts given or pledged during each year which are not included in the financial statements. These include planned giving, conditional pledges, endowment fund pledges, gifts-in-kind not capitalized, certain gift annuities, and the face amount of life insurance policies in excess of cash surrender values. These gift types, with the exception of gifts-in-kind, will be recognized for financial statement purposes in future years when the gifts are received.

Additionally, capital campaign reporting recognizes as gifts, certain grants and contracts-type funds from foundation and other sources, which are categorized as nongovernmental grants and contracts revenue for financial statement purposes.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Net investment income, included in nonoperating revenues, increased approximately \$22.7 million (71.6 percent) to \$54.4 million during 2007, compared to an increase of \$2.2 million (7.5 percent) to \$31.7 million in 2006. The increase in 2007 is due to favorable endowment investment performance, and higher short-term interest rates earned on cash and temporary investments. As a result of the ongoing capital campaign and other increases in net assets, the University has had larger investable balances which resulted in improved investment returns during 2007 and 2006. In addition, both the University's long-term investment strategy and market conditions contributed to gains in 2007. Of the current year net investment income from all sources, \$35.8 million is related to the University's endowments, with the remaining \$18.6 million representing the investment income for all other University funds.

In 2006, net investment income increased by \$2.2 million or 7.5 percent. Factors contributing to the increase were higher short-term interest rates earned on cash and temporary investments partially offset by a decrease in investment returns on endowment investments. In 2006, \$17.3 million of net investment income was attributable to the University's endowments and \$14.4 million was related to all other University funds.

The State Building Authority has approved the construction of the Marvin I. Danto Engineering Development Center project at an estimated project cost of \$27.35 million with state capital appropriation funding of \$15.0 million. The 2007 financial statements do not include any state capital appropriation for the Engineering Development Center as the University has not yet met the 45 percent threshold of expenditures required for the state payment to commence. The remaining funding of \$12.35 million will be provided by capital gifts and bond proceeds from the issuance of the 2007 General Revenue Bonds.

Capital gifts are used to finance the construction and renovation of University buildings while endowment gifts support University programs and initiatives as designated by the respective donor. During fiscal year 2007, capital gifts increased \$1.7 million (18.1 percent) to \$11.1 million from \$9.4 million in 2006 and endowment gifts increased \$0.9 million (19.6 percent) to \$5.5 million from \$4.6 million in 2006. The on-going capital campaign, *Wayne First*, continues to secure gifts for the Richard J. Mazurek, M.D. Medical Commons Building, the Damon J. Keith Classroom Building and Center for Civil Rights, Carls Foundation Audiology Clinic (Rackham Building Phase III), and other capital projects as well as gifts for endowments and other programs.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Expenses

Operating and nonoperating expenses by functional classification for the years ended September 30, 2007, 2006, and 2005 are presented below:

	(\$ in millions)					
	2007		2006		2005	
	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Operating Expenses						
Instruction	\$ 252.2	34.2%	\$ 249.5	34.1%	\$ 238.3	33.4%
Research	144.9	19.6%	149.2	20.4%	148.6	20.8%
Public service	47.3	6.4%	47.9	6.5%	51.6	7.2%
Academic support	57.7	7.8%	58.6	8.0%	56.7	8.0%
Student services	29.3	4.0%	28.4	3.9%	30.2	4.2%
Institutional support	54.8	7.4%	53.8	7.3%	52.9	7.4%
Operation and maintenance of plant	62.4	8.4%	57.4	7.9%	58.2	8.2%
Scholarships and fellowships ⁽¹⁾	4.1	0.6%	6.8	0.9%	2.6	0.4%
Auxiliary enterprises	20.5	2.8%	20.7	2.8%	17.4	2.4%
Depreciation expense	<u>47.6</u>	<u>6.5%</u>	<u>44.6</u>	<u>6.1%</u>	<u>41.7</u>	<u>5.9%</u>
Total operating expenses	720.8	97.7%	716.9	97.9%	698.2	97.9%
Nonoperating and Other Expenses						
Interest expense	14.5	2.0%	12.7	1.7%	11.8	1.7%
Other	<u>2.6</u>	<u>0.3%</u>	<u>2.8</u>	<u>0.4%</u>	<u>2.8</u>	<u>0.4%</u>
Total nonoperating and other expenses	<u>17.1</u>	<u>2.3%</u>	<u>15.5</u>	<u>2.1%</u>	<u>14.6</u>	<u>2.1%</u>
Total expenses	<u>\$ 737.9</u>	<u>100.0%</u>	<u>\$ 732.4</u>	<u>100.0%</u>	<u>\$ 712.8</u>	<u>100.0%</u>

⁽¹⁾ Excluding "scholarship allowances" applied directly to students' tuition and room and board (see pages 14 and 20).

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Operating Expenses

The University continues to maintain its commitment to instruction and research. Combined expenditures for instruction increased \$2.7 million (1.1 percent) to \$252.2 million in 2007 and \$11.2 million (4.7 percent) to \$249.5 million in 2006, compared to \$238.3 million in 2005. The decline in DMC salary reimbursement revenue resulted in \$4.6 million less in operating expenses for instruction in the Designated Fund. This decrease was offset by increased instruction expenses in the General Fund within several schools and colleges. The summary below was extracted from the supplemental information (pages 42 and 45) and illustrates the current trend in operating expenses for instruction by fund for the years ended September 30, 2007, 2006, and 2005:

Instruction by Fund	(\$ in millions)			Percentage Change	
	2007	2006	2005	2006 to 2007	2005 to 2006
General	\$ 194.8	\$186.3	\$176.9	4.6%	5.3%
Designated	46.5	51.7	48.4	-10.1%	6.8%
Expendable restricted	13.4	14.3	15.2	-6.3%	-5.9%

Combined expenditures for research have remained relatively stable, with a slight decline in 2007, for the three-year period despite the aforementioned challenging revenue climate.

Operation and maintenance of plant increased \$5.0 million (8.7 percent) over 2006 due to a large number of significant projects during 2007 which did not meet either the University criteria for capitalization based on the required dollar threshold or other criteria and considerations. The most significant was \$1.5 million in demolition costs relating to the Forest Apartments (\$1.1 million) and the former Federal Mogul facility (\$.4 million), where there were no immediate plans for capitalizable construction, and a number of general facilities repairs and improvements including reconfiguration and design of internal space for various purposes, which either by policy or because of the relative cost involved are not capitalized.

In an effort to partially mitigate rising tuition costs, the University has increased its scholarships to students. In 2007, the total scholarships granted increased by \$9.3 million (15.9 percent) to \$67.9 million (\$58.6 million in 2006). The \$58.6 million in 2006 represented a \$6.4 million (12.3 percent) increase over 2005.

Of the scholarships and fellowships granted and reflected on the table on the preceding page, \$4.1 million, \$6.8 million, and \$2.6 million are reported on page 19 as operating expenses in 2007, 2006, and 2005, respectively, are the amounts disbursed directly to students; the remaining amounts for 2007, 2006, and 2005 of \$63.8 million, \$51.8 million, and \$49.5 million, respectively, are applied directly to the students' accounts receivable accounts within the University. These amounts are netted against student tuition and fees or room and board (included in the auxiliary enterprises line) as "scholarship allowances" on the statement of revenues, expenses, and changes in net assets on page 24.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

The auxiliary enterprises operating expenses remained stable from 2006 to 2007 compared to an increase of \$3.3 million (19.0 percent) to \$20.7 million in 2006. The increased costs in 2006 were primarily associated with the operation of the Towers residence hall for a complete year and increased operational expenditures to improve the University's parking facilities.

Nonoperating and Other Expenses

Interest expense totaled \$14.5 million, \$12.7 million, and \$11.8 million in 2007, 2006, and 2005, respectively. The increasing interest expense is directly correlated with the recent increase in bond indebtedness incurred in conjunction with construction of new buildings and other capital projects on campus. The "other" category showed no significant change over the three-year time period.

Statement of Cash Flows

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash during the year. A comparative summary of the statement of cash flows for the years ended September 30, 2007, 2006, and 2005 is as follows:

Cash Flows	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in millions)		
Cash received from operations	\$ 495.3	\$ 481.8	\$ 460.7
Cash expended for operations	<u>(686.6)</u>	<u>(671.3)</u>	<u>(660.9)</u>
Net cash used in operating activities	(191.3)	(189.5)	(200.2)
Net cash provided by noncapital financing activities	240.2	251.9	260.8
Net cash used in capital and related financing activities	(72.8)	(19.1)	(120.5)
Net cash provided by (used in) investing activities	<u>50.7</u>	<u>(10.2)</u>	<u>76.0</u>
Net increase in cash and temporary investments	26.8	33.1	16.1
Cash and Temporary Investments - Beginning of year	<u>276.7</u>	<u>243.6</u>	<u>227.5</u>
Cash and Temporary Investments - End of year	<u>\$ 303.5</u>	<u>\$ 276.7</u>	<u>\$ 243.6</u>

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

GASB requires that the general operating appropriation from the State and noncapital gifts be reported as cash flows from noncapital financing activities. The University's most significant source of cash provided by noncapital financing activities is the state operating appropriation which totaled \$196.8 million, \$216.4 million, and \$223.2 million in 2007, 2006, and 2005, 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 provided by and used in investing activities is comprised of bond proceeds related investments sold to finance construction expenditures as they are incurred and the conversion of short-term investments to cash equivalents during the year.

Economic Factors That Will Affect the Future

The continuing economic challenges and climate in the state of Michigan have resulted in reductions in the University's operating appropriation. Over the last five years, the University has addressed significant financial challenges stemming from these unprecedented cuts in the state operating appropriation which is a significant source of the General Fund revenue. The reductions over the last several years, combined with increases in employee compensation, costs of utilities, health care, and other services have required management to stringently control costs and to increase tuition rates. The measures and strategies employed have, and will continue to be aimed at assuring optimum levels of operations and quality. The University continues to seek funding from all possible sources, consistent with its mission, to supplement tuition revenue and the state appropriation to fund its general operations. Notwithstanding increases and enhancements in these and other potential revenue sources, state appropriation funding levels will continue to have a direct correlation with future tuition rates and policies.

In the current environment, private gifts are an increasingly important supplement to the state appropriation and student tuition to maintain academic quality and support future initiatives. However, economic pressures affecting donors may also impact the future level of support the University receives from corporate and individual giving.

		September 30	
		2007	2006
Assets			
Current Assets			
Cash and temporary investments (Note 2)		\$ 303,526,145	\$ 276,736,670
Current receivables - Net (Note 3)		130,379,931	121,243,119
Inventories		1,479,368	1,475,897
Prepaid expenses and deposits		16,635,135	12,798,081
	Total current assets	452,020,579	412,253,767
Noncurrent Assets			
Investments (Note 2)		278,781,718	276,231,950
Noncurrent receivables - Net (Note 3)		40,197,976	40,880,406
Unamortized bond issue costs		1,998,653	2,079,640
Capital assets - Net (Note 4)		730,756,595	701,728,470
	Total noncurrent assets	1,051,734,942	1,020,920,466
	Total assets	<u>\$ 1,503,755,521</u>	<u>\$ 1,433,174,233</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 91,753,893	\$ 75,876,648
Deferred income		122,054,114	107,712,659
Deposits		9,339,091	4,582,078
Short-term loans (Note 3)		24,889,437	22,007,230
Long-term debt - Current portion (Note 5)		7,396,657	7,602,456
	Total current liabilities	255,433,192	217,781,071
Noncurrent Liabilities			
Federal portion of student loan funds		26,073,627	25,591,528
Accrued employee benefits		6,689,934	6,124,110
Long-term debt - Net of current portion (Note 5)		339,691,739	346,753,779
	Total noncurrent liabilities	372,455,300	378,469,417
	Total liabilities	627,888,492	596,250,488
Net Assets			
Invested in capital assets - Net of related debt		400,070,184	408,402,823
Restricted:			
Nonexpendable		108,146,423	101,424,737
Expendable		206,814,719	167,927,217
Unrestricted		160,835,703	159,168,968
	Total net assets	875,867,029	836,923,745
	Total liabilities and net assets	<u>\$ 1,503,755,521</u>	<u>\$ 1,433,174,233</u>

Wayne State University

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2007	2006
Operating Revenues		
Student tuition and fees	\$ 232,192,297	\$ 211,558,846
Less scholarship allowances	(61,574,043)	(50,104,567)
Net student tuition and fees	170,618,254	161,454,279
Federal grants and contracts	135,409,343	138,183,401
State and local grants and contracts	22,715,681	22,367,532
Nongovernmental grants and contracts	98,326,741	96,998,413
Departmental activities	24,508,768	24,162,880
Auxiliary enterprises - Net of scholarship allowances of \$2,247,038 in 2007 and \$1,735,196 in 2006	24,952,339	24,497,598
Other operating revenues	1,781,335	1,664,127
Total operating revenues	478,312,461	469,328,230
Operating Expenses (Note 9)		
Instruction	252,216,121	249,506,655
Research	144,886,274	149,158,745
Public service	47,313,943	47,899,590
Academic support	57,668,795	58,669,401
Student services	29,298,539	28,437,182
Institutional support	54,810,652	53,763,883
Operation and maintenance of plant	62,417,945	57,396,106
Scholarships and fellowships	4,076,982	6,751,363
Auxiliary enterprises	20,551,976	20,675,269
Depreciation expense	47,596,025	44,591,220
Total operating expenses	720,837,252	716,849,414
Operating Loss	(242,524,791)	(247,521,184)
Nonoperating Revenues (Expenses)		
State operating appropriation (Note 10)	196,819,300	216,387,000
Gifts	30,742,157	27,057,554
Investment income	54,384,022	31,681,313
Interest on capital asset - Related debt	(14,523,081)	(12,721,499)
Other	(384,646)	1,331,905
Net nonoperating revenues	267,037,752	263,736,273
Income Before Other Revenues (Expenses)	24,512,961	16,215,089
Other Revenues (Expenses)		
Capital gifts	11,128,653	9,405,732
Gifts for permanent endowments	5,466,210	4,561,952
Loss on capital assets retired	(2,164,540)	(2,806,885)
Net other revenues	14,430,323	11,160,799
Increase in Net Assets	38,943,284	27,375,888
Net Assets		
Beginning of year	836,923,745	809,547,857
End of year	\$ 875,867,029	\$ 836,923,745

Statement of Cash Flows

	Year Ended September 30	
	2007	2006
Cash Flows from Operating Activities		
Tuition and fees - Net	\$ 184,660,408	\$ 163,878,961
Grants and contracts	254,465,443	263,115,238
Auxiliary enterprises	25,567,127	24,862,516
Departmental activities	24,944,053	23,357,714
Loans issued to students	(7,500,605)	(5,349,765)
Collection of loans from students	3,907,552	4,945,684
Scholarships and fellowships	(8,285,240)	(5,897,864)
Payments to suppliers	(170,462,108)	(170,869,392)
Payments to employees and benefit providers	(500,366,528)	(489,210,701)
Other receipts	1,780,983	1,669,222
Net cash used in operating activities	(191,288,915)	(189,498,387)
Cash Flows from Noncapital Financing Activities		
State operating appropriation	196,819,300	216,387,000
Gifts	31,085,682	29,106,570
Gifts for permanent endowments	5,154,410	4,561,952
External student lending receipts	115,806,884	107,852,525
External student lending disbursements	(112,052,908)	(106,847,692)
Other	3,374,209	909,581
Net cash provided by noncapital financing activities	240,187,577	251,969,936
Cash Flows from Capital and Related Financing Activities		
Capital gifts and grants	9,965,635	5,839,888
Proceeds from issuance of debt and other long-term obligations	-	51,335,000
Bond issue costs paid and discount	-	1,697,050
Expenditures for capital assets	(62,892,887)	(59,345,839)
Principal paid on capital debt	(7,285,000)	(5,825,000)
Interest paid on capital debt	(13,854,500)	(12,777,335)
Proceeds from retirement of capital assets	1,245,925	-
Net cash used in capital and related financing activities	(72,820,827)	(19,076,236)
Cash Flows from Investing Activities		
Investment income - Net	47,923,191	23,952,212
Proceeds from sales and maturities of investments	236,671,579	112,641,177
Purchase of investments	(233,883,130)	(146,804,891)
Net cash provided by (used in) investing activities	50,711,640	(10,211,502)
Net Increase in Cash and Temporary Investments	26,789,475	33,183,811
Cash and Temporary Investments - Beginning of year	276,736,670	243,552,859
Cash and Temporary Investments - End of year	\$ 303,526,145	\$ 276,736,670
Reconciliation of Net Loss to Net Cash from Operating Activities		
Operating loss	\$ (242,524,791)	\$ (247,521,184)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	47,596,025	44,591,220
(Increase) decrease in assets of current operating funds:		
Receivables - Net	(3,479,244)	5,740,868
Prepaid expenses and inventories	(3,914,526)	708,341
Increase (decrease) in liabilities of current operating funds:		
Accounts payable and accrued liabilities	(2,720,590)	3,403,820
Deposits	497,857	(1,064,262)
Deferred income	12,753,351	5,129,033
Accrued employee benefits	503,003	(486,223)
Net cash used in operating activities	\$ (191,288,915)	\$ (189,498,387)

Note I - Basis of Presentation and Significant Accounting Policies

Overview

Wayne State University (the "University") is a state-supported institution with enrollment in excess of 33,200 students. The financial statements include the individual schools, colleges, and departments, and all controlled organizations. The controlled organizations of the University are the Wayne State University Housing Authority (the "Housing Authority") and the Wayne State University Foundation (the "Foundation"). The Housing Authority manages the University's residence halls, apartments, and related activities and the Foundation manages approximately 99 percent 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 sheet, statement of revenues, expenses, and changes in net assets, and statement 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.

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

- **Restricted Expendable** - Represents gifts which are subject to externally imposed restrictions governing their use (scholarships, academic programs, and capital projects). This category of net assets also includes undistributed accretion of permanent endowment investments and 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.

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 statement 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 appropriation, gifts, and investment activity are non-exchange, and as such, 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. Nonmarketable investments are valued based on the most recent available data.

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

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 deem prudent. The University's policy is to retain the realized and unrealized appreciation with the endowment after the spending policy distributions are applied. The University's endowment rate spending policy provides for an annual distribution of 4.75 percent of a three-year moving average of the market value of endowment assets, measured at quarterly intervals. Of this annual distribution, 4.25 percent is transferred to the beneficiary or operating program accounts and 0.5 percent is used for administration of the University's capital campaign.

Deferred Income - Deferred income represents amounts received and/or receivables in advance of an event or of incurring the related costs. This includes 75 percent of the student tuition and fees for the current fall term received or due prior to October 1, with the remaining 25 percent being recognized as revenue during the current fiscal year. It also includes amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreements. Deferred income will be recognized as revenue in subsequent periods commensurate with generally accepted accounting principles and/or grant and contract terms and conditions.

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

Prepaid Expenses and Deposits - Prepaid expenses and deposits primarily represents cash payments made in advance of when the related expenditures are recognized for financial statement purposes. The balances at September 30, 2007 and 2006 consist primarily of prepaid student financial aid which is paid to students at the beginning of the fall term each fiscal year but recognized for accounting purposes over the period to which it relates.

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 (5 to 40 years) of the respective assets.

Revenue Recognition - The state operating appropriation is 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.

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

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 give 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. The allowance for uncollectible pledge receivables is provided based on management's judgment of potential uncollectible amounts.

The University disbursed approximately \$112,100,000 and \$106,800,000 in 2007 and 2006, 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 statement of revenues, expenses, and changes in net assets. The disbursements and related receipts are, however, reflected in the noncapital financing activities section of the statement of cash flows.

Reclassifications - Certain fiscal year 2006 and 2005 balances have been reclassified to conform to the current year presentation.

Note 2 - Cash and Investments

Cash and investments at September 30, 2007 and 2006 are included on the University's balance sheet in the following categories:

	<u>2007</u>	<u>2006</u>
Cash and temporary investments	\$ 303,526,145	\$ 276,736,670
Investments:		
Endowment Fund	241,823,781	209,573,543
Plant Fund:		
Invested bond proceeds	35,656,821	65,442,291
Other	<u>1,301,116</u>	<u>1,216,116</u>
Total investments	<u>278,781,718</u>	<u>276,231,950</u>
Total cash and investments	<u>\$ 582,307,863</u>	<u>\$ 552,968,620</u>

Cash and investments, by type of investment, at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Fixed income	\$ 353,425,684	\$ 328,445,438
Repurchase agreements	<u>24,478,603</u>	<u>50,081,063</u>
Total fixed income	377,904,287	378,526,501
Equity securities	92,732,434	135,220,761
Certificates of deposit and savings accounts	30,637,008	25,136,807
Real estate investment pool and other investments	13,355,577	10,515,207
Commingled investment funds	71,256,239	10,108,000
Other	2,592,247	3,298,911
Checks issued in excess of available cash balances	<u>(6,169,929)</u>	<u>(9,837,567)</u>
Total cash and investments	<u>\$ 582,307,863</u>	<u>\$ 552,968,620</u>

Note 2 - Cash and Investments (Continued)

Deposits

Deposits are managed in accordance with the Board of Governors' cash management policy. The policy permits investment 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 (U.S.) which is a member of the Federal Reserve System or in any bank chartered by the State of Michigan.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At September 30, 2007 and 2006, the carrying amount of the University's deposits was \$34,144,599 and \$27,989,906, respectively. Of that amount, \$607,575 and \$663,491, respectively, was insured. The remaining \$33,537,024 and \$27,326,415 at September 30, 2007 and 2006, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. The University is precluded by state law from collateralizing its deposits.

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 percent 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, U.S. Treasury bills and notes, other U.S. 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 U.S. which is a member of the Federal Reserve System or in any bank chartered by the State of Michigan.

Note 2 - Cash and Investments (Continued)

The endowment investment policy sets a general target allocation for investments as follows:

<u>Investment Instrument</u>	<u>Target</u>	<u>Range</u>
U.S. equities	30%	20%-40%
Non-U.S. equities	15%	10%-20%
Fixed income securities	25%	20%-30%
Global asset allocation strategies	15%	0%-20%
Hedge funds	10%	5%-15%
Real estate funds	5%	0%-10%

Diversification is a fundamental risk management strategy and these funds are broadly diversified.

The endowment investment policy does not specifically address interest rate, credit, concentration of credit, or foreign currency risks. These risks are considered part of the overall risk versus investment return characteristics of the aggregate Endowment Fund investment portfolio when establishing its asset allocation. Investments are managed in accordance with the asset allocation guidelines in the endowment investment policy at the time of manager appointment and are monitored according to the risk versus investment return characteristics as compared to applicable benchmarks in the investment industry.

The commingled investment funds in the Endowment Fund are comprised of global asset allocation investment managers and hedge fund managers who invest in U.S. and international equities and fixed income instruments while utilizing derivatives in the execution of their investment strategies. Due to the pooled nature of these investments, the related amounts are not included in the disclosures that follow. Additionally, certain managers utilize derivatives to manage investment risks to increase their portfolio liquidity and flexibility and to increase investment return within the level of risk defined in the manager's investment guidelines.

Note 2 - Cash and Investments (Continued)

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 \$298,626,659 and \$329,738,224 of its portfolio at September 30, 2007 and 2006, respectively.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's cash management policy limits the maturities 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 percent of the total short-term cash pool of the University.

The University held the following types of fixed income investments and maturities, in years, at September 30, 2007 and 2006:

Types of Investments	2007 Maturities (in Years)				Total
	Less Than 1	1-5	6-10	More Than 10	
Repurchase agreements ⁽¹⁾	\$ 24,478,603	\$ -	\$ -	\$ -	\$ 24,478,603
U.S. Treasuries	52,014	6,577,157	-	-	6,629,171
U.S. government-sponsored enterprises	35,537,360	8,209,056	-	143,584	43,890,000
Corporate asset-backed securities	-	1,647,828	-	-	1,647,828
External investment pools ⁽²⁾	27,464,053	30,872,489	-	-	58,336,542
Money market mutual fund ⁽²⁾⁽³⁾	32,382,102	-	-	-	32,382,102
Corporate securities	1,087,489	1,292,185	-	-	2,379,674
Commercial paper	148,979,171	-	-	-	148,979,171
Fixed Income Institutional Bond Fund ⁽²⁾	-	-	42,634,202	16,167,827	58,802,029
Non-U.S. fixed income securities	193,333	185,834	-	-	379,167
Investments by maturity	<u>\$ 270,174,125</u>	<u>\$ 48,784,549</u>	<u>\$ 42,634,202</u>	<u>\$ 16,311,411</u>	<u>\$ 377,904,287</u>

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

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

⁽³⁾ Includes bond proceeds of \$11,178,218 and \$15,361,228 which were invested in money market funds at September 30, 2007 and 2006, respectively.

Note 2 - Cash and Investments (Continued)

Types of Investments	2006 Maturities (in Years)				Total
	Less Than 1	1-5	6-10	More Than 10	
Repurchase agreements ⁽¹⁾	\$ -	\$ 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 ⁽²⁾	25,560,220	30,878,333	-	-	56,438,553
Money market mutual fund ⁽²⁾⁽³⁾	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 ⁽²⁾	-	-	34,960,701	12,519,795	47,480,496
Non-U.S. fixed income securities	120,000	174,167	-	-	294,167
Investments by maturity	<u>\$ 223,957,642</u>	<u>\$ 106,681,707</u>	<u>\$ 35,367,357</u>	<u>\$ 12,519,795</u>	<u>\$ 378,526,501</u>

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

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

⁽³⁾ Includes bond proceeds of \$11,178,218 and \$15,361,228 which were invested in money market funds at September 30, 2007 and 2006, respectively.

Credit Risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody's and Standard and Poor's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. To limit its exposure to credit risk, the University's cash management policy limits the minimum acceptable credit rating of individual investments as follows (Moody's/Standard and Poor's): commercial paper (P1/A1), municipal obligations (A/A), and 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.

Note 2 - Cash and Investments (Continued)

The University's fixed income investments by credit ratings at September 30, 2007 and 2006 were as follows:

2007	Credit Rating						Total
	AAA	AA	A	BBB	AI/PI	Not Rated	
Repurchase agreements	\$ -	\$ 24,478,603	\$ -	\$ -	\$ -	\$ -	\$ 24,478,603
U.S. Treasuries	-	-	-	-	-	6,629,171	6,629,171
U.S. government-sponsored enterprises	43,890,000	-	-	-	-	-	43,890,000
Corporate asset-backed securities	1,647,828	-	-	-	-	-	1,647,828
External investment pools	27,464,053	30,872,489	-	-	-	-	58,336,542
Money market mutual fund	32,382,102	-	-	-	-	-	32,382,102
Corporate securities	342,629	1,229,299	807,746	-	-	-	2,379,674
Commercial paper	-	-	-	-	148,979,171	-	148,979,171
Fixed Income Institutional Bond Fund	-	42,634,202	16,167,827	-	-	-	58,802,029
Non-U.S. fixed income securities	-	-	-	-	-	379,167	379,167
Investments by rating	<u>\$ 105,726,612</u>	<u>\$ 99,214,593</u>	<u>\$ 16,975,573</u>	<u>\$ -</u>	<u>\$ 148,979,171</u>	<u>\$ 7,008,338</u>	<u>\$ 377,904,287</u>

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>

Concentration of Credit Risk - Concentration of credit risk is 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 percent of its assets can be in any particular issue. Direct placements are limited to 20 percent 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.

Note 2 - Cash and Investments (Continued)

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 percent of the University's combined cash and temporary investments and endowment investment portfolio as of September 30, 2007 and 2006 are presented below:

2007	2006
None	Federal National Mortgage Association Securities

Foreign Currency Risk - 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, 2007 and 2006.

The endowment investment policy does not limit the foreign currency risk. The asset allocation provides a target of 15 percent for non-U.S. equities (with a maximum limit of 20 percent), 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 \$41,036,825, 17.0 percent of the University's total Endowment Fund investments at September 30, 2007. Of this amount, 39 percent was exposed to European Union Euro currency risk, 25 percent was exposed to the British pound sterling currency risk, and 6 percent was exposed to Japanese yen currency risk. At September 30, 2006, the University had Endowment Fund investments in non-U.S. equities of \$33,989,432, 16.2 percent of the University's total Endowment Fund investments. Of this amount, 35 percent was exposed to European Union Euro currency risk, 25 percent was exposed to the British pound sterling currency risk, and 7 percent was exposed to Japanese yen currency risk. For 2007 and 2006, the remaining investments in non-U.S. equities had small exposures in the individual currencies of several foreign countries.

Note 2 - Cash and Investments (Continued)

At September 30, 2007, the University had Endowment Fund investments in fixed income institutional mutual funds which totaled \$58,802,029. Of this amount, 49 percent was exposed to British pound sterling currency risk and 4 percent was exposed to Canadian dollar and Brazilian real currency risk. At September 30, 2006, the University had Endowment Fund investments in fixed income institutional mutual funds which totaled \$48,871,319. Of this amount, 8 percent was exposed to British pound sterling currency risk and European Union Euro currency risk and 4 percent was exposed Canadian dollar currency risk. In 2007 and 2006, 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 4.9 percent and 4.3 percent for the years ended September 30, 2007 and 2006, respectively. The University's endowment-related investments provided a return of 17.0 percent and 9.2 percent for the years ended September 30, 2007 and 2006, respectively.

Note 3 - Receivables

At September 30, 2007 and 2006, receivables consist of the following:

	2007	2006
Grant and contract receivables	\$ 26,487,777	\$ 36,344,941
Pledged gift receivables	26,017,185	24,171,433
Student notes receivable	52,330,303	48,901,027
Student accounts receivable	56,503,320	51,854,246
Other	23,194,364	12,163,760
Total	184,532,949	173,435,407
Less:		
Provision for loss on receivables	(10,903,423)	(8,733,910)
Unamortized discount to present value on pledged gift receivables	(3,051,619)	(2,577,972)
Total	170,577,907	162,123,525
Less net current portion receivables	(130,379,931)	(121,243,119)
Net noncurrent receivables	<u>\$ 40,197,976</u>	<u>\$ 40,880,406</u>

Note 3 - Receivables (Continued)

Payments on pledged gift receivables at September 30, 2007 are expected to occur in the following years ending September 30:

2008	\$ 8,194,807
2009-2017	<u>17,822,378</u>
Total	<u>\$ 26,017,185</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 receivable, 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.

The University's participation in the *School as Lender* program resulted in approximately \$25,800,000 and \$22,500,000 in outstanding loans receivable at September 30, 2007 and 2006, respectively. Under the *School as Lender* program, the University disbursed approximately \$61,200,000 and \$55,300,000 in loans to students during the years ended September 30, 2007 and 2006, respectively. All loans associated with this program are sold to a third party within one year. The University sold \$57,800,000 and \$54,200,000 of such loans during the years ended September 30, 2007 and 2006, 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, 2007 and 2006, outstanding loans against the line of credit were approximately \$24,900,000 and \$22,000,000, respectively.

Note 4 - Capital Assets

Capital assets activity for the years ended September 30, 2007 and 2006 was as follows:

	Balance September 30, 2006	Additions	Retirements	Balance September 30, 2007
Land improvements	\$ 20,427,222	\$ 920,003	\$ (108,656)	\$ 21,238,569
Buildings	879,020,666	18,857,991	(13,229,719)	884,648,938
Library materials	117,590,365	3,952,504	(770,050)	120,772,819
Equipment and software	<u>154,235,310</u>	<u>8,300,730</u>	<u>(624,427)</u>	<u>161,911,613</u>
Subtotal - Depreciable assets	1,171,273,563	32,031,228	(14,732,852)	1,188,571,939
Land	30,722,131	765,510	(162,158)	31,325,483
Construction in progress	<u>14,737,931</u>	<u>48,172,877</u>	<u>-</u>	<u>62,910,808</u>
Subtotal - Nondepreciable assets	<u>45,460,062</u>	<u>48,938,387</u>	<u>(162,158)</u>	<u>94,236,291</u>
Total	1,216,733,625	80,969,615	(14,895,010)	1,282,808,230
Less accumulated depreciation:				
Land improvements	10,534,710	775,890	(108,656)	11,201,944
Buildings	293,182,318	29,473,956	(10,099,539)	312,556,735
Library materials	97,807,165	3,824,698	-	101,631,863
Equipment and software	<u>113,480,962</u>	<u>13,521,481</u>	<u>(341,350)</u>	<u>126,661,093</u>
Total accumulated depreciation	<u>515,005,155</u>	<u>47,596,025</u>	<u>(10,549,545)</u>	<u>552,051,635</u>
Net capital assets	<u>\$ 701,728,470</u>	<u>\$ 33,373,590</u>	<u>\$ (4,345,465)</u>	<u>\$ 730,756,595</u>

Note 4 - Capital Assets (Continued)

	Balance			Balance
	September 30, 2005	Additions	Retirements	September 30, 2006
Land improvements	\$ 17,976,214	\$ 2,451,008	\$ -	\$ 20,427,222
Buildings	819,232,569	59,995,199	(207,102)	879,020,666
Library materials	114,317,019	3,913,296	(639,950)	117,590,365
Equipment and software	<u>159,617,656</u>	<u>7,188,148</u>	<u>(12,570,494)</u>	<u>154,235,310</u>
Subtotal - Depreciable assets	1,111,143,458	73,547,651	(13,417,546)	1,171,273,563
Land	30,722,131	-	-	30,722,131
Construction in progress	<u>40,221,249</u>	<u>(25,483,318)</u>	<u>-</u>	<u>14,737,931</u>
Subtotal - Nondepreciable assets	<u>70,943,380</u>	<u>(25,483,318)</u>	<u>-</u>	<u>45,460,062</u>
Total	1,182,086,838	48,064,333	(13,417,546)	1,216,733,625
Less accumulated depreciation:				
Land improvements	9,858,571	676,139	-	10,534,710
Buildings	267,176,031	26,207,061	(200,774)	293,182,318
Library materials	93,873,553	3,933,612	-	97,807,165
Equipment and software	<u>110,116,442</u>	<u>13,774,408</u>	<u>(10,409,888)</u>	<u>113,480,962</u>
Total accumulated depreciation	<u>481,024,597</u>	<u>44,591,220</u>	<u>(10,610,662)</u>	<u>515,005,155</u>
Net capital assets	<u>\$ 701,062,241</u>	<u>\$ 3,473,113</u>	<u>\$ (2,806,884)</u>	<u>\$ 701,728,470</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 directly 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 years ended September 30, 2007 and 2006 was as follows:

	2007				
	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	59,300,000	-	1,100,000	58,200,000	950,000
General Revenue Bonds, Series 2003A, with interest at fixed and variable rates ranging from 1.8% to 3.45%, maturing November 15, 2033	49,500,000	-	1,200,000	48,300,000	1,050,000
General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing November 15, 2018	4,240,000	-	240,000	4,000,000	250,000
General Revenue Bonds, Series 2002, with interest at 4.33%, maturing November 15, 2032	44,100,000	-	950,000	43,150,000	950,000
General Revenue Bonds, Series 2001, Tranche 1, with interest at 4.85%, maturing November 15, 2031	17,950,000	-	400,000	17,550,000	350,000
General Revenue Bonds, Series 2001, Tranche 2, with interest at 4.27%, maturing November 15, 2031	7,000,000	-	150,000	6,850,000	150,000
General Revenue and Refunding Bonds, Series 1999, with interest ranging from 4.75% to 5.50%, maturing November 15, 2029	117,585,000	-	2,795,000	114,790,000	2,935,000
General Revenue Bonds, Series 1993, with interest ranging from 5.50% to 5.65%, maturing November 15, 2012	3,040,000	-	350,000	2,690,000	375,000
Various notes payable with varying interest rates maturing from 2008 through 2012	2,257,757	157,138	340,455	2,074,440	386,657
Gross long-term debt	356,307,757	157,138	7,525,455	348,939,440	7,396,657
Less unamortized bond discount (net)	(1,951,522)	-	(100,478)	(1,851,044)	-
Total long-term debt	\$ 354,356,235	\$ 157,138	\$ 7,424,977	\$ 347,088,396	\$ 7,396,657

Note 5 - Long-term Debt (Continued)

	2006				
	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)

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, 2007 and 2006 was \$1,725,000 and \$2,000,000, respectively.

Total principal and interest maturities on all debt obligations as of September 30, 2007 are as follows:

Years	Principal	Interest	Total
2008	\$ 7,396,657	\$ 15,792,405	\$ 23,189,062
2009	8,745,560	15,434,325	24,179,885
2010	8,785,923	14,186,436	22,972,359
2011	10,764,362	12,928,620	23,692,982
2012	9,755,000	12,542,653	22,297,653
2013-2017	51,980,000	56,584,382	108,564,382
2018-2022	62,080,000	45,021,692	107,101,692
2023-2027	76,875,000	31,109,952	107,984,952
2028-2032	79,655,000	14,259,420	93,914,420
2033-2037	32,900,000	2,528,560	35,428,560
Total	\$348,937,502	\$220,388,445	\$ 569,325,947

Cash paid for interest was \$15,120,373 in 2007 and \$14,219,025 in 2006.

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 10 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 natural fixed interest 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, 2007 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% LIBOR	\$ 507,075
Series 2001, Tranche 1	17,550,000	12/04/01	4.85%	SAVRS*	(1,978,643)
Series 2001, Tranche 2	6,850,000	12/15/02	4.27%	BMA*	(389,822)
Series 2002	43,150,000	12/06/02	4.33%	BMA*	(2,736,298)
Series 2003A	24,150,000	03/08/04	3.45%	67% LIBOR	212,561
Series 2004A	49,500,000	08/16/04	4.12%	67% LIBOR#	(3,257,196)
Series 2004A	8,700,000	01/25/06	3.34%	67% LIBOR	179,487
				67% LIBOR	
Series 2006 (2 swaps)	51,335,000	09/18/06	**	plus 40.73bps	(6,694)
					<u>\$ (7,469,530)</u>

LIBOR - London Interbank Offered Rate

SAVRS (Select Auction Variable Rate Securities) - Interest rate determined every 35 days via an auction

BMA - Bond Market Association Index

* Swaps with an alternative floating rate option of 65% LIBOR

BMA when LIBOR is less than 3%

bps - basis points

** Variable rate paid - BMA

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.

Interest rates are lower at September 30, 2007 than at the inception for many of the swaps, causing these 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 an independent derivative valuation service.

Note 5 - Long-term Debt (Continued)

Credit Risk - As of September 30, 2007, the University was exposed to some credit risk from swap counterparties because some of the swaps had a positive fair value. In general, 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. Should interest rates decline, the opposite is generally true. Although the University executes swap transactions with various counterparties, six swaps, approximately 49 percent of the notional amount of swaps outstanding, are held with one counterparty. This counterparty is rated "AA-" (upgraded from "A+" in June 2007) by Fitch, "A+" by Standard and Poor's (S&P) and "A1" by Moody's. To mitigate the potential for credit risk if this 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 36 percent of the notional amount of the swaps outstanding. This counterparty is rated "AAA" by Standard and Poor's and "Aaa" by Moody's. 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 "Aaa" (upgraded from "Aa2" in April 2007) by Moody's. 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 2037 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. 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.

Note 5 - Long-term Debt (Continued)

Swap Payments and Associated Debt - As of September 30, 2007, debt service requirements of the fixed and variable interest rate debt and interest rate swaps, net, assuming current interest rates remain the same for their respective terms, were as follows:

Years	Principal	Interest	Interest Rate Swaps, Net	Total
2008	\$ 2,975,000	\$ 7,809,565	\$ 659,075	\$ 11,443,640
2009	4,185,000	7,673,702	643,904	12,502,606
2010	4,165,000	7,520,249	628,650	12,313,899
2011	4,630,000	7,352,133	612,400	12,594,533
2012	4,790,000	7,176,863	594,728	12,561,591
2013-2017	26,970,000	32,955,538	2,688,323	62,613,861
2018-2022	32,780,000	27,074,459	2,123,821	61,978,280
2023-2027	40,220,000	19,928,927	1,425,443	61,574,370
2028-2032	50,370,000	11,056,494	547,893	61,974,387
2033-2037	30,150,000	2,404,967	(45,676)	32,509,291
Total	<u>\$ 201,235,000</u>	<u>\$ 130,952,897</u>	<u>\$ 9,878,561</u>	<u>\$ 342,066,458</u>

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

Subsequent Event

The University issued General Revenue Bonds Series 2007A and 2007B on October 25, 2007. The Series 2007A bonds are tax-exempt bonds with a par value of \$32,520,000. These bonds were issued to finance all or a portion of several capital projects and to refund the remaining principal outstanding on the Series 1993 bonds (\$2,315,000) following the scheduled principal payment on November 15, 2007. The Series 2007B bonds are taxable bonds with a par value of \$4,220,000. The Series 2007A and 2007B bonds were issued as natural fixed interest rate debt.

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 percent of an employee's salary each pay period provided that the employee contributes 5 percent 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, 2007 and 2006 were \$25,928,000 and \$25,638,000, respectively.

Note 7 - Commitments

In conjunction with the University's ongoing construction program, approximately \$21,800,000 was committed at September 30, 2007. Included in this amount is approximately \$7,400,000 related to the South University Village Parking Structure, and \$5,100,000 related to the steam boiler project 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 participates with 10 other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC). This corporation 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.

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, 2007 is approximately \$1,500,000. The University has not been subjected to additional assessments since the formation of MUSIC in 1987.

Note 8 - Contingencies (Continued)

The University is 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, 2007 and 2006 totaled approximately \$5,900,000 and \$5,600,000, 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 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, 2007, guaranteed funds drawn against the construction loan and the line of credit totaled \$8,500,000.

Note 9 - Natural Classification of Expenses

Operating expenses by natural classification for the years ended September 30, 2007 and 2006 are summarized as follows:

	2007	2006
Compensation and benefits	\$ 500,622,793	\$ 492,127,307
Supplies and services	168,542,376	173,379,524
Depreciation	47,596,025	44,591,220
Scholarship and fellowships	4,076,058	6,751,363
Total operating expenses	<u>\$ 720,837,252</u>	<u>\$ 716,849,414</u>

Note 10 - Subsequent Event

In an effort to balance the State's budget, a portion of the payment of the operating appropriation for the State's fiscal year ended September 30, 2007 to all Michigan public universities was deferred until October 2007. This amount, \$20 million for Wayne State University, was paid to the University in October 2007. Based on generally accepted accounting principles, this timing does not permit the recording of that portion of the appropriation in the 2007 financial statements. Accordingly, it will be recognized as revenue in 2008.

Supplemental Information

Report on Supplemental Information

To the Board of Governors
Wayne State University

We have audited the financial statements of Wayne State University for the years ended September 30, 2007 and 2006. 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 the purpose 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

January 11, 2008

Combining Balance Sheet September 30, 2007 (with comparative totals for September 30, 2006)

	2007										2006	
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Subtotal Current Funds	Plant Fund	Student Loan Fund	Endowment and Similar Funds	Agency Fund	Combined Fund Totals	Combined Fund Totals
Assets												
Current assets:												
Cash and temporary investments	\$ 159,436,540	\$ 33,066,212	\$ 6,489,675	\$ (12,719)	\$ 25,197,267	\$ 224,176,975	\$ 48,636,923	\$ 11,098,438	\$ 1,712,831	\$ 17,900,978	\$ 303,526,145	\$ 276,736,670
Current receivables - Net	51,754,086	14,645,259	3,653,939	419,985	26,876,515	97,349,784	4,929,580	25,894,480	1,250,965	955,122	130,379,931	121,243,119
Inventories	1,052,788	-	426,580	-	-	1,479,368	-	-	-	-	1,479,368	1,475,897
Prepaid expenses and deposits	16,237,756	8,976	90,128	-	15,938	16,352,798	16,762	-	-	265,575	16,635,135	12,798,081
Total current assets	228,481,170	47,720,447	10,660,322	407,266	52,089,720	339,358,925	53,583,265	36,992,918	2,963,796	19,121,675	452,020,579	412,253,767
Noncurrent assets:												
Investments	-	-	-	-	-	-	36,957,937	-	241,823,781	-	278,781,718	276,231,950
Noncurrent receivables - Net	-	1,317,284	-	893	2,427,399	3,745,576	10,435,196	26,017,204	-	-	40,197,976	40,880,406
Interfund receivables (payables)	-	125,000	(2,200,000)	(965,000)	-	(3,040,000)	3,040,000	-	-	-	-	-
Unamortized bond issue costs	-	-	-	-	-	-	1,998,653	-	-	-	1,998,653	2,079,640
Capital assets - Net	-	-	-	-	-	-	730,756,595	-	-	-	730,756,595	701,728,470
Total noncurrent assets	-	1,442,284	(2,200,000)	(964,107)	2,427,399	705,576	783,188,381	26,017,204	241,823,781	-	1,051,734,942	1,020,920,466
Total assets	\$ 228,481,170	\$ 49,162,731	\$ 8,460,322	\$ (556,841)	\$ 54,517,119	\$ 340,064,501	\$ 836,771,646	\$ 63,010,122	\$ 244,787,577	\$ 19,121,675	\$ 1,503,755,521	\$ 1,433,174,233
Liabilities and Net Assets												
Liabilities												
Current liabilities												
Accounts payable and accrued liabilities	\$ 33,683,642	\$ 6,971,454	\$ 1,731,828	\$ 161,503	\$ 11,781,642	\$ 54,330,069	\$ 23,798,075	\$ -	\$ 285,440	\$ 13,340,309	\$ 91,753,893	\$ 75,876,648
Deferred income	105,164,732	200,750	5,228,851	-	11,195,695	121,790,028	264,086	-	-	-	122,054,114	107,712,659
Deposits	2,844,162	-	713,563	-	-	3,557,725	-	-	5,781,366	-	9,339,091	4,582,078
Short-term loans	-	-	-	-	-	-	-	24,889,437	-	-	24,889,437	22,007,230
Long-term debt - Current portion	-	-	-	-	-	-	7,396,657	-	-	-	7,396,657	7,602,456
Total current liabilities	141,692,536	7,172,204	7,674,242	161,503	22,977,337	179,677,822	31,458,818	24,889,437	285,440	19,121,675	255,433,192	217,781,071
Noncurrent liabilities												
Federal portion of student loan funds	-	-	-	-	-	-	-	26,073,627	-	-	26,073,627	25,591,528
Accrued employee benefits	4,907,043	330,220	282,252	19,659	690,476	6,229,650	-	-	460,284	-	6,689,934	6,124,110
Long-term debt - Net of current portion	-	-	-	-	-	-	339,691,739	-	-	-	339,691,739	346,753,779
Total noncurrent liabilities	4,907,043	330,220	282,252	19,659	690,476	6,229,650	339,691,739	26,073,627	460,284	-	372,455,300	378,469,417
Total liabilities	146,599,579	7,502,424	7,956,494	181,162	23,667,813	185,907,472	371,150,557	50,963,064	745,724	19,121,675	627,888,492	596,250,488
Net Assets												
Invested in capital assets - Net of related debt	-	-	-	-	-	-	400,070,184	-	-	-	400,070,184	408,402,823
Restricted:												
Nonexpendable	-	-	-	-	-	-	-	11,194,568	96,951,855	-	108,146,423	101,424,737
Expendable	-	-	-	-	30,849,306	30,849,306	35,989,039	-	139,976,374	-	206,814,719	167,927,217
Unrestricted	81,881,591	41,660,307	503,828	(738,003)	-	123,307,723	29,561,866	852,490	7,113,624	-	160,835,703	159,168,968
Total net assets	81,881,591	41,660,307	503,828	(738,003)	30,849,306	154,157,029	465,621,089	12,047,058	244,041,853	-	875,867,209	836,923,745
Total liabilities and net assets	\$ 228,481,170	\$ 49,162,731	\$ 8,460,322	\$ (556,841)	\$ 54,517,119	\$ 340,064,501	\$ 836,771,646	\$ 63,010,122	\$ 244,787,577	\$ 19,121,675	\$ 1,503,755,521	\$ 1,433,174,233

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

	2007	2006
Contractually committed, encumbrances	\$ 6,700	\$ 10,600
Appropriated in subsequent year budget	-	5,700
Rainy Day Fund	13,100	8,200
Committed for research	19,700	19,300
Academic unit funds carried forward	54,600	29,200
Operating and central unit funds carried forward	7,500	5,100
Funds available (deficit) for allocation in subsequent years*	(19,718)	987
Total General Fund unrestricted net assets	\$ 81,882	\$ 79,087

*As more fully disclosed in footnote 10 on page 49, the 2007 funds available (deficit) for allocation in subsequent years of \$(19,718) will be funded with the 2007 deferred State of Michigan operating appropriation of \$20 million received in October 2007.

Combining Statement of Revenues, Expenses, Transfers, and Changes in Net Assets Year Ended September 30, 2007 (with comparative totals for the year ended September 30, 2006)

	Year Ended September 30											
	2007										2006	
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Subtotal Current Funds	Plant Fund	Student Loan Fund	Endowment and Similar Funds	Adjustments	Combined Total	Combined Total
Operating Revenues												
Student tuition and fees	\$ 228,366,925	\$ -	\$ 3,617,463	\$ -	\$ -	\$ 231,984,388	\$ 207,909	\$ -	\$ -	\$ -	\$ 232,192,297	\$ 211,558,846
Less scholarship allowances	-	-	-	-	-	-	-	-	(61,574,043)	(61,574,043)	(50,104,567)	-
Net student tuition and fees	228,366,925	-	3,617,463	-	-	231,984,388	207,909	-	-	(61,574,043)	170,618,254	161,454,279
Federal grants and contracts	-	-	-	-	132,209,178	132,209,178	3,200,165	-	-	-	135,409,343	138,183,401
State and local grants and contracts	-	-	-	-	22,715,681	22,715,681	-	-	-	-	22,715,681	22,367,532
Nongovernmental grants and contracts	-	62,139,065	-	-	36,187,676	98,326,741	-	-	-	-	98,326,741	96,998,413
Departmental activities	7,912,790	15,950,135	-	645,843	-	24,508,768	-	-	-	-	24,508,768	24,162,880
Auxiliary enterprises (net of scholarship allowances of \$2,247,038 in 2007 and \$1,735,196 in 2006)	-	-	27,199,377	-	-	27,199,377	-	-	(2,247,038)	24,952,339	24,497,598	-
Recovery of indirect costs of sponsored programs	35,027,833	-	-	-	(35,027,833)	-	-	-	-	-	-	-
Other operating revenues	1,653,310	-	-	-	-	1,653,310	-	128,025	-	-	1,781,335	1,664,127
Total Operating Revenues	272,960,858	78,089,200	30,816,840	645,843	156,084,702	538,597,443	3,408,074	128,025	-	(63,821,081)	478,312,461	469,328,230
Operating Expenses												
Instruction	194,765,462	46,500,898	-	-	13,384,608	254,650,968	-	-	(2,434,847)	252,216,121	249,506,655	-
Research	25,551,317	3,709,253	-	-	120,087,365	149,347,935	-	-	(4,461,661)	144,886,274	149,158,745	-
Public service	1,450,439	20,898,615	-	2,335,588	22,648,720	47,333,362	-	-	(19,419)	47,313,943	47,899,590	-
Academic support	59,230,038	2,069,101	-	-	1,171,617	62,470,756	-	-	(4,801,961)	57,668,795	58,669,401	-
Student services	28,767,982	307,043	-	-	308,721	29,383,746	-	-	(85,207)	29,298,539	28,437,182	-
Institutional support	51,294,225	3,479,744	-	-	85,452	54,859,421	-	-	(48,769)	54,810,652	53,763,883	-
Operation and maintenance of plant	53,432,422	45,171	-	-	1,246,637	54,724,230	7,752,559	-	(58,844)	62,417,945	57,396,106	-
Scholarships and fellowships	35,989,622	45,389	-	-	31,863,052	67,898,063	-	-	(63,821,081)	4,076,982	6,751,363	-
Auxiliary enterprises	-	-	20,566,674	-	-	20,566,674	-	-	(14,698)	20,551,976	20,675,269	-
Depreciation expense	-	-	-	-	-	-	47,596,025	-	-	47,596,025	44,591,220	-
Capital additions - Net	-	-	-	-	-	-	(11,925,406)	-	11,925,406	-	-	-
Transfers (in) out:												
Debt service	9,796,773	985,982	10,831,674	-	-	21,614,429	(21,614,429)	-	-	-	-	-
Loan matching	4,877	-	-	-	-	4,877	-	(4,877)	-	-	-	-
Plant improvement and extension	11,821,718	714,880	1,318,114	-	87,500	13,942,212	(13,942,212)	-	-	-	-	-
Other	165,920	1,687,312	-	-	(82,539)	1,770,693	-	22,089	(1,792,782)	-	-	-
Total Operating Expenses	472,270,795	80,443,388	32,716,462	2,335,588	190,801,133	778,567,366	7,866,537	17,212	(1,792,782)	(63,821,081)	720,837,252	716,849,414
Operating Income (Loss)	(199,309,937)	(2,354,188)	(1,899,622)	(1,689,745)	(34,716,431)	(239,969,923)	(4,458,463)	110,813	1,792,782	-	(242,524,791)	(247,521,184)

Combining Statement of Revenues, Expenses, Transfers, and Changes in Net Assets (Continued) Year Ended September 30, 2007 (with comparative totals for the year ended September 30, 2006)

	Year Ended September 30											
	2007										2006	
	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Subtotal Current Funds	Plant Fund	Student Loan Fund	Endowment and Similar Funds	Adjustments	Combined Total	Combined Total
Nonoperating Revenues (Expenses)												
State operating appropriation	\$ 191,709,927	\$ -	\$ -	\$ -	\$ 5,109,373	\$ 196,819,300	\$ -	\$ -	\$ -	\$ -	\$ 196,819,300.00	\$ 216,387,000
Gifts	-	9,053,851	7,840	958,336	20,350,906	30,370,933	-	5,434	365,790	-	30,742,157	27,057,554
Investment income:												
Endowment and similar funds	1,128,026	102,825	-	147	7,897,091	9,128,089	35,165	30,931	(9,194,185)	-	-	-
Other	9,267,024	2,873,025	247,594	(9)	2,047,867	14,435,501	3,894,855	249,680	35,803,986	-	54,384,022	31,681,313
Interest on capital asset - Related debt	-	-	-	-	-	-	(14,523,081)	-	-	-	(14,523,081)	(12,721,499)
Other	-	-	-	-	-	-	(98,148)	(177,229)	(109,269)	-	(384,646)	1,331,905
Net nonoperating revenues (expenses)	202,104,977	12,029,701	255,434	958,474	35,405,237	250,753,823	(10,691,209)	108,816	26,866,322	-	267,037,752	263,736,273
Income (Loss) Before Other Revenues and Expenses	2,795,040	9,675,513	(1,644,188)	(731,271)	688,806	10,783,900	(15,149,672)	219,629	28,659,104	-	24,512,961	16,215,089
Other Revenues (Expenses)												
Capital gifts	-	-	-	-	-	-	11,128,653	-	-	-	11,128,653	9,405,732
Gifts for permanent endowments	-	-	-	-	-	-	-	-	5,466,210	-	5,466,210	4,561,952
Loss on capital assets retired	-	-	-	-	-	-	(2,164,540)	-	-	-	(2,164,540)	(2,806,885)
Net other revenues	-	-	-	-	-	-	8,964,113	-	5,466,210	-	14,430,323	11,160,799
Increase (Decrease) in Net Assets	2,795,040	9,675,513	(1,644,188)	(731,271)	688,806	10,783,900	(6,185,559)	219,629	34,125,314	-	38,943,284	27,375,888
Net assets - Beginning of year	79,086,551	31,984,794	2,148,016	(6,732)	30,160,500	143,373,129	471,806,648	11,827,429	209,916,539	-	836,923,745	809,547,857
Net assets - End of year	\$ 81,881,591	\$ 41,660,307	\$ 503,828	\$ (738,003)	\$ 30,849,306	\$ 154,157,029	\$ 465,621,089	\$ 12,047,058	\$ 244,041,853	\$ -	\$ 875,867,029	\$ 836,923,745

Wayne State University

Combining Balance Sheet September 30, 2006

2006

	General Fund	Designated Fund	Auxiliary Activities Fund	Independent Operations Fund	Expendable Restricted Fund	Subtotal Current Funds	Plant Fund	Student Loan Fund	Endowment and Similar Funds	Agency Fund	Combined Fund Totals
Assets											
Current assets:											
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
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
Inventories	1,081,375	-	394,522	-	-	1,475,897	-	-	-	-	1,475,897
Prepaid expenses and deposits	12,328,070	8,976	92,204	-	15,938	12,445,188	90,762	-	-	262,131	12,798,081
Total current assets	208,787,830	38,446,898	10,118,530	158,789	54,721,682	312,233,729	50,170,214	33,639,908	1,042,055	15,167,861	412,253,767
Noncurrent assets:											
Investments	-	-	-	-	-	-	66,658,407	-	209,573,543	-	276,231,950
Noncurrent receivables - Net	-	1,533,640	-	2,237	2,557,871	4,093,748	11,000,379	25,786,279	-	-	40,880,406
Unamortized bond issue costs	-	-	-	-	-	-	2,079,640	-	-	-	2,079,640
Capital assets - Net	-	-	-	-	-	-	701,728,470	-	-	-	701,728,470
Total noncurrent assets	-	1,533,640	-	2,237	2,557,871	4,093,748	781,466,896	25,786,279	209,573,543	-	1,020,920,466
Total assets	\$ 208,787,830	\$ 39,980,538	\$ 10,118,530	\$ 161,026	\$ 57,279,553	\$ 316,327,477	\$ 831,637,110	\$ 59,426,187	\$ 210,615,598	\$ 15,167,861	\$ 1,433,174,233
Liabilities and Net Assets											
Liabilities											
Current liabilities:											
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
Deferred income	87,775,699	242,875	5,002,662	-	14,420,596	107,441,832	270,827	-	-	-	107,712,659
Deposits	2,389,313	-	670,556	-	-	3,059,869	-	-	-	1,522,209	4,582,078
Short-term loans	-	-	-	-	-	-	-	22,007,230	-	-	22,007,230
Long-term debt - Current portion	-	-	-	-	-	-	7,602,456	-	-	-	7,602,456
Total current liabilities	125,236,349	7,713,830	7,634,054	144,962	26,498,506	167,227,701	13,076,683	22,007,230	301,596	15,167,861	217,781,071
Noncurrent liabilities:											
Federal portion of student loan funds	-	-	-	-	-	-	-	25,591,528	-	-	25,591,528
Accrued employee benefits	4,464,930	281,914	336,460	22,796	620,547	5,726,647	-	-	397,463	-	6,124,110
Long-term debt - Net of current portion	-	-	-	-	-	-	346,753,779	-	-	-	346,753,779
Total noncurrent liabilities	4,464,930	281,914	336,460	22,796	620,547	5,726,647	346,753,779	25,591,528	397,463	-	378,469,417
Total liabilities	129,701,279	7,995,744	7,970,514	167,758	27,119,053	172,954,348	359,830,462	47,598,758	699,059	15,167,861	596,250,488
Net Assets											
Invested in capital assets - Net of related debt	-	-	-	-	-	-	408,402,823	-	-	-	408,402,823
Restricted:											
Nonexpendable	-	-	-	-	-	-	-	10,970,093	90,454,644	-	101,424,737
Expendable	-	-	-	-	30,160,500	30,160,500	24,595,906	-	113,170,811	-	167,927,217
Unrestricted	79,086,551	31,984,794	2,148,016	(6,732)	-	113,212,629	38,807,919	857,336	6,291,084	-	159,168,968
Total net assets	79,086,551	31,984,794	2,148,016	(6,732)	30,160,500	143,373,129	471,806,648	11,827,429	209,916,539	-	836,923,745
Total liabilities and net assets	\$ 208,787,830	\$ 39,980,538	\$ 10,118,530	\$ 161,026	\$ 57,279,553	\$ 316,327,477	\$ 831,637,110	\$ 59,426,187	\$ 210,615,598	\$ 15,167,861	\$ 1,433,174,233

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

	2006
Contractually committed, encumbrances	\$ 10,600
Appropriated in subsequent year budget	5,700
Rainy Day Fund	8,200
Committed for research	19,300
Academic unit funds carried forward	29,200
Operating and central unit funds carried forward	5,100
Funds available for allocation in subsequent years	987
Total General Fund unrestricted net assets	\$ 79,087

Combining Statement of Revenues, Expenses, Transfers, and Changes in Net Assets Year Ended September 30, 2006

	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
Operating Revenues											
Student tuition and fees	\$ 207,978,074	\$ -	\$ 3,360,452	\$ -	\$ -	\$ 211,338,526	\$ 220,320	\$ -	\$ -	\$ -	\$ 211,558,846
Less scholarship allowances	-	-	-	-	-	-	-	-	-	(50,104,567)	(50,104,567)
Net student tuition and fees	207,978,074	-	3,360,452	-	-	211,338,526	220,320	-	-	(50,104,567)	161,454,279
Federal grants and contracts	-	-	-	-	137,617,502	137,617,502	565,899	-	-	-	138,183,401
State and local grants and contracts	-	-	-	-	22,367,532	22,367,532	-	-	-	-	22,367,532
Nongovernmental grants and contracts	-	63,709,003	-	-	33,289,410	96,998,413	-	-	-	-	96,998,413
Departmental activities	9,795,259	13,401,426	-	966,195	-	24,162,880	-	-	-	-	24,162,880
Auxiliary enterprises (net of scholarship allowances of \$1,735,196)	-	-	26,232,794	-	-	26,232,794	-	-	-	(1,735,196)	24,497,598
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
Total operating revenues	257,113,030	77,110,429	29,593,246	966,195	155,469,195	520,252,095	786,219	129,679	-	(51,839,763)	469,328,230
Operating Expenses											
Instruction	186,331,274	51,748,797	-	-	14,302,135	252,382,206	-	-	-	(2,875,551)	249,506,655
Research	23,726,229	3,212,855	-	-	124,411,894	151,350,978	-	-	-	(2,192,233)	149,158,745
Public service	1,489,059	19,137,054	-	2,429,533	24,943,755	47,999,401	-	-	-	(99,811)	47,899,590
Academic support	59,141,695	3,937,201	-	-	1,175,170	64,254,066	-	-	-	(5,584,665)	58,669,401
Student services	27,542,279	508,594	-	-	430,590	28,481,463	-	-	-	(44,281)	28,437,182
Institutional support	50,515,267	3,319,160	-	-	114,050	53,948,477	-	-	-	(184,594)	53,763,883
Operation and maintenance of plant	52,076,137	146,426	-	-	944,227	53,166,790	4,254,320	-	-	(25,004)	57,396,106
Scholarships and fellowships	32,095,613	111,345	-	-	26,384,168	58,591,126	-	-	-	(51,839,763)	6,751,363
Auxiliary enterprises	-	-	20,683,043	-	-	20,683,043	-	-	-	(7,774)	20,675,269
Depreciation expense	-	-	-	-	-	-	44,591,220	-	-	-	44,591,220
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)	-	-
Total operating expenses	459,117,989	84,686,966	31,384,570	2,429,533	193,146,649	770,765,707	(108,892)	(63,654)	(1,903,984)	(51,839,763)	716,849,414
Operating Income (Loss)	(202,004,959)	(7,576,537)	(1,791,324)	(1,463,338)	(37,677,454)	(250,513,612)	895,111	193,333	1,903,984	-	(247,521,184)

Combining Statement of Revenues, Expenses, Transfers, and Changes in Net Assets (Continued) Year Ended September 30, 2006

	2006									
	General	Designated	Auxiliary	Independent	Expendable	Subtotal	Plant	Student	Endowment	Combined
	Fund	Fund	Activities	Operations	Restricted	Current	Fund	Loan	and Similar	Total
			Fund	Fund	Fund	Funds		Fund	Funds	Adjustments
Nonoperating Revenues (Expenses)										
State operating appropriation	\$ 210,846,253	\$ -	\$ -	\$ -	\$ 5,540,747	\$ 216,387,000	\$ -	\$ -	\$ -	\$ -
Gifts	-	3,063,955	-	1,251,639	22,490,792	26,806,386	-	4,410	246,758	-
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	-
Interest on capital asset - Related debt	-	-	-	-	-	-	(12,721,499)	-	-	(12,721,499)
Other	-	-	-	-	-	-	1,448,559	(26,743)	(89,911)	-
Net nonoperating revenues (expenses)	<u>218,362,705</u>	<u>6,003,027</u>	<u>64,585</u>	<u>1,251,933</u>	<u>36,976,462</u>	<u>262,658,712</u>	<u>(8,511,134)</u>	<u>300,962</u>	<u>9,287,733</u>	<u>-</u>
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	-
Other Revenues (Expenses)										
Capital gifts	-	-	-	-	-	-	9,405,732	-	-	-
Gifts for permanent endowments	-	-	-	-	-	-	-	-	4,561,952	-
Loss on capital assets retired	-	-	-	-	-	-	(2,806,885)	-	-	(2,806,885)
Net other revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,598,847</u>	<u>-</u>	<u>4,561,952</u>	<u>-</u>
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	-
Net Assets - Beginning of year	62,728,805	33,558,304	3,874,755	204,673	30,861,492	131,228,029	472,823,824	11,333,134	194,162,870	-
Net Assets - End of year	<u>\$ 79,086,551</u>	<u>\$ 31,984,794</u>	<u>\$ 2,148,016</u>	<u>\$ (6,732)</u>	<u>\$ 30,160,500</u>	<u>\$ 143,373,129</u>	<u>\$ 471,806,648</u>	<u>\$ 11,827,429</u>	<u>\$ 209,916,539</u>	<u>\$ -</u>

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