



WAYNE STATE
UNIVERSITY



FINANCIAL REPORT 2017

Year Ended September 30, 2017



Executive Officers

| | | |
|---|---|--|
| M. Roy Wilson President | David S. Hefner Vice President for Health Affairs | Julie H. Miller Vice President and Secretary to the Board of Governors |
| Keith Whitfield Provost | Stephen M. Lanier Vice President for Research | Ned Staebler Vice President for Economic Development |
| Susan E. Burns Vice President for Development and Alumni Affairs | Louis Lessem Vice President and General Council | Michael Wright Chief of Staff and Vice President for Marketing and Communications |
| William Decatur Vice President for Finance and Business Operations, Treasurer and Chief Financial Officer | Patrick O. Lindsey Vice President for Government and Community Affairs | |

Board of Governors

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|---|---------------------------|--|
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| Michael J. Busuito | Marilyn Kelly | M. Roy Wilson , <i>ex officio</i> |

Finance Administrators

| | | |
|--|---|---|
| William Decatur <i>Vice President, Treasurer and Chief Financial Officer</i> | Marianne Cunningham <i>Assistant Vice President, Treasury and Assistant Treasurer</i> | Tony L. Miller <i>Director of Accounting</i> |
| Diana Goode <i>Senior Associate Vice President, Finance and Budget</i> | Tamaka M. Butler <i>Controller</i> | Gail L. Ryan <i>Associate Vice President for Sponsored Program Administration</i> |
| | Patricia R. Douglas <i>Director of Accounting</i> | |

Wayne State University

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WAYNE STATE UNIVERSITY

This report summarizes the financial position and results of operations of Wayne State University for the fiscal years ended September 30, 2017 and September 30, 2016. These financial statements have been audited by Plante & Moran, PLLC, Certified Public Accountants who have again issued an unmodified opinion regarding Wayne State's statements. Management's discussion and analysis of these financial statements and results begins on page 4 and provides details regarding the operation of the University during the past three years. These financial statements discretely show the results and financial position of the Wayne State University Foundation separate from the University in accordance with GASB Statement No. 61.

Wayne State's net position increased \$46.3 million in fiscal year 2017. Wayne State University Foundation's net position increased \$40.3 million, and the total net assets have grown to \$362.3 million. Wayne State has investment credit rating as determined by Moody's (Aa3) and Standard and Poor's (A+).

Student success, including improvement both in graduation and retention rates, remains the critical focus of the University's academic mission. The University continues to see a change in the make-up of its student population and is becoming less of a commuter campus and more of a residential campus. During fiscal year 2017, Wayne State began a major construction initiative to increase its student housing capacity and update all of its existing housing facilities.

Our incoming freshman class continues to demonstrate academic prowess. The incoming freshmen class had an average GPA of 3.37, and the average ACT scores for this same cohort was 24.0.

As Wayne State moves forward under its new Strategic Plan, we look to strengthening the overall financial health of the institution through strategic investments and strong fiscal management. The recent success of our enrollment picture, the continued recovery of the State of Michigan, and the resurgence of the City of Detroit bode well for our future.

William Decatur
Vice President for Finance and Business Operations,
Treasurer, and Chief Financial Officer
January 30, 2018

Independent Auditor's Report

To the Board of Directors
Wayne State University

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Wayne State University (the "University") as of and for the years ended September 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Wayne State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Wayne State University as of September 30, 2017 and 2016 and the respective changes in their financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Wayne State University

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Wayne State University's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018 on our consideration of Wayne State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wayne State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 30, 2018

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, 2017 and the results of its operations and cash flows for the year then ended. Selected comparative information is provided as of and for the year ended September 30, 2016. 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 2017 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 the University’s schools and colleges. With fall 2017 enrollment of approximately 27,100 students, the University ranks among the top public universities in the nation and has the most diverse student body of any university in Michigan. As the 10th largest employer in the city of Detroit, as ranked by the 2017 Crain’s Business Survey of Detroit’s Largest Employers, the University has a significant impact on the local economy and contributes to the state and nation as well through its research and public service programs.

Excellence in research is essential to the University’s mission. Based on the 2016 National Science Foundation Research and Development Expenditures Survey, the University ranked 100th among all universities and 69th 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 2016 National Science Foundation Research and Development Expenditures Survey ranked the University 53rd in the health sciences category. Based on the 2015 Carnegie classification of higher education, Wayne State University ranked within the top 2.5 percent of the nation’s universities and colleges with the Carnegie classification of RI (highest research activity). Wayne State University, Michigan State University, and the University of Michigan, the state’s three largest research universities, are partners in the University Research Corridor (URC). The URC is an alliance among these three universities to spark regional economic development through invention, innovation, and technology transfer, by educating a work force prepared for the “knowledge economy,” and by attracting smart and talented people to Michigan.

Using this Report

The University’s financial report includes three basic financial statements: the statement of net position, which presents the assets, deferred outflows of resources, liabilities, and net position of the University at September 30, 2017; the statement of revenue, expenses, and changes in net position, which reflects revenue and expenses recognized during the fiscal year; and the statement of cash flows, which provides information on the major sources and uses of cash during the fiscal year. The report also includes notes to the financial statements, which are an integral component of the report. These financial statements and accompanying notes are prepared in accordance with the principles of the Governmental Accounting Standards Board (GASB). Consistent with the GASB principles, the Wayne State University Foundation (the “Foundation”), as a controlled corporate organization, is considered a component unit of the University. The Foundation’s statement of financial position and statement of activities and changes in net position are discretely presented in the University’s financial statements. The management’s discussion and analysis refers to the University only (excluding the Foundation), unless otherwise noted. Additional supplemental information, which provides the statement of net position and operating information for the various funds of the University, is also included in the report.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Overall Financial Highlights

The University's financial position at September 30, 2017 includes assets and deferred outflows of resources of approximately \$1.5 billion and \$12.8 million, respectively, and liabilities of \$807.8 million. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after liabilities are deducted, was \$659.1 million as of September 30, 2017, an increase of \$46.3 million compared with the prior year. The University has credit ratings of "Aa3" and "A+" with the rating services of Moody's and Standard & Poor's, respectively.

Financial Position

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

| | 2017 | 2016 | 2015 |
|--------------------------------|---------------|------------|------------|
| | (in millions) | | |
| Total assets | \$ 1,454.1 | \$ 1,421.3 | \$ 1,413.2 |
| Deferred outflows of resources | 12.8 | 13.4 | 3.1 |
| Total liabilities | 807.8 | 821.9 | 833.2 |
| Net position | 659.1 | 612.8 | 583.1 |

Specific discussion and analysis of the changes in the components of the assets, liabilities, and net position categories are provided on pages 6-10.

Operations

A summary of revenue and expenses, including the operating, nonoperating, and other categories for the years ended September 30, 2017, 2016, and 2015, is as follows:

| | 2017 | | 2016 |
|-----------------------|-----------------|-----------------|-----------------|
| | (in millions) | | |
| Revenue: | | | |
| Operating revenues | \$ 640.4 | \$ 553.0 | \$ 560.9 |
| Nonoperating revenues | 271.0 | 281.3 | 273.7 |
| Other | 4.1 | 41.5 | 28.5 |
| Total revenues | \$ 915.5 | \$ 875.8 | \$ 863.1 |
| Expenses: | | | |
| Operating expenses | \$ 848.7 | \$ 824.8 | \$ 836.4 |
| Nonoperating expenses | 20.5 | 21.3 | 20.2 |
| Total expenses | \$ 869.2 | \$ 846.1 | \$ 856.6 |

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

During fiscal year 2017, total revenue increased \$39.7 million (4.5 percent) compared to 2016, while total expenses increased \$23.1 million (2.7 percent). During fiscal year 2016, total revenue increased \$12.7 million (1.5 percent) compared to 2015, while total expenses decreased \$10.5 million (1.2 percent). Specific discussion and analysis of the changes in the components of the revenue and expense categories are provided on pages 11-17.

Statement of Net Position

The statement of net position presents the financial position of the University at the end of each fiscal year and includes all assets, deferred outflows of resources, and liabilities of the University. Net position is one key indicator of the current financial position of the University, while the change in net position is a key indicator of how the current year's operations affected the overall financial condition of the University. Assets, deferred outflows of resources, 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, deferred outflows of resources, and net position at September 30, 2017, 2016, and 2015 is as follows:

| | 2017 | 2016 | 2015 |
|---|------------------------|------------------------|------------------------|
| | (in millions) | | |
| Current assets | \$ 570.3 | \$ 514.8 | \$ 516.2 |
| Noncurrent assets: | | | |
| Investments | 4.1 | 3.9 | 5.4 |
| Capital assets - Net of depreciation | 842.7 | 852.9 | 858.6 |
| Other | <u>37.0</u> | <u>49.7</u> | <u>33.0</u> |
| Total assets | 1,454.1 | 1,421.3 | 1,413.2 |
| Deferred outflows of resources | 12.8 | 13.4 | 3.1 |
| Current liabilities | 300.5 | 294.2 | 294.5 |
| Noncurrent liabilities: | | | |
| Long-term debt - Net of current portion | 446.5 | 463.3 | 472.2 |
| Other | <u>60.8</u> | <u>64.4</u> | <u>66.5</u> |
| Total liabilities | <u>807.8</u> | <u>821.9</u> | <u>833.2</u> |
| Total net position | <u>\$ 659.1</u> | <u>\$ 612.8</u> | <u>\$ 583.1</u> |

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. In 2017, current assets increased \$55.5 million (10.8 percent) to \$570.3 million compared to \$514.8 million at September 30, 2016. The increase consisted of increases in cash and temporary investments of \$20.8 million, net current receivables of \$33.5 million, combined with a net increase in prepaid expenses and deposits and other current assets of \$1.2 million. Changes in cash and temporary investments are the result of the University's overall operating performance and timing. The increase in net current receivables (see Note 4) resulted from several factors, including an increase in net grants and contracts receivable of \$34.3 million attributable principally to certain program revenues collected by an affiliate organization on the University's behalf that were not transferred to the University prior to September 30 (more fully discussed in the "Operating Revenues" section on page 13); an increase in net other receivables of \$9.1 million attributable principally to the timing of reimbursement for certain program payments, which was received subsequent to September 30, whereas in 2016, the reimbursement was received prior to fiscal year end; and an increase in student accounts receivable of \$1.2 million, offset partially by decreases in pledge gifts receivable and capital appropriations receivable of \$10.9 million and \$0.2 million, respectively. In 2016, the University received a substantial pledge to construct the Mike Ilitch School of Business. The 2017 decrease in pledge gifts receivable was driven largely by scheduled payments received related to that pledge, offset partially by new pledges.

In 2016, current assets decreased \$1.4 million (0.3 percent) to \$514.8 million compared to \$516.2 million at September 30, 2015. The decrease consisted of a decline in cash and temporary investments of \$4.5 million and a decrease in net current receivables of \$0.1 million, offset partially by an increase in prepaid expenses and deposits and other current assets of \$3.2 million.

Current liabilities are comprised of amounts payable within one year and consist primarily of accounts payable, accrued liabilities, and unearned revenue. In 2017, total current liabilities increased by \$6.3 million (2.1 percent) to \$300.5 million compared to \$294.2 million at September 30, 2016. The increase consisted of increases in unearned revenue of \$6.2 million and the current portion of long-term debt of \$0.6 million, offset partially by a decrease in deposits of \$0.5 million. Unearned revenue primarily consists of 75 percent of student tuition and fees for the current fall term received or due prior to October 2017. The increase in unearned revenue was attributable principally to fall 2017 tuition and fee rate increases for undergraduate students and graduate students of 3.75 and 4.0 percent, respectively, combined with a slight increase in student credit hours.

In 2016, total current liabilities decreased by \$0.3 million (0.1 percent) to \$294.2 million compared to \$294.5 million at September 30, 2015. The decrease consisted of an \$11.4 million decrease in accounts payable and accrued liabilities, partially offset by increases in unearned revenue, the current portion of long-term debt, and deposits of \$8.6 million, \$2.4 million, and \$0.1 million, respectively. The decrease in accounts payable and accrued liabilities resulted from a decrease of \$10.6 million in construction and trade accounts payables due to having fewer major construction projects in progress at the end of 2016 than existed at the end of 2015, combined with a decrease of \$3.4 million in accrued liabilities related to pay-outs for the 2015 academic retirement incentive program (discussed more fully below) and a decrease of \$1.3 million in other accrued liabilities, offset partially by an increase in accrued payroll of \$3.9 million, attributable largely to the timing of the 2016 year-end pay date resulting from the accrual of two additional days combined with an accrual for termination benefits for certain 2016 retirement agreements. The increase in unearned revenue was attributable principally to fall 2016 tuition and fee rate increases for undergraduate lower and upper division of 3.8 and 4.5 percent, respectively, and tuition and fee rate increases for graduate students of 4.1 percent, combined with a 6.9 percent increase in graduate enrollment.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

The University's current ratio, a measure of liquidity, was 1.9 at September 30, 2017 compared with a ratio of 1.7 and 1.8 at September 30, 2016 and 2015, respectively.

Noncurrent Assets and Liabilities

Noncurrent Assets

Noncurrent assets are comprised primarily of investments, capital assets, and noncurrent receivables. Notable changes from 2016 to 2017 in noncurrent assets included decreases in noncurrent receivables and net capital assets of \$12.3 million and \$10.2 million, respectively.

Investments

Investments are categorized in either the Endowment Fund or the Plant Fund. The Endowment Fund investments consist of gift annuity, life income funds, and endowments not managed by the Foundation. Investments in the Plant Fund consist primarily of invested bond proceeds and related earnings, which are restricted for capital projects. The invested bond proceeds and the majority of these endowment fund investments are managed by the University.

The composition of noncurrent investments at September 30, 2017, 2016, and 2015 is as follows:

| | 2017 | 2016 | 2015 |
|-------------------------------------|---------------|---------------|---------------|
| | (in millions) | | |
| Endowment Fund | \$ 4.1 | \$ 3.9 | \$ 3.4 |
| Plant Fund - Invested bond proceeds | - | - | 2.0 |
| Total noncurrent investments | \$ 4.1 | \$ 3.9 | \$ 5.4 |

The invested bond proceeds component of noncurrent investments decreased \$2.0 million in 2016 as funds were spent for planned capital projects.

Foundation Investments

The Foundation manages approximately 99 percent of the University's endowment funds. The composition of the Foundation's noncurrent investments at September 30, 2017, 2016, and 2015 is as follows:

| | 2017 | 2016 | 2015 |
|----------------------------|-----------------|-----------------|-----------------|
| | (in millions) | | |
| Endowment Fund investments | \$ 353.6 | \$ 309.6 | \$ 286.7 |

In 2017, the Foundation Endowment Fund investments increased \$44.0 million (14.2 percent) to \$353.6 million. The 2017 increase is principally because of a net investment gain (\$35.4 million) and new gifts (\$15.3 million), offset partially by net distributions to the University (\$10.4 million).

In 2016, the Foundation Endowment Fund investments increased \$22.9 million (8.0 percent) to \$309.6 million. The 2016 increase is principally because of a net investment gain (\$26.2 million) and new gifts (\$16.6 million), offset partially by net distributions to the University (\$10.6 million).

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Capital Assets

One factor critical to 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 modernize its older teaching, research, and administrative buildings as well as construct new facilities.

Capital additions during 2017 totaled \$51.4 million, compared to \$51.0 million in 2016 and \$94.1 million in 2015. The 2017 capital additions included expenditures for the Mike Ilitch School of Business (\$22.1 million), renovation of the Thompson Home to create additional student housing (\$5.3 million), the partial renovation of the Elliman Research Building (\$3.1 million), as well as renovations and upgrades to many other university buildings.

The 2016 capital additions included expenditures for the Student Center Building renovations (\$5.3 million), the partial renovation of the Elliman Research Building (\$4.4 million), Scott Hall Research Laboratory and Mechanical System Upgrades (\$3.4 million), Phase I renovations of 5447 Woodward (\$2.6 million), and renovations and upgrades to other university buildings.

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

Other Noncurrent Assets

In 2017, other noncurrent assets (primarily noncurrent receivables) decreased \$12.7 million (25.6 percent) to \$37.0 million, compared to \$49.7 million and \$33.0 million at September 30, 2016 and 2015, respectively. The decrease is attributable principally to the reclassification of a pledge received in 2016 to construct the Mike Ilitch School of Business from noncurrent to current pledge gifts receivable for those payments due during fiscal year 2018.

Noncurrent Liabilities

Notable changes in the noncurrent liability section of the statement of net position from 2016 to 2017 included declines in long-term debt and other noncurrent liabilities of \$16.8 million and \$3.6 million, respectively.

Long-term Debt

Long-term debt (including the current portion) totaled \$463.3 million, \$479.4 million, and \$485.9 million at September 30, 2017, 2016, and 2015, respectively. The 2017 decrease of \$16.1 million primarily represented principal payments made during the year.

For 2016, long-term debt declined \$6.5 million. The decline primarily represented principal payments made during that year, partially offset by the net impact of the advance refunding of the University's Series 2007A, Series 2008, and Series 2009A bonds (more fully discussed below).

In its role of financial steward, the University works to manage its financial resources effectively, including the use of debt to finance capital projects. As more fully discussed in Note 6 to the financial statements, the University issued its tax-exempt Series 2016A and its taxable Series 2016B bonds in July 2016. The Series 2016A bonds were issued for a par amount of \$90.0 million and net premium of \$15.7 million. The Series 2016B bonds were issued for a par amount of \$11.3 million less a net discount of \$0.2 million. These bonds were issued to fully or partially advance refund the University's Series 2007A, Series 2008, and Series 2009A bonds aggregating \$105.3 million.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Net Position

Net position represents the difference between assets, deferred outflows of resources, and liabilities. The University's net position at September 30, 2017, 2016, and 2015 is summarized as follows:

| | 2017 | 2016 | 2015 |
|----------------------------------|------------------------|------------------------|------------------------|
| | (in millions) | | |
| Net investment in capital assets | \$ 393.2 | \$ 386.9 | \$ 375.8 |
| Restricted: | | | |
| Nonexpendable | 11.3 | 11.5 | 11.6 |
| Expendable | 91.2 | 106.8 | 69.3 |
| Unrestricted | <u>163.4</u> | <u>107.6</u> | <u>126.4</u> |
| Total net position | <u><u>\$ 659.1</u></u> | <u><u>\$ 612.8</u></u> | <u><u>\$ 583.1</u></u> |

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

- **Net Investment in Capital Assets** - The University's investment in capital assets, 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** - The corpus portion of gifts to the University's permanent true endowment funds, certain University funds, which have been specifically allocated and restricted pursuant to specific agreements with individuals or entities, and the University's required funding match for federal student loans and donor-restricted University loans.
 - **Expendable** - Gifts and sponsored and governmental grants and contracts, which are subject to externally imposed restrictions governing their use (scholarships, academic and research programs, and capital projects). This category of net position also includes undistributed accretion from investments of permanent true endowments and funds functioning as endowments with externally imposed restrictions.

The restricted nonexpendable funds and the funds functioning as endowments included in the restricted expendable components of net position are directly affected by the performance of the University's long-term investments and its spending policy.

- **Unrestricted** - Funds which are not subject to externally imposed restrictions; however, most of the University's unrestricted net position is designated by the board of governors and/or management for various academic, research and administrative programs, and capital projects. In 2017, unrestricted net position increased \$55.8 million (51.9 percent) to \$163.4 million compared to \$107.6 million and \$126.4 million at September 30, 2016 and 2015, respectively. The 2017 increase resulted largely from an increase in the Designated Fund unrestricted net position of \$54.3 million, which was attributable principally to a change in the methodology used to allocate program revenue for a specific University Health Affairs program (more fully discussed in the "Operating Revenues" section on page 13). The 2016 decline resulted primarily from a reduction in the Plant Fund unrestricted net position of \$13.1 million, as funds were spent for planned capital projects, combined with a net decrease of \$5.9 million attributable to the write-off of certain receivable amounts from an affiliate organization deemed uncollectible.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the revenues and expenses recognized during fiscal year 2017. Prior fiscal years' data is provided for comparative purposes.

Revenues

Consistent with GASB principles, revenues are categorized as operating, nonoperating, or other. Operating revenues generally result from exchange transactions, such as revenues received for tuition and fees or grants and contracts revenue for services performed on sponsored programs. Nonoperating revenues are primarily nonexchange in nature, such as state operating appropriations and investment income. Other represents capital and endowment transactions.

Summarized operating, nonoperating, and other revenues for the years ended September 30, 2017, 2016, and 2015 are presented below:

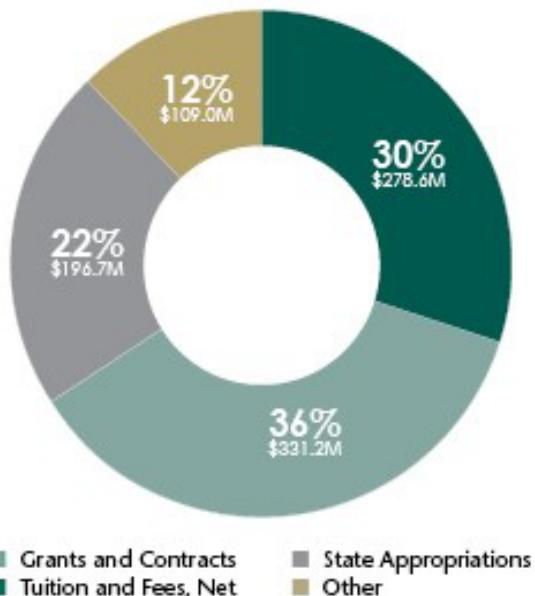
| | 2017 | 2016 | 2015 |
|---|-----------------|-----------------|-----------------|
| | (in millions) | | |
| Operating Revenues | | | |
| Student tuition and fees - Gross | \$ 382.5 | \$ 366.1 | \$ 355.0 |
| Less scholarship allowances | <u>(103.9)</u> | <u>(98.2)</u> | <u>(93.4)</u> |
| Net student tuition and fees | 278.6 | 267.9 | 261.6 |
| Grants and contracts | 298.1 | 221.0 | 234.6 |
| Departmental activities, auxiliary enterprises, and other | <u>63.7</u> | <u>64.1</u> | <u>64.7</u> |
| Total operating revenues | 640.4 | 553.0 | 560.9 |
| Nonoperating Revenues | | | |
| State operating appropriation | 196.1 | 191.4 | 190.5 |
| Federal Pell grants | 33.1 | 31.2 | 33.5 |
| Gifts | 22.3 | 28.9 | 28.8 |
| Investment income: | | | |
| Income and realized gains | 9.7 | 10.3 | 10.8 |
| Unrealized (loss) gain | (2.3) | 4.7 | (4.5) |
| Change in fair value of derivatives | (0.3) | 0.2 | 1.1 |
| Net distributions from the Foundation | 10.4 | 10.6 | 10.5 |
| Other | <u>2.0</u> | <u>4.0</u> | <u>3.0</u> |
| Total nonoperating revenues | 271.0 | 281.3 | 273.7 |
| Other | | | |
| State capital appropriation | 0.6 | 2.5 | 26.9 |
| Capital and endowment gifts | <u>3.5</u> | <u>39.0</u> | <u>1.6</u> |
| Total other | <u>4.1</u> | <u>41.5</u> | <u>28.5</u> |
| Total revenues | \$ 915.5 | \$ 875.8 | \$ 863.1 |

Wayne State University

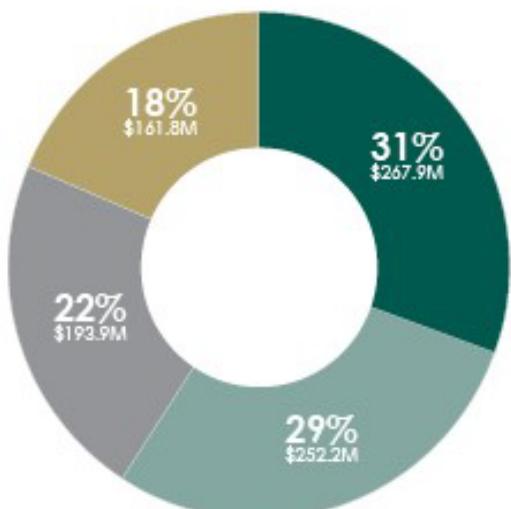
Management's Discussion and Analysis - Unaudited (Continued)

The charts below graphically depict total revenue by source for the years ended September 30, 2017, 2016, and 2015:

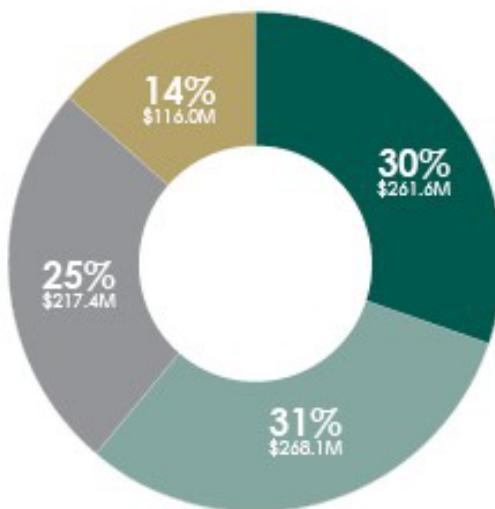
Total Revenue



2017 - \$915.5 million



2016 - \$875.8 million



2015 - \$863.1 million

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Primary 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, typically comprise the largest revenue source to the University. The state operating appropriation and student tuition and fees represent the majority of resources available to fund the University's General Fund operations.

Operating Revenues

Operating revenue totaled \$640.4 million in 2017 compared to \$553.0 and \$560.9 million in 2016 and 2015, respectively. The 2017 increase in total operating revenues of \$87.4 million (15.8 percent) was attributable to several factors:

Student Tuition and Fees - In fiscal year 2017, gross student tuition and fees increased \$16.4 million and scholarship allowances increased by \$5.7 million, resulting in an increase in net student tuition and fees of \$10.7 million. The increase in gross student tuition and fees was attributable principally to the fall 2016 undergraduate lower and upper division tuition rate increases of 3.8 and 4.5 percent, respectively, and a graduate tuition rate increase of 4.1 percent, combined with a 6.9 percent increase in graduate enrollment. The 2016 increase in gross student tuition and fees of \$11.1 million resulted primarily from the fall 2015 undergraduate and graduate tuition rate increases of 3.2 percent, offset partially by a slight decline in undergraduate enrollment.

For financial reporting purposes, student tuition and fees and auxiliary enterprise revenue are reduced by "scholarship allowances." These scholarship allowances represent financial aid granted to students, which is applied directly to their accounts to pay tuition and fee assessments (in the General Fund) and room and board assessments (in the Auxiliary Activities Fund).

The University continues to provide a substantial amount of financial aid to mitigate the impact of tuition rate increases. In 2017, 2016, and 2015 the University provided total scholarships and fellowships of \$122.5 million, \$116.0 million, and \$110.0 million, respectively. For 2017, the \$6.5 million increase represents a 5.6 percent increase in financial aid. The increases in 2016 and 2015 of \$6.0 million and \$2.5 million, respectively, represent percentage increases of 5.5 and 2.3 percent, respectively. The increase in 2017 is attributable principally to an overall increase in university scholarships and other financial aid to help minimize the impact of rising tuition rates for students in need, combined with an increase in Federal Pell grant awards of \$1.9 million. The increase in 2016 is attributable principally to an overall increase in university scholarships and other financial aid to help minimize the impact of rising tuition rates for students in need and to provide incentives to increase student retention.

Grants and Contracts - Grants and contracts revenues increased \$77.1 million (34.9 percent) from 2016 to 2017. The increase consisted of several factors, including an increase in nongovernmental grants and contracts of \$71.4 million, federal grants and contracts of \$3.1 million, and state and local grants and contracts of \$2.6 million. The increase in nongovernmental grants and contracts was attributable largely to a change in the methodology used to allocate program revenue for a specific University Health Affairs program, which increased the University's share of the related program revenue. Implementing the change resulted in recognizing revenue of approximately \$51.5 million in 2017. The University anticipates future annual revenues will total approximately \$25.0 million. Other factors contributing to the increase in nongovernmental grants and contracts include an increase in the Medical School salary reimbursement revenue of \$12.9 million attributable principally to an adjustment in 2016, which reduced certain contract receivable amounts to the net realizable value which did not recur in 2017; a \$4.9 million increase in oncology clinical trial contract revenue, which, due to the timing of the contract, only represented a partial year of revenue in 2016 compared to a full year in 2017; and other routine and cyclical increases of approximately \$2.1 million.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Grants and contracts revenues decreased \$13.6 million (5.8 percent) from 2015 to 2016. The decrease consisted of a decline in nongovernmental grants and contracts of \$11.3 million, attributable principally to an adjustment to 2016 revenue, which reduced certain contract receivable amounts from an affiliate organization, deemed uncollectible, to the net realizable value, combined with a decline in state and local grants and contracts of \$2.3 million, attributable principally to the timing of certain state grants.

Nonoperating and Other Revenues

Nonoperating and other revenue were \$275.1 million in 2017, compared to \$322.8 million and \$302.2 million in 2016 and 2015, respectively. Factors affecting this change are as follows:

Nonoperating Revenues

- The state operating appropriation, totaling \$196.1 million, \$191.4 million, and \$190.5 million in 2017, 2016 and 2015, respectively, is the most significant component of the University's nonoperating and other revenues. The increase in 2017 and 2016 of \$4.7 million and \$0.9 million, respectively, was attributable principally to additional funding received as the University met certain performance metrics.
- Net distributions from the Foundation consist of endowment distributions received from the Foundation based on the University's endowment rate spending policy, offset by transfers from the University to establish or increase endowment funds held by the Foundation. Net distributions from the Foundation decreased \$0.2 million in 2017 and increased \$0.1 million in 2016.
- The fund components of investment income included in nonoperating revenues for the past three years are as follows:

Investment Income (including realized and unrealized income)

| | 2017 | 2016 | 2015 |
|--|----------------------|-----------------------|----------------------|
| | (in millions) | | |
| Net investment income: | | | |
| Income and realized gains | \$ 9.7 | \$ 10.3 | \$ 10.8 |
| Unrealized (loss) gain | (2.3) | 4.7 | (4.5) |
| Change in fair value of derivatives | <u>(0.3)</u> | <u>0.2</u> | <u>1.1</u> |
| Total net investment income, including the change in fair value of derivatives | <u>\$ 7.1</u> | <u>\$ 15.2</u> | <u>\$ 7.4</u> |

Investment income is attributable principally to cash pool investments. The 2017 decrease in net investment income of \$8.1 million was due largely to an unrealized loss in 2017 versus an unrealized gain in 2016. The unrealized loss in 2017 was due to an increase in interest rate levels during the year. The 2016 increase in net investment income of \$7.8 million was due largely to an unrealized gain in 2016 versus an unrealized loss in 2015. The unrealized gain in 2016 was due to a decline in interest rate levels.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Other Revenues

Other revenues totaled \$4.1 million, \$41.5 million, and \$28.5 million in 2017, 2016, and 2015, respectively. Other revenues in 2016 include \$39.0 million in capital gifts contributed largely for the construction of the Mike Ilitch School of Business and \$2.5 million in state capital appropriations for the construction of the Integrative Biosciences Center (IBio). The State Building Authority approved the project at an estimated project cost of \$90.4 million with a total state capital appropriation of \$30.0 million. The remaining \$60.4 million represents the threshold of project expenditures that the University was required to meet before the state payments would commence. The University met the required threshold during fiscal year 2015. The final payments from the approved state capital appropriation of \$30.0 million were received by the University during fiscal year 2017.

Expenses

Operating and nonoperating expenses for the years ended September 30, 2017, 2016, and 2015 are summarized below:

| | 2017 | 2016 | 2015 |
|-----------------------------|------------------------|------------------------|------------------------|
| | (in millions) | | |
| Operating expenses | \$ 848.7 | \$ 824.8 | \$ 836.4 |
| Nonoperating expenses: | | | |
| Interest expense | 20.5 | 20.6 | 19.5 |
| Other | - | 0.7 | 0.7 |
| Total nonoperating expenses | <u>20.5</u> | <u>21.3</u> | <u>20.2</u> |
| Total expenses | <u><u>\$ 869.2</u></u> | <u><u>\$ 846.1</u></u> | <u><u>\$ 856.6</u></u> |

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Operating expenses by both functional and natural classification for the years ended September 30, 2017, 2016, and 2015 are as follows:

| | 2017 | | 2016 | | 2015 | |
|---|-----------------|---|-----------------|---|-----------------|---|
| | Dollars | Percentage of Total Operating Expenses | Dollars | Percentage of Total Operating Expenses | Dollars | Percentage of Total Operating Expenses |
| | | | | | | |
| Natural Classification | | | | | | |
| Compensation and benefits | \$ 580.4 | 68.4% | \$ 573.5 | 69.5% | \$ 579.0 | 69.2% |
| Supplies, services, and other | 193.3 | 22.7% | 183.1 | 22.2% | 189.5 | 22.7% |
| Depreciation | 61.6 | 7.3% | 55.9 | 6.8% | 56.3 | 6.7% |
| Scholarships and fellowships ⁽¹⁾ | 13.4 | 1.6% | 12.3 | 1.5% | 11.6 | 1.4% |
| Total | \$ 848.7 | 100% | \$ 824.8 | 100% | \$ 836.4 | 100% |
| Functional Classification | | | | | | |
| Instruction | \$ 276.5 | 32.6% | \$ 278.6 | 33.8% | \$ 294.5 | 35.2% |
| Research | 156.4 | 18.5% | 146.9 | 17.8% | 147.1 | 17.6% |
| Public service | 62.2 | 7.3% | 60.7 | 7.4% | 59.3 | 7.1% |
| Academic support | 66.4 | 7.8% | 67.0 | 8.1% | 64.1 | 7.6% |
| Student services | 41.9 | 4.9% | 38.7 | 4.7% | 38.1 | 4.6% |
| Institutional support | 85.0 | 10.0% | 78.1 | 9.5% | 75.2 | 9.0% |
| Operation and maintenance of plant | 60.4 | 7.1% | 60.7 | 7.3% | 63.4 | 7.6% |
| Scholarships and fellowships ⁽¹⁾ | 13.4 | 1.6% | 12.3 | 1.5% | 11.6 | 1.4% |
| Auxiliary enterprises | 24.9 | 2.9% | 25.9 | 3.1% | 26.8 | 3.2% |
| Depreciation | 61.6 | 7.3% | 55.9 | 6.8% | 56.3 | 6.7% |
| Total | \$ 848.7 | 100% | \$ 824.8 | 100% | \$ 836.4 | 100% |

⁽¹⁾ Excludes "scholarship allowances" applied directly to students' tuition and room and board (see pages 11, 13, and 17).

Operating Expenses

Compensation and benefit expenses increased \$6.9 million (1.2 percent) in 2017 to \$580.4 million compared to \$573.5 million and \$579.0 million in 2016 and 2015, respectively. The moderate increase in 2017 was attributable principally to salary and benefit inflationary cost increases. The 2016 decrease resulted principally from one-time costs related to the academic retirement incentive program offered during fiscal year 2015 and the 2016 impact of the reduction in headcount, offset partially by inflationary increases in salary and benefit costs.

Supplies, services, and other expenses increased \$10.2 million (5.6 percent) in 2017 to \$193.3 million compared to \$183.1 million and \$189.5 million in 2016 and 2015, respectively. The increase in 2017 was driven largely by a \$6.3 million increase in expenses related to the timing of a contract for oncology clinical trials, which resulted in a partial year of expenses in 2016 compared to a full year in 2017.

Total scholarships and fellowships granted in 2017 increased \$6.5 million (5.6 percent) to \$122.5 million, compared to \$116.0 million in 2016. As discussed previously, the increase in 2017 was attributable to an overall increase in university scholarships and other financial aid, combined with an increase in Federal Pell grant awards of \$1.9 million. Total scholarships and fellowships granted in 2016 increased \$6.0 million (5.5 percent) to \$116.0 million, compared to \$110.0 million in 2015. The increase in 2016 was attributable principally to an overall increase in university scholarships and other financial aid.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Total scholarships and fellowships granted have two components. The scholarships and fellowships reflected on the table on page 16 of \$13.4 million, \$12.3 million, and \$11.6 million are disbursed directly to students and are reported as operating expenses in 2017, 2016, and 2015, respectively. The remaining amounts for 2017, 2016, and 2015 of \$109.1 million, \$103.7 million, and \$98.4 million, respectively, are applied directly to the students' accounts receivable balances. These amounts are netted against student tuition and fees, or room and board in the Auxiliary Activities Fund, as "scholarship allowances" in the statement of revenue, expenses, and changes in net position on page 20.

Another way to analyze this same pool of operating expenses is by function.

In this regard, combined expenditures for instruction decreased \$2.1 million (0.8 percent) to \$276.5 million in 2017, compared to \$278.6 million and \$294.5 million in 2016 and 2015, respectively. The expenses in 2017 remained relatively flat. The 2016 decrease of \$15.9 million was attributable to a decline in compensation-related expenses of \$14.8 million, combined with a reduction in other expenses of \$1.1 million. The decrease in compensation-related expenses resulted principally from the one-time costs related to the academic retirement incentive program offered during fiscal year 2015 and the 2016 impact of the headcount reduction.

Research expenditures increased \$9.5 million (6.5 percent) in 2017 to \$156.4 million, compared to \$146.9 million and \$147.1 million in 2016 and 2015, respectively. The 2017 increase was attributable principally to an increase in expenses resulting from the timing of a contract for clinical trials in oncology (as previously discussed), which resulted in a partial year of expenses in 2016 compared to a full year in 2017. The expenses in 2016 remained relatively flat.

Institutional support expenses increased \$6.9 million (8.8 percent) in 2017 to \$85.0 million, compared to \$78.1 million and \$75.2 million in 2016 and 2015, respectively. The increase in 2017 was attributable to an increase in compensation-related expenses of \$3.6 million, combined with an increase in direct expenses of \$3.3 million. The increase in 2016 was attributable to an increase in compensation-related expenses of \$3.9 million, partially offset by a reduction in other expenses of \$1.0 million.

Nonoperating Expenses

Interest expense totaled \$20.5 million, \$20.6 million, and \$19.5 million in 2017, 2016, and 2015, respectively. Interest expense was net of a federal subsidy related to the Series 2009B Build America Bonds of \$0.5 million in 2017, 2016, and 2015.

Wayne State University

Management's Discussion and Analysis - Unaudited (Continued)

Statement of Cash Flows

The statement of cash flows provides information about the University's cash receipts and cash disbursements during the fiscal year. Unlike the statement of revenues, expenses, and changes in net position, which reports revenue when it is earned and expenses when they are incurred regardless of when cash is received or disbursed, the statement of cash flows reports actual cash received and disbursed during the period. The focus of the statement of cash flows is on the resulting increase or decrease in cash and temporary investments. The statement of cash flows assists the users in assessing the University's ability to meet its obligations as they come due and the needs for external financing.

A comparative summary of the statement of cash flows for the years ended September 30, 2017, 2016, and 2015 is as follows:

| | 2017 | 2016 | 2015 |
|---|------------------------|------------------------|------------------------|
| | (in millions) | | |
| Cash and temporary investments (used in) provided by: | | | |
| Operating activities | \$ (197.4) | \$ (207.1) | \$ (205.5) |
| Noncapital financing activities | 264.1 | 270.7 | 261.0 |
| Capital and related financing activities | (54.7) | (80.2) | (105.7) |
| Investing activities | <u>8.8</u> | <u>12.1</u> | <u>35.8</u> |
| Net increase (decrease) in cash and temporary investments | 20.8 | (4.5) | (14.4) |
| Cash and temporary investments - Beginning of year | <u>334.3</u> | <u>338.8</u> | <u>353.2</u> |
| Cash and temporary investments - End of year | <u>\$ 355.1</u> | <u>\$ 334.3</u> | <u>\$ 338.8</u> |

Cash flows used in operating activities reflect tuition and fees, grants and contracts, and auxiliary and departmental activities. Major uses include payment of wages, employee benefits, supplies, utilities, and scholarships. The most significant source of cash flows provided by noncapital financing activities is the state operating appropriation, which totaled \$196.1 million in 2017, compared to \$191.4 million and \$190.5 million in 2016 and 2015, respectively. Cash flows from capital and related financing activities represent Plant Fund and related long-term debt activities and capital gifts. Cash flows from investing activities include 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. Investing activities also include cash proceeds from the sale of bond-related investments to finance construction expenditures.

Economic Factors That Will Affect the Future

The Michigan economy continues to grow as is demonstrated by increased revenues at the state level. For the third consecutive year, the University has received an increase in the state operating appropriations. Similarly, the City of Detroit continues to improve infrastructure in the Midtown area, which includes the Wayne State University campus. In 2017, the Q-Line began operations, increasing access to the University campus. Finally, private investment in the city and the area surrounding the University has increased the viability of Wayne State University as a destination for today and tomorrow's student.

Wayne State University

Statement of Net Position

| | September 30, 2017 | | | September 30, 2016 | | |
|--|---|------------|--------------|---|------------|------------|
| | Wayne State University University | Foundation | Total | Wayne State University University | Foundation | Total |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and temporary investments (Note 2) | \$ 355,030 | \$ 9,047 | \$ 364,077 | \$ 334,250 | \$ 11,807 | \$ 346,057 |
| Current receivables - Net (Note 4) | 172,747 | 146 | 172,893 | 139,280 | 836 | 140,116 |
| Inventories | 1,373 | - | 1,373 | 1,468 | - | 1,468 |
| Prepaid expenses and deposits | 41,127 | - | 41,127 | 39,828 | - | 39,828 |
| Total current assets | 570,277 | 9,193 | 579,470 | 514,826 | 12,643 | 527,469 |
| Noncurrent Assets | | | | | | |
| Investments (Note 2 and Note 3) | 4,106 | 353,579 | 357,685 | 3,940 | 309,647 | 313,587 |
| Noncurrent receivables - Net (Note 4) | 36,871 | 132 | 37,003 | 49,152 | - | 49,152 |
| Derivative instruments (Note 7) | 178 | - | 178 | 521 | - | 521 |
| Capital assets - Net (Note 5) | 842,659 | - | 842,659 | 852,884 | - | 852,884 |
| Total noncurrent assets | 883,814 | 353,711 | 1,237,525 | 906,497 | 309,647 | 1,216,144 |
| Total assets | 1,454,091 | 362,904 | 1,816,995 | 1,421,323 | 322,290 | 1,743,613 |
| Deferred Outflows of Resources | | | | | | |
| | 12,792 | - | 12,792 | 13,408 | - | 13,408 |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued liabilities | 99,622 | 555 | 100,177 | 99,613 | 223 | 99,836 |
| Unearned revenue | 176,828 | - | 176,828 | 170,662 | - | 170,662 |
| Deposits | 7,287 | - | 7,287 | 7,817 | - | 7,817 |
| Long-term debt - Current portion (Note 6) | 16,772 | - | 16,772 | 16,129 | - | 16,129 |
| Total current liabilities | 300,509 | 555 | 301,064 | 294,221 | 223 | 294,444 |
| Noncurrent Liabilities | | | | | | |
| Federal portion of student loan funds | 29,379 | - | 29,379 | 32,526 | - | 32,526 |
| Accrued employee benefits and other liabilities | 31,374 | - | 31,374 | 31,922 | - | 31,922 |
| Long-term debt - Net of current portion (Note 6) | 446,508 | - | 446,508 | 463,274 | - | 463,274 |
| Total noncurrent liabilities | 507,261 | - | 507,261 | 527,722 | - | 527,722 |
| Total liabilities | 807,770 | 555 | 808,325 | 821,943 | 223 | 822,166 |
| Net Position | | | | | | |
| Net investment in capital assets | 393,243 | - | 393,243 | 386,906 | - | 386,906 |
| Restricted: | | | | | | |
| Nonexpendable | 11,286 | 195,253 | 206,539 | 11,459 | 180,400 | 191,859 |
| Expendable | 91,185 | 159,323 | 250,508 | 106,816 | 134,389 | 241,205 |
| Unrestricted | 163,399 | 7,773 | 171,172 | 107,607 | 7,278 | 114,885 |
| Total net position | \$ 659,113 | \$ 362,349 | \$ 1,021,462 | \$ 612,788 | \$ 322,067 | \$ 934,855 |

Wayne State University

Statement of Revenues, Expenses, and Changes in Net Position

| | Year Ended September 30, 2017 | | | Year Ended September 30, 2016 | | |
|---|-------------------------------|------------|--------------|-------------------------------|------------|------------|
| | Wayne State University | | | Wayne State University | | |
| | University | Foundation | Total | University | Foundation | Total |
| Operating Revenues | | | | | | |
| Student tuition and fees | \$ 382,544 | \$ - | \$ 382,544 | \$ 366,085 | \$ - | \$ 366,085 |
| Less scholarship allowances | (103,938) | - | (103,938) | (98,200) | - | (98,200) |
| Net student tuition and fees | 278,606 | - | 278,606 | 267,885 | - | 267,885 |
| Federal grants and contracts | 108,557 | - | 108,557 | 105,446 | - | 105,446 |
| State and local grants and contracts | 24,473 | - | 24,473 | 21,850 | - | 21,850 |
| Nongovernmental grants and contracts | 165,013 | - | 165,013 | 93,655 | - | 93,655 |
| Departmental activities | 21,325 | - | 21,325 | 21,998 | - | 21,998 |
| Auxiliary enterprises - Net of scholarship allowances of \$5,160 in 2017 and \$5,502 in 2016 | 37,120 | - | 37,120 | 37,685 | - | 37,685 |
| Other operating revenues | 5,264 | - | 5,264 | 4,480 | - | 4,480 |
| Total operating revenues | 640,358 | - | 640,358 | 552,999 | - | 552,999 |
| Operating Expenses (Note 11) | | | | | | |
| Instruction | 276,459 | - | 276,459 | 278,551 | - | 278,551 |
| Research | 156,442 | - | 156,442 | 146,916 | - | 146,916 |
| Public service | 62,188 | - | 62,188 | 60,697 | - | 60,697 |
| Academic support | 66,347 | - | 66,347 | 66,978 | - | 66,978 |
| Student services | 41,866 | - | 41,866 | 38,724 | - | 38,724 |
| Institutional support | 85,049 | - | 85,049 | 78,120 | - | 78,120 |
| Operation and maintenance of plant | 60,408 | - | 60,408 | 60,733 | - | 60,733 |
| Scholarships and fellowships | 13,410 | - | 13,410 | 12,254 | - | 12,254 |
| Auxiliary enterprises | 24,940 | - | 24,940 | 25,929 | - | 25,929 |
| Depreciation | 61,560 | - | 61,560 | 55,944 | - | 55,944 |
| Total operating expenses | 848,669 | - | 848,669 | 824,846 | - | 824,846 |
| Operating Loss | (208,311) | - | (208,311) | (271,847) | - | (271,847) |
| Nonoperating Revenues (Expenses) | | | | | | |
| State operating appropriation | 196,064 | - | 196,064 | 191,451 | - | 191,451 |
| Federal Pell grants | 33,085 | - | 33,085 | 31,174 | - | 31,174 |
| Gifts | 22,358 | 832 | 23,190 | 28,871 | 2,260 | 31,131 |
| Investment income including change in fair value of derivatives of (\$343) in 2017 and \$177 in 2016 | 7,117 | 35,394 | 42,511 | 15,171 | 26,184 | 41,355 |
| Net distributions from the Foundation | 10,393 | (10,393) | - | 10,611 | (10,611) | - |
| Interest on capital asset - Related debt | (20,500) | - | (20,500) | (20,656) | - | (20,656) |
| Loss on capital assets retired | (33) | - | (33) | (675) | - | (675) |
| Other | 2,022 | - | 2,022 | 4,050 | - | 4,050 |
| Net nonoperating revenues | 250,506 | 25,833 | 276,339 | 259,997 | 17,833 | 277,830 |
| Income (Loss) Before Other | 42,195 | 25,833 | 68,028 | (11,850) | 17,833 | 5,983 |
| Other | | | | | | |
| State capital appropriation | 585 | - | 585 | 2,474 | - | 2,474 |
| Capital gifts | 3,545 | - | 3,545 | 38,993 | - | 38,993 |
| Gifts for permanent endowments | - | 14,449 | 14,449 | 12 | 14,362 | 14,374 |
| Total other | 4,130 | 14,449 | 18,579 | 41,479 | 14,362 | 55,841 |
| Increase in Net Position | 46,325 | 40,282 | 86,607 | 29,629 | 32,195 | 61,824 |
| Net Position | | | | | | |
| Beginning of year | 612,788 | 322,067 | 934,855 | 583,159 | 289,872 | 873,031 |
| End of year | \$ 659,113 | \$ 362,349 | \$ 1,021,462 | \$ 612,788 | \$ 322,067 | \$ 934,855 |

Wayne State University

Statement of Cash Flows

| | Year Ended September 30 | |
|--|-------------------------|---------------------|
| | 2017 | 2016 |
| (in thousands) | | |
| Cash Flows from Operating Activities | | |
| Tuition and fees - Net | \$ 282,310 | \$ 275,143 |
| Grants and contracts | 254,313 | 219,994 |
| Auxiliary enterprises | 37,387 | 36,182 |
| Departmental activities | 20,775 | 27,879 |
| Loans issued to students | (3,698) | (3,805) |
| Collection of loans from students | 3,850 | 4,125 |
| Scholarships and fellowships | (14,106) | (14,817) |
| Payments to suppliers | (200,985) | (184,593) |
| Payments to employees and benefit providers | (582,504) | (571,697) |
| Other receipts | 5,264 | 4,480 |
| Net cash used in operating activities | (197,394) | (207,109) |
| Cash Flows from Noncapital Financing Activities | | |
| State operating appropriation | 196,064 | 191,451 |
| Federal Pell grants | 33,085 | 32,065 |
| Gifts | 22,441 | 30,982 |
| External student lending receipts | 194,893 | 195,835 |
| External student lending disbursements | (192,618) | (195,962) |
| Net distributions from the Foundation | 10,393 | 10,610 |
| Other | (193) | 5,701 |
| Net cash provided by noncapital financing activities | 264,065 | 270,682 |
| Cash Flows from Capital and Related Financing Activities | | |
| State capital appropriations | 818 | 13,033 |
| Capital gifts and grants | 26,006 | 4,095 |
| Proceeds from issuance of debt and other long-term obligations | - | 371 |
| Expenditures for capital assets | (47,698) | (63,422) |
| Principal paid on capital debt | (13,780) | (13,150) |
| Interest paid on capital debt | (20,061) | (21,205) |
| Other | - | 100 |
| Net cash used in capital and related financing activities | (54,715) | (80,178) |
| Cash Flows from Investing Activities | | |
| Investment income - Net | 8,861 | 10,706 |
| Proceeds from sales and maturities of investments | 97 | 1,969 |
| Purchase of investments | (134) | (570) |
| Net cash provided by investing activities | 8,824 | 12,105 |
| Net Increase (Decrease) in Cash and Temporary Investments | 20,780 | (4,500) |
| Cash and Temporary Investments - Beginning of year | 334,250 | 338,750 |
| Cash and Temporary Investments - End of year | \$ 355,030 | \$ 334,250 |
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | |
| Operating loss | \$ (208,311) | \$ (271,847) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Depreciation expense | 61,560 | 55,944 |
| Changes in assets and liabilities: | | |
| Receivables - Net | (44,890) | 13,622 |
| Prepaid expenses and inventories | (1,331) | (4,013) |
| Accounts payable and accrued liabilities | (6,399) | (192) |
| Deposits | (502) | (248) |
| Unearned income | 6,282 | 7,240 |
| Accrued employee benefits and other liabilities | (3,803) | (7,615) |
| Net cash used in operating activities | \$ (197,394) | \$ (207,109) |
| Noncash Transactions | | |
| Proceeds from issuance of Series 2016A and Series 2016B Bonds | \$ - | \$ 116,538.0 |
| Payments related to refunding of Series 2007A, Series 2008, and Series 2009A Bonds | - | (105,285.0) |

Note I - Basis of Presentation and Significant Accounting Policies

Overview

Wayne State University (the “University”) is a state-supported institution with a fall 2017 enrollment of approximately 27,100 students. The financial statements include the individual schools, colleges, and departments and the controlled organization. The controlled organization of the University is the Wayne State University Foundation (the “Foundation”), which manages approximately 99 percent of the University’s endowment funds. The Foundation is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB No. 61. The Foundation provides financial support for the objectives, purposes, and programs of the University. The University controls the timing and amount of its receipts from the Foundation, and the resources (and income thereon) which the Foundation holds and invests are dedicated to benefit the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its statement of net position and statement of revenues, expenses, and changes in net position are discretely presented in the University’s financial statements. The Foundation does not issue its own financial statements.

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*, as amended by GASB No. 61. 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). The University reports as a special purpose government engaged primarily in business-type activities (BTA), as defined by the GASB, on the accrual basis. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

Net Position - Consistent with GASB principles, the University reports its net position in four categories as follows:

- **Net Investment in Capital Assets** - The University’s investment in capital assets, 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** - The corpus portion of gifts to the University’s permanent true endowment funds, certain university funds which have been specifically allocated and restricted pursuant to specific agreements with individuals or entities, and the University’s required funding match for federal student loans and donor-restricted university loans

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

- **Restricted Expendable** - Gifts and sponsored and governmental grants and contracts, which are subject to externally imposed restrictions governing their use (scholarships, academic and research programs, and capital projects). This category of net position also includes undistributed accretion from investments of permanent true endowments and funds functioning as endowments with externally imposed restrictions.
- **Unrestricted** - Funds which are not subject to externally imposed restrictions; however, most of the University's unrestricted net position is designated by the board of governors and/or management for various academic, research, and administrative programs and capital projects.

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The University reports its operations as a business-type activity. 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 shown as a reduction to gross student tuition and fees and auxiliary enterprises revenue. Scholarships and fellowships disbursed directly to students are presented as scholarship and fellowship expenses.

Operating activities, as reported in the statement of revenues, expenses, and changes in net position, are those activities that generally result from exchange transactions, such as revenues received for tuition and fees, grants and contracts revenue for services performed on sponsored programs, or expenses paid for goods or services. Nonoperating revenues are generally nonexchange in nature. State appropriations, Pell grant revenue, gifts, and investment activity are nonexchange transactions.

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 Prudent Management of Institutional Funds Acts, as adopted in Michigan on September 15, 2009, 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. Commencing with the quarter ended December 31, 2013, the annual distribution rate began to be reduced from 5 percent of the one-quarter lagged three-year moving average fair value of fund shares to 4.5 percent. Prior to April 1, 2017, distributions were managed toward the new rate by keeping quarter-to-quarter distributions per share unchanged and moving toward the 4.5 percent rate when increases in the value of fund shares would otherwise result in higher per-share distributions. Effective April 1, 2017, the University's endowment rate spending policy provides for an annual distribution of 4.50 percent of a three-year moving average of the market value of endowment assets, measured at quarterly intervals. Of this annual distribution, 4.05 percent is transferred to the beneficiary or operating program accounts and 0.45 percent is used for administration of the University's development efforts. The Foundation follows the spending policy established by the University.

Unearned Revenue - Unearned revenue represents amounts received and/or receivable in advance of an event or in advance 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 underlying agreements. Unearned revenue will be recognized as revenue in subsequent periods commensurate with generally accepted accounting principles and/or the applicable grant and contract terms and conditions.

Derivative Instruments - Derivative instruments consist of interest rate swap agreements and are stated at fair value based on the proprietary pricing model.

Compensated Absences - Certain university employees earn vacation and sick leave benefits based, in part, on length of service. After the completion of the probation period, vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at death, retirement, or termination. Unused hours exceeding these limitations are forfeited.

Inventories - Inventories are stated at the lower of cost or market, determined by the first-in, first-out method.

Prepaid Expenses and Deposits - Prepaid expenses and deposits primarily represent cash payments made in advance of when the related expenditures are recognized for financial statement purposes. The balances at fiscal year end consist primarily of prepaid student financial aid, which is paid to students at the beginning of the fall term each fiscal year, with the expense recognized for accounting purposes over the financial reporting period (fall semester) to which it relates.

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

Capital Assets - Capital assets are recorded at cost or, if acquired by gift, at the fair market value as of the date of donation. Depreciation is computed on the straight-line method over the estimated service lives (5 to 40 years) of the respective assets.

Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows include the loss on the defeasance of certain General Revenues Bonds Series, net of amortization, at September 30, 2017 and 2016 (see Note 6).

Revenue Recognition - State operating appropriations are recognized in the period for which they are appropriated. Grants and contract revenue are recognized as the related expenditures are incurred. State capital appropriations, funded through the State Building Authority, are recognized as eligible capital project expenditures are incurred.

Pledges and bequests of financial support from corporations, foundations, and individuals are recognized as revenue 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 a 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 \$192,618,000 and \$195,962,000 in 2017 and 2016, respectively, for student loans through the U.S. Department of Education federal direct lending and federal guaranteed student loan programs. These disbursements and the related receipts are not included as revenue or expenditures in the accompanying statement of revenues, expenses, and changes in net position. The disbursements and related receipts are reflected in the noncapital financing activities section of the statement of cash flows.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 2 - Cash and Investments

Cash and investments, by classification and investment type, at September 30, 2017 and 2016 are as follows (in thousands):

| Classification | 2017 | 2016 |
|---|-------------------|-------------------|
| Cash and temporary investments | \$ 355,030 | \$ 334,250 |
| Investments - Endowment Fund | 4,106 | 3,940 |
| Total cash and investments | \$ 359,136 | \$ 338,190 |
| Type | 2017 | 2016 |
| Fixed income | \$ 270,521 | \$ 302,611 |
| Certificates of deposit and savings accounts | 114 | 113 |
| Real estate investment pool and other investments | 45 | 45 |
| Other | 10,713 | 5,314 |
| Cash - Net of checks issued | 77,743 | 30,107 |
| Total cash and investments | \$ 359,136 | \$ 338,190 |

The University's cash and temporary investments provided a return of 1.7 and 3.8 percent for the fiscal years ended September 30, 2017 and 2016, respectively.

Investment Policies

Cash and temporary investments and bond proceed investments are managed in accordance with the board of governors' cash management policy. This policy sets a general target allocation for its investments as follows:

| Asset Class | Quality Limits (Standard & Poor's/Moody's) | | Actual at September 30, 2017 | |
|--------------------------------|--|-------|------------------------------------|-----|
| | Target | Range | | |
| Short-term liquidity portfolio | A/A | 30% | 15% - 70% | 31% |
| Core portfolio | BBB-/Baa3 | 62% | 30% - 85% | 62% |
| Opportunistic portfolio | B-/B3 | 8% | 0% - 12% | 7% |

The investment policy permits investments in money market funds, U.S. government and government agency obligations, municipal obligations, certificates of deposit, commercial paper, corporate debt and securitized investments, certain additional securitized investments and fixed-income funds with intermediate duration, multistrategy, and short-term high-yield strategies.

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk

For amounts deposited in commercial banks, 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 governing custodial credit risk. At September 30, 2017 and 2016, the carrying amount of these deposits totaled \$91,035,000 and \$46,642,000, respectively. Of these amounts, \$90,233,000 and \$45,840,000 were uninsured and not collateralized at September 30, 2017 and 2016, respectively.

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 counterparty is the firm that sells investments to or buys them from the University. Cash management 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 \$138,396,000 and \$155,999,000 of its portfolio at September 30, 2017 and 2016, respectively. These investments are either held in the name of the University or a nominee's name for the benefit of the University and would not be subject to any general creditor claims.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. Nationally recognized rating organizations, such as Moody's and Standard & 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 cash management policy limits the minimum acceptable credit rating of individual investments as follows (Moody's/Standard & Poor's/Fitch): commercial paper (PI/A1/F1), fixed-income securities in the "liquidity" investment portfolio (A/A), fixed-income securities in the "core" investment portfolio (Baa3/BBB-), and fixed-income securities in the "opportunistic" investment portfolio (B3/B-). For both years, the University was in compliance with its credit risk policy.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 2 - Cash and Investments (Continued)

Fixed-income investments classified by credit ratings at September 30, 2017 and 2016 were as follows (in thousands):

| Investment Type | 2017 Credit Rating | | | | | | Total |
|---------------------------------------|--------------------|------------------|-------------------|------------------|------------------|-------------------|----------|
| | AAA | AA | A | BBB | Below BB | | |
| U.S. Treasuries | \$ 1,344 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,344 |
| Securitized investments | 3,129 | 1,769 | - | - | - | - | 4,898 |
| Money market mutual funds | 5,772 | - | - | - | - | - | 5,772 |
| Corporate securities | 1,414 | 6,977 | 34,115 | 66,503 | - | - | 109,009 |
| Fixed-income institutional bond funds | - | - | 110,615 | 14,469 | - | - | 125,084 |
| High-yield short-term fund | - | - | - | - | 9,310 | 9,310 | 9,310 |
| Non-U.S. fixed-income securities | - | 1,311 | 5,639 | 5,072 | - | - | 12,022 |
| Municipal securities | 597 | 2,485 | - | - | - | - | 3,082 |
| Investments by rating | <u>\$ 12,256</u> | <u>\$ 12,542</u> | <u>\$ 150,369</u> | <u>\$ 86,044</u> | <u>\$ 9,310</u> | <u>\$ 270,521</u> | |
| 2016 Credit Rating | | | | | | | |
| Investment Type | 2016 Credit Rating | | | | | | Total |
| | AAA | AA | A | BBB | Below BB | | |
| U.S. Treasuries | \$ 5,140 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,140 |
| Securitized investments | 6,076 | 3,106 | 292 | - | - | - | 9,474 |
| Money market mutual funds | 4,115 | - | - | - | - | - | 4,115 |
| Corporate securities | 1,300 | 6,941 | 40,196 | 75,187 | 504 | - | 124,128 |
| Fixed-income institutional bond funds | - | 41,138 | 67,265 | 13,527 | - | - | 121,930 |
| High-yield short-term fund | - | - | - | - | 16,517 | 16,517 | 16,517 |
| Non-U.S. fixed-income securities | 500 | 1,766 | 7,524 | 7,870 | - | - | 17,660 |
| Municipal securities | 611 | 2,627 | 409 | - | - | - | 3,647 |
| Investments by rating | <u>\$ 17,742</u> | <u>\$ 55,578</u> | <u>\$ 115,686</u> | <u>\$ 96,584</u> | <u>\$ 17,021</u> | <u>\$ 302,611</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 cash management policy provides that investment pool funds be sufficiently diversified and investment in the securities of a single issuer shall not be in excess of 5 percent of the total market value of the assets under management at the time of purchase (excluding U.S. Treasury and agency obligations and commingled funds). Total funds in any investment mandate shall not constitute more than 30 percent of the cash pool. Commingled funds' concentration of credit risk is managed in accordance with the fund managers' policies.

The University is in compliance with its concentration of credit risk policy.

As of September 30, 2017 and 2016, the University's combined cash and temporary investments did not have investments with a particular issuer which equaled or exceeded 5 percent.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 2 - Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses resulting from rising interest rates, the cash management policy limits the maturities or duration of its investments. The policy limits the maximum average duration of the pool to five years and the maximum duration of any individual security held to seven years. Cummiled funds' interest rate risk is managed in accordance with the fund managers' policies.

For both years, the University was in compliance with its interest rate risk policy.

The University held the following types of fixed-income investments and maturities at September 30, 2017 and 2016 (in thousands):

| Investment Type | 2017 Maturities (in Years) | | | | | Total |
|--|----------------------------|------------|------------|--------------|------------|-------|
| | Less Than 1 | 1-5 | 6-10 | More Than 10 | | |
| U.S. Treasuries | \$ - | \$ 1,344 | \$ - | \$ - | \$ 1,344 | |
| Securitized investments ⁽¹⁾ | - | 1,961 | 276 | 2,661 | 4,898 | |
| Money market mutual funds ⁽²⁾ | 5,772 | - | - | - | 5,772 | |
| Corporate securities | 6,457 | 60,147 | 40,279 | 2,126 | 109,009 | |
| Fixed-income institutional bond funds ⁽²⁾ | - | 38,394 | 86,690 | - | 125,084 | |
| High-yield short-term fund ⁽²⁾ | - | 9,310 | - | - | 9,310 | |
| Non-U.S. fixed-income securities | 1,700 | 7,938 | 2,384 | - | 12,022 | |
| Municipal securities | - | 2,888 | - | 194 | 3,082 | |
| Total fixed-income investments | \$ 13,929 | \$ 121,982 | \$ 129,629 | \$ 4,981 | \$ 270,521 | |
| 2016 Maturities (in Years) | | | | | | |
| Investment Type | Less Than 1 | 1-5 | 6-10 | More Than 10 | | |
| | \$ - | \$ 860 | \$ 4,280 | \$ - | \$ 5,140 | |
| U.S. Treasuries | \$ - | \$ 2,510 | \$ 742 | \$ 6,222 | \$ 9,474 | |
| Securitized investments ⁽¹⁾ | - | 4,115 | - | - | 4,115 | |
| Money market mutual funds ⁽²⁾ | 17,479 | 65,591 | 39,806 | 1,252 | 124,128 | |
| Corporate securities | 14,968 | 57,513 | 49,449 | - | 121,930 | |
| Fixed-income institutional bond funds ⁽²⁾ | - | 16,517 | - | - | 16,517 | |
| High-yield short-term fund ⁽²⁾ | 2,985 | 10,721 | 3,954 | - | 17,660 | |
| Non-U.S. fixed-income securities | 407 | 2,634 | 380 | 226 | 3,647 | |
| Total fixed-income investments | \$ 39,954 | \$ 156,346 | \$ 98,611 | \$ 7,700 | \$ 302,611 | |

⁽¹⁾ The effective maturity on securitized investments can be significantly less than the legal maturity date.

⁽²⁾ The maturities indicated for these funds are the average of the overall pool.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 2 - Cash and Investments (Continued)

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 does not specifically limit foreign currency exposure. The cash and temporary investments portfolio included investments denominated in a foreign currency totaling \$913,000 and \$1,882,000 at September 30, 2017 and 2016, respectively. The 2017 balance includes investments denominated in the Canadian dollar (\$0.2 million), the New Zealand dollar (\$0.5 million), and the Mexican peso (\$0.4 million). The 2016 balance includes investments denominated in the Canadian dollar (\$0.8 million), the New Zealand dollar (\$0.6 million), and the Mexican peso (\$0.3 million).

Note 3 - Foundation Investments

The Foundation's investments, by statement of net position classification and investment type, at September 30, 2017 and 2016 are as follows (in thousands):

| Type | 2017 | 2016 |
|---|-------------------|-------------------|
| Fixed income | \$ 69,109 | \$ 79,447 |
| Equity securities | 164,579 | 131,095 |
| Other investment instrument types not included above: | | |
| Limited partnerships | 109,091 | 35,467 |
| Commingled funds and mutual funds | 10,800 | 63,638 |
| Total investments | <u>\$ 353,579</u> | <u>\$ 309,647</u> |

The Foundation's investments had investment performance of 10.9 and 9.3 percent for the years ended September 30, 2017 and 2016, respectively.

Note 3 - Foundation Investments (Continued)

Investment Policy

The Foundation investments are managed in accordance with the Statement of Investment Policy (Foundation Investment Policy) as approved by the Foundation's board of directors. During 2017, the Foundation's board of directors changed to a new outsourced chief investment officer (OCIO) investment-consulting model. Accordingly, the Foundation Investment Policy was modified during 2017 to reflect the target allocation and ranges for its investments as follows:

| Investment Instrument | Target | Range | Actual at September 30, 2017 |
|--------------------------|--------|-----------|------------------------------|
| U.S. equities | 18% | 8% - 28% | 23% |
| Non-U.S. equities | 15% | 5% - 25% | 20% |
| Emerging market equities | 7% | 0% - 17% | 7% |
| Fixed-income securities | 20% | 10% - 30% | 13% |
| Hedge funds | 18% | 8% - 28% | 19% |
| Real assets | 10% | 0% - 20% | 8% |
| Private markets | 12% | 2% - 22% | 2% |
| Cash | 0% | 0% - 20% | 8% |

The Foundation's investment policy uses diversification as a fundamental risk management strategy and these funds are broadly diversified. This policy does not specifically limit interest rate, credit, concentration of credit, or foreign currency risks. These risks are considered as part of the overall risk versus investment return characteristics of the aggregate investment portfolio when establishing its asset allocation and selecting its investment managers. Investments are managed in accordance with the investment policy and are monitored according to the risk versus investment return characteristics as compared to applicable benchmarks in the investment industry.

Other investment instrument types in the Foundation's endowment fund are comprised of limited partnership investments, hedge fund managers, and private markets investment managers who invest in U.S. and international equities and fixed-income instruments. 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.

Custodial Credit Risk

Custodial credit risk for investments was discussed previously in Note 2 - Cash and Investments. The Foundation's investment policies do not limit the value of investments that may be held by an outside party. The Foundation's counterparties held \$66,646,000 and \$59,905,000 of its portfolio at September 30, 2017 and 2016, respectively. These investments are held in a nominee's name for the benefit of the Foundation, and would not be subject to any general creditor claims.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 3 - Foundation Investments (Continued)

Credit Risk

As discussed previously, the Foundation's investment policy does not specifically limit the credit risk that an issuer or counterparty to an investment assumes.

Fixed-income investments classified by credit ratings at September 30, 2017 and 2016 were as follows (in thousands):

| Investment Type | 2017 Credit Rating | | | | | Total |
|--|--------------------|-----------------|------------------|------------------|------------------|------------------|
| | AAA | AA | A | BBB | Not Rated | |
| Money market mutual funds ⁽¹⁾ | \$ 25,253 | \$ - | \$ - | \$ - | \$ - | \$ 25,253 |
| Fixed-income investments ⁽¹⁾ | - | - | 34,345 | - | - | 34,345 |
| Direct loan fund ⁽¹⁾ | - | - | - | - | 9,511 | 9,511 |
| Investments by rating | <u>\$ 25,253</u> | <u>\$ -</u> | <u>\$ 34,345</u> | <u>\$ -</u> | <u>\$ 9,511</u> | <u>\$ 69,109</u> |
| Investment Type | 2016 Credit Rating | | | | | Total |
| | AAA | AA | A | BBB | Not Rated | |
| Money market mutual funds ⁽¹⁾ | \$ 6,518 | \$ - | \$ - | \$ - | \$ - | \$ 6,518 |
| Corporate securities | - | - | - | 1,255 | - | 1,255 |
| Fixed-income institutional bond funds ⁽¹⁾ | - | 9,937 | 25,381 | 25,450 | - | 60,768 |
| Direct loan fund ⁽¹⁾ | - | - | - | - | 10,906 | 10,906 |
| Investments by rating | <u>\$ 6,518</u> | <u>\$ 9,937</u> | <u>\$ 25,381</u> | <u>\$ 26,705</u> | <u>\$ 10,906</u> | <u>\$ 79,447</u> |

(1) The credit ratings indicated for these funds are the average of the overall pool.

Concentration of Credit Risk

As discussed previously, the Foundation's investment policy does not specifically limit the concentration of credit risk.

As of September 30, 2017 and 2016, the Foundation's investment portfolio did not have investments with a particular issuer that equaled or exceeded 5 percent.

Interest Rate Risk

As discussed previously, the Foundation's investment policy does not specifically limit the interest rate risk of its investments.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 3 - Foundation Investments (Continued)

The Foundation held the following types of fixed-income investments and maturities at September 30, 2017 and 2016 (in thousands):

| Investment Type | 2017 Maturity (in Years) | | | | Total |
|--|--------------------------|------------------|------------------|------------------|-------|
| | Less Than 1 | 1-5 | 6-10 | | |
| Money market mutual funds | \$ 25,253 | \$ - | \$ - | \$ 25,253 | |
| Fixed-income investments ⁽¹⁾ | - | - | 34,345 | 34,345 | |
| Direct loan fund ⁽¹⁾ | - | 9,511 | - | 9,511 | |
| Total fixed-income investments | <u>\$ 25,253</u> | <u>\$ 9,511</u> | <u>\$ 34,345</u> | <u>\$ 69,109</u> | |
| 2016 Maturity (in Years) | | | | | |
| Investment Type | Less Than 1 | 1-5 | 6-10 | | Total |
| Money market mutual funds | \$ 6,518 | \$ - | \$ - | \$ 6,518 | |
| Corporate securities | 1,255 | - | - | 1,255 | |
| Fixed-income institutional bond funds ⁽¹⁾ | 1,834 | 9,937 | 48,997 | 60,768 | |
| Direct loan fund ⁽¹⁾ | - | 10,906 | - | 10,906 | |
| Total fixed-income investments | <u>\$ 9,607</u> | <u>\$ 20,843</u> | <u>\$ 48,997</u> | <u>\$ 79,447</u> | |

⁽¹⁾ The maturities indicated for these funds are the average of the overall pool.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 3 - Foundation Investments (Continued)

Foreign Currency Risk

As discussed previously, the Foundation's investment policy does not specifically limit foreign currency risk. The Foundation's investments in non-U.S. equity funds totaled \$80,320,000 and \$45,661,000, which was approximately 23 and 15 percent of the Foundation's total endowment fund investments at September 30, 2017 and 2016, respectively. Included in these amounts at September 30, 2017 was foreign currency exposure to the European Union euros (\$18.1 million), the Hong Kong dollar (\$11.0 million), the Japanese yen (\$10.3 million), and the United Kingdom British pound sterling (\$8.9 million). Included in these amounts at September 30, 2016 was foreign currency exposure to the European Union euro (\$7.4 million), the Japanese yen (\$5.7 million), and the United Kingdom British pound sterling (\$4.7 million). Other foreign currency exposures were less significant.

The Foundation's investments in fixed-income institutional bond funds with foreign currency exposure totaled \$75,000 and \$5,538,000 at September 30, 2017 and 2016, respectively. Included in the amount at September 30, 2016 was foreign currency exposure to the Canadian dollar (\$2.0 million), the New Zealand dollar (\$1.1 million), and the Mexican peso (\$0.7 million). Other foreign currency exposures were less significant.

The Foundation's had approximately \$4,376,000 and \$7,096,000 of investment commitments outstanding at September 30, 2017 and 2016, respectively.

Note 4 - Receivables

At September 30, 2017 and 2016, receivables consisted of the following (in thousands):

| | 2017 | 2016 |
|--|------------------|------------------|
| Grants and contracts receivable | \$ 58,294 | \$ 24,024 |
| Pledged gifts receivable | 21,389 | 44,358 |
| Student notes receivable | 29,158 | 29,506 |
| Student accounts receivable | 73,134 | 72,455 |
| State appropriations - Capital projects | - | 232 |
| Other | <u>41,742</u> | <u>30,182</u> |
| Total | 223,717 | 200,757 |
| Less: | | |
| Provision for loss on receivables | (13,857) | (11,935) |
| Unamortized discount to present value on pledged gifts receivable | <u>(242)</u> | <u>(390)</u> |
| Total | 209,618 | 188,432 |
| Less net current portion of receivables | <u>(172,747)</u> | <u>(139,280)</u> |
| Net noncurrent receivables | <u>\$ 36,871</u> | <u>\$ 49,152</u> |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 4 - Receivables (Continued)

Payments on pledged gifts receivable at September 30, 2017 are expected to occur in the following fiscal years (in thousands):

| | |
|--------------|------------------|
| 2018 | \$ 17,824 |
| 2019-2027 | 3,565 |
| Total | \$ 21,389 |

Student notes receivable consist of loans to students made from both federal and university resources. Principal repayment and interest rate terms on these loans vary considerably. The provision for loss on receivables does not apply to the federal portion of federal student notes receivable, 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 Federal Perkins loan program expired on September 30, 2017, which ended the issuance of new loans under this program. Pending additional information from the federal government, the University will continue to service all outstanding loans in accordance with program specifications.

Note 5 - Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 was as follows (in thousands):

| | Balance September 30, 2016 | Additions | Retirements | Balance September 30, 2017 |
|--------------------------------------|----------------------------------|------------------------|--------------------|----------------------------------|
| Land improvements | \$ 26,734 | \$ 957 | - | \$ 27,691 |
| Buildings | 1,381,348 | 28,241 | - | 1,409,589 |
| Library materials | 169,173 | 7,187 | (4) | 176,356 |
| Equipment and software | <u>179,095</u> | <u>5,318</u> | <u>(595)</u> | <u>183,818</u> |
| Subtotal - Depreciable assets | 1,756,350 | 41,703 | (599) | 1,797,454 |
| Land | 38,035 | 250 | - | 38,285 |
| Construction in progress | <u>17,300</u> | <u>9,415</u> | <u>-</u> | <u>26,715</u> |
| Subtotal - Nondepreciable assets | <u>55,335</u> | <u>9,665</u> | <u>-</u> | <u>65,000</u> |
| Total | 1,811,685 | 51,368 | (599) | 1,862,454 |
| Less accumulated depreciation: | | | | |
| Land improvements | 18,319 | 885 | - | 19,204 |
| Buildings | 658,888 | 42,720 | - | 701,608 |
| Library materials | 135,407 | 7,196 | - | 142,603 |
| Equipment and software | <u>146,187</u> | <u>10,759</u> | <u>(566)</u> | <u>156,380</u> |
| Total accumulated depreciation | <u>958,801</u> | <u>61,560</u> | <u>(566)</u> | <u>1,019,795</u> |
| Net capital assets | <u>\$ 852,884</u> | <u>\$ (10,192)</u> | <u>\$ (33)</u> | <u>\$ 842,659</u> |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 5 - Capital Assets (Continued)

| | Balance September 30, 2015 | Additions | Retirements | Balance September 30, 2016 |
|----------------------------------|----------------------------------|-------------------|-----------------|----------------------------------|
| Land improvements | \$ 25,920 | \$ 814 | - | \$ 26,734 |
| Buildings | 1,348,375 | 32,973 | - | 1,381,348 |
| Library materials | 162,494 | 6,764 | (85) | 169,173 |
| Equipment and software | <u>185,800</u> | <u>8,323</u> | <u>(15,028)</u> | <u>179,095</u> |
| Subtotal - Depreciable assets | 1,722,589 | 48,874 | (15,113) | 1,756,350 |
| Land | 38,095 | - | (60) | 38,035 |
| Construction in progress | <u>15,192</u> | <u>2,108</u> | <u>-</u> | <u>17,300</u> |
| Subtotal - Nondepreciable assets | 53,287 | 2,108 | (60) | 55,335 |
| Total | 1,775,876 | 50,982 | (15,173) | 1,811,685 |
| Less accumulated depreciation: | | | | |
| Land improvements | 17,460 | 859 | - | 18,319 |
| Buildings | 618,845 | 40,043 | - | 658,888 |
| Library materials | 130,812 | 4,595 | - | 135,407 |
| Equipment and software | <u>150,138</u> | <u>10,447</u> | <u>(14,398)</u> | <u>146,187</u> |
| Total accumulated depreciation | 917,255 | 55,944 | (14,398) | 958,801 |
| Net capital assets | <u>\$ 858,621</u> | <u>\$ (4,962)</u> | <u>\$ (775)</u> | <u>\$ 852,884</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 "additions" and reflected in the applicable asset classification. Interest of approximately \$211,000 and \$648,000 was capitalized in 2017 and 2016, respectively.

Several 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 among the SBA, the State of Michigan, and the University. During the lease term, the SBA holds title to the buildings, the State of Michigan makes all lease payments directly to the SBA, and the University is responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer title to the buildings to the University.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt

Long-term debt activity for the years ended September 30, 2017 and 2016 was as follows (in thousands):

| | 2017 | | | | |
|---|-------------------|-----------|------------|----------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| General Revenue and Refunding Bonds, Series 2016A, with interest ranging from 2.5% to 5.0%, maturing on November 15, 2037 | \$ 89,975 | \$ - | \$ - | \$ 89,975 | \$ - |
| General Revenue and Refunding Bonds, Series 2016B, with interest ranging from 1.5% to 4.0%, maturing on November 15, 2037 | 11,285 | - | - | 11,285 | - |
| General Revenue and Refunding Bonds, Series 2015A, with interest ranging from 3.0% to 5.0%, maturing on November 15, 2036 | 50,070 | - | 250 | 49,820 | 1,520 |
| General Revenue Bonds, Series 2013A, with interest ranging from 3.0% to 5.0%, maturing on November 15, 2044 | 82,300 | - | 1,430 | 80,870 | 1,495 |
| General Revenue Bonds, Series 2009A, with interest ranging from 3.25% to 5.0%, maturing on November 15, 2029 | 65,555 | - | 4,495 | 61,060 | 4,730 |
| Taxable General Revenue Build America Bonds, Series 2009B, with interest ranging from 4.257% to 6.536%, maturing on November 15, 2039 | 26,940 | - | 710 | 26,230 | 730 |
| General Revenue Bonds, Series 2008, with interest ranging from 5.0% to 5.25%, maturing on November 15, 2035 | 93,000 | - | 4,515 | 88,485 | 4,750 |
| General Revenue Bonds, Series 2007A, with interest ranging from 4.0% to 5.0%, maturing on November 15, 2037 | 1,605 | - | 785 | 820 | 820 |
| Taxable General Revenue Bonds, Series 2007B, with interest at 6.01%, maturing on November 15, 2030 | 4,220 | - | - | 4,220 | - |
| General Revenue Bonds, Series 2006, with interest at 5.0%, maturing on November 15, 2017 | 1,205 | - | 1,205 | - | - |
| Taxable General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing on November 15, 2018 | 1,235 | - | 390 | 845 | 410 |
| Capital lease payable, with interest at 3.8%, expiring on March 11, 2038 | 20,042 | - | 590 | 19,452 | 621 |
| Various notes payable with varying interest rates maturing through 2020 | 154 | - | 43 | 111 | 50 |
| Gross long-term debt | 447,586 | - | 14,413 | 433,173 | 15,126 |
| Plus unamortized bond premium - Net | 31,817 | 103 | 1,813 | 30,107 | 1,646 |
| Total long-term debt | \$ 479,403 | \$ 103 | \$ 16,226 | \$ 463,280 | \$ 16,772 |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

| | 2016 | | | | |
|---|-------------------|------------|------------|----------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| General Revenue and Refunding Bonds, Series 2016A, with interest ranging from 2.5% to 5.0%, maturing on November 15, 2037 | \$ - | \$ 89,975 | \$ - | \$ 89,975 | \$ - |
| General Revenue and Refunding Bonds, Series 2016B, with interest ranging from 1.5% to 4.0%, maturing on November 15, 2037 | - | 11,285 | - | 11,285 | - |
| General Revenue and Refunding Bonds, Series 2015A, with interest ranging from 3.0% to 5.0%, maturing on November 15, 2036 | 50,310 | - | 240 | 50,070 | 250 |
| General Revenue Bonds, Series 2013A, with interest ranging from 3.0% to 5.0%, maturing on November 15, 2044 | 83,670 | - | 1,370 | 82,300 | 1,430 |
| General Revenue Bonds, Series 2009A, with interest ranging from 3.25% to 5.0%, maturing on November 15, 2029 | 92,530 | - | 26,975 | 65,555 | 4,495 |
| Taxable General Revenue Build America Bonds, Series 2009B, with interest ranging from 3.753% to 6.536%, maturing on November 15, 2039 | 27,630 | - | 690 | 26,940 | 710 |
| General Revenue Bonds, Series 2008, with interest ranging from 5.0% to 5.25%, maturing on November 15, 2035 | 155,960 | - | 62,960 | 93,000 | 4,515 |
| General Revenue Bonds, Series 2007A, with interest ranging from 4.0% to 5.0%, maturing on November 15, 2037 | 26,275 | - | 24,670 | 1,605 | 785 |
| Taxable General Revenue Bonds, Series 2007B, with interest at 6.01%, maturing on November 15, 2030 | 4,220 | - | - | 4,220 | - |
| General Revenue Bonds, Series 2006, with interest ranging from 4.5% to 5.0%, maturing on November 15, 2017 | 2,360 | - | 1,155 | 1,205 | 1,205 |
| Taxable General Revenue Bonds, Series 2003B, with interest at 5.02%, maturing on November 15, 2018 | 1,610 | - | 375 | 1,235 | 390 |
| Capital lease payable, with interest at 3.8%, expiring on March 11, 2038 | 20,610 | - | 568 | 20,042 | 590 |
| Various notes payable with varying interest rates maturing through 2020 | - | 154 | - | 154 | 48 |
| Gross long-term debt | 465,175 | 101,414 | 119,003 | 447,586 | 14,418 |
| Plus unamortized bond premium - Net | 20,752 | 15,442 | 4,377 | 31,817 | 1,711 |
| Total long-term debt | \$ 485,927 | \$ 116,856 | \$ 123,380 | \$ 479,403 | \$ 16,129 |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

When economically feasible, the University considers defeasance or refunding of prior debt issuances to reduce borrowing costs. The total amount of defeased bonds outstanding at September 30, 2017 and 2016 was \$113,079,000 and \$161,473,000, respectively.

In July 2016, the University issued its tax-exempt Series 2016A Bonds for a par amount of \$89,975,000 and net premium of \$15,667,458. The University also issued its taxable Series 2016B Bonds for a par amount of \$11,285,000, less a net discount of \$157,421. These bonds were issued to refinance prior outstanding debt to achieve interest rate savings. These bond proceeds, \$116,770,037 with an average coupon interest rate of 4.3 percent, were used to fully or partially advance refund the University's Series 2007A, Series 2008, and Series 2009A Bonds, aggregating \$105,285,000 with an average coupon interest rate of 4.93 percent. Of the \$116,770,037 in bond proceeds, \$603,231 was used to pay related issuance costs and \$116,166,806 was deposited with the trustee to pay principal and interest on the Series 2007A, Series 2008, and Series 2009A Bonds when called for redemption on November 15, 2017, 2018, and 2019, respectively. The advance refunding resulted in an economic gain of \$12,652,409 and total debt service payments decreased by \$15,662,379.

On March 19, 2012, the University entered into a capital lease agreement for a medical office building. The lease period commenced on March 12, 2013 with an initial term of 25 years. The capital lease is included in long-term debt and the related asset is included in buildings with cost of \$22,000,000 and accumulated depreciation of approximately \$2,525,000 and \$1,976,000 as of September 30, 2017 and 2016, respectively.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

Principal and interest maturities on long-term debt at September 30, 2017 are as follows (in thousands):

| Fiscal Years | <u>Bond and Various Notes Payable</u> | | | Capital Lease Minimum Payments |
|--------------|---|-------------------|--|-----------------------------------|
| | Principal | Interest* | | |
| 2018 | \$ 14,505 | \$ 19,202 | | \$ 1,360 |
| 2019 | 15,324 | 18,477 | | 1,367 |
| 2020 | 15,556 | 17,752 | | 1,367 |
| 2021 | 16,195 | 16,988 | | 1,367 |
| 2022 | 16,965 | 16,185 | | 1,367 |
| 2023 - 2027 | 97,605 | 67,263 | | 6,906 |
| 2028 - 2032 | 105,720 | 41,581 | | 6,985 |
| 2033 - 2037 | 90,855 | 19,074 | | 7,063 |
| 2038 - 2042 | 26,856 | 5,740 | | 628 |
| 2043 - 2047 | 14,140 | 863 | | - |
| Total | <u>\$ 413,721</u> | <u>\$ 223,125</u> | | 28,410 |
| | Less amount representing interest | | | <u>8,958</u> |
| | Present value of minimum lease payments | | | <u>\$ 19,452</u> |

* Amounts do not reflect federal interest rate subsidies to be received for Build America Bonds interest

Interest paid on long-term debt including the capital lease was \$19,669,000 and \$21,837,000 in 2017 and 2016, respectively.

On November 27, 2012, the University executed a \$25.0 million line of credit facility with a financial institution with a borrowing interest rate of .25 percent in excess of the one-month LIBOR. This agreement had a three-year term with a maturity date of December 1, 2015. Effective December 1, 2015, the University renewed and increased its line of credit facility to \$35.0 million with a borrowing interest rate of .75 percent in excess of the one-month LIBOR. This agreement has a three-year term with a maturity date of December 1, 2018. As of September 30, 2017 and 2016, there were no borrowings outstanding under this facility.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 7 - Derivative Instruments

Interest Rate Swaps

As of September 30, 2014, the University held two interest rate instruments that were associated with the Series 2006 bonds. In February 2015, most of the Series 2006 bonds were advance refunded with proceeds from the Series 2015A bonds. In November 2016, the balance of the Series 2006 bonds was paid. As a result, all of the two interest rate instruments are now associated with the Series 2015A bonds.

The University initially entered into these swap agreements at the same time and for the same amount as the issuance of the Series 2006 bonds, with the intent of lowering its borrowing cost by creating a cash flow hedge, at a net interest rate that is lower than the fixed rate on the debt that was issued. The swap agreements are not effective hedges. They were ineffective swap agreements because they did not have consistent critical terms. In accordance with GASB Statement No. 53, an interest rate swap is considered an effective cash flow hedge if the swap payments received substantially offset the payments made on the associated debt, and then such changes in fair value are deferred. An interest rate swap that is not considered an effective cash flow hedge, in accordance with the provisions of this statement, is deemed to be an investment derivative instrument, and changes in fair value are recorded as a component of the change in net investment income (loss) in the statement of revenues, expenses, and changes in net position.

The fair value balances and notional amounts of the derivative instruments outstanding at September 30, 2017 and 2016, classified by type and the change in fair value, are shown below (in thousands):

| Investment Derivative Instrument | Change in Fair Value | | Fair Value at September 30, 2017 | | |
|--|------------------------------|----------|----------------------------------|------------------|------------------|
| | Classification | Amount | (in thousands) | Classification | Amount |
| | | | | | Notional |
| Series 2015A# - Pay-variable, receive variable/fixed annuity | Net investment income (loss) | \$ (343) | | Asset | \$ 178 \$ 42,170 |
| Change in Fair Value | | | Fair Value at September 30, 2016 | | |
| Investment Derivative Instrument | Classification | Amount | Classification | Amount | Notional |
| Series 2006 and Series 2015A# - Pay-variable, receive variable/fixed annuity | Net investment income | \$ 177 | Asset | \$ 521 \$ 43,375 | |

The fair value of the swaps was estimated using the proprietary pricing model of an independent derivative valuation service.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 7 - Derivative Instruments (Continued)

Terms for the years ended September 30, 2017 and 2016 were as follows:

| Associated Bond Issue | Effective Date | Type | Objective | Pay Terms | Receive Terms | Maturity Date | Counterparty Credit Rating* |
|--|----------------|---|---|-----------|--------------------------|---------------|-----------------------------|
| Series 2006 and Series 2015A# (2 swaps) | 2/5/2015 | Pay variable, receive variable plus fixed annuity | Cash flow hedge for associated bond issue | SIFMA | 67% LIBOR plus 40.73 bps | 11/15/2036 | AA-/A |

The associated bond issue was substantially changed from the Series 2006 bonds to the Series 2015A bonds effective February 5, 2015 as a result of an advance refunding of most of the Series 2006 bonds. As of September 30, 2016, almost all of the two interest rate instruments were associated with the Series 2015A bonds, and only a small portion was associated with the Series 2006 bonds. In November 2016, the balance of the Series 2006 bonds was paid. As a result, all of the two interest rate instruments are now associated with the Series 2015A bonds.

* Effective March 1, 2012, one of the original counterparties transferred by novation all the rights, liabilities, duties, and obligations to a new counterparty.

LIBOR - London Interbank Offered Rate

SIFMA - Securities Industry and Financial Markets Association

bps - basis points

Associated Risk - The associated risks of the outstanding swaps as of September 30, 2017 and 2016 were as follows:

The swaps are tax basis swaps, which were executed with the objective of reducing the financing cost of the Series 2006 and 2015A bonds and their related refunding bonds, the series 2015A bonds. Changes in interest rates as well as the SIFMA/LIBOR ratio cause the fair value of these swaps to rise and fall with financial market conditions. Due to changes in these market factors since inception, these swaps have a positive fair value at September 30, 2017 and September 30, 2016.

Credit Risk - As of September 30, 2017 and 2016, the University was exposed to some credit risk from swap counterparties because the existing swaps had a positive fair value \$178,000 and \$521,000, respectively. The University executes swap transactions with various counterparties. At September 30, 2017, there were two outstanding swaps with two counterparties. The first counterparty held one swap that represented approximately 70 percent of the notional amount of swaps outstanding. This counterparty is rated "AA-" by Standard & Poor's (downgraded from AA+ in May 2016) and "Aa2" by Moody's (downgraded from Aa1 in May 2012). A second counterparty held one swap that represented approximately 30 percent of the notional amount of the swaps outstanding. This counterparty was rated "A+" by Fitch, "A" by Standard & Poor's (downgraded from A+ in December 2011), and "A2" by Moody's (down from A1 in November 2010).

Basis Risk - The swaps expose the University to basis risk. This is the risk that arises when the variable interest rates of a derivative instrument and a hedged item are based upon different interest rate reference indices. For the basis swaps, the University is exposed to the risk that the SIFMA interest rate, which it pays to the counterparties, will be more than the amount that it receives from the counterparties, which is based upon 67 percent of LIBOR plus an additional fixed annuity amount of 40.73 basis points (0.4073 percent).

Note 7 - Derivative Instruments (Continued)

Termination - The swap termination date is November 2036. The derivative contracts are documented by the International Swap Dealers Associations (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 at the time of termination the swap has a negative fair value, the University is liable for a payment equal to the swap's fair value.

Futures Contract

The Foundation utilizes derivative financial instruments in a "portable alpha" investment strategy. This investment strategy provides broad exposure to a target market while adding potential for additional return through a separate investment strategy. The strategy utilizes futures contracts, which aid in obtaining incremental income or profit on the underlying investment exposures.

As of September 30, 2017, the notional value of these contracts was \$10,316,000. The notional values associated with these derivative financial instruments are generally not recorded on the financial statements; however, the amounts for exposure (unrealized gains/losses) on these instruments would be recorded if deemed material to the Foundation. The fair value of these derivative instruments as of September 30, 2017 was \$599,000.

The use of derivative financial instruments reduces certain investment risks and generally adds value to the portfolio. The instruments themselves, however, do involve some investment and counterparty risk not fully reflected in the financial statements.

Note 8 - Defined Contribution Retirement Plan

The University offers 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 results. Employees are eligible to participate after they reach 26 years of age. Eligible employees that contribute at least 1 percent of their salary will receive a university matching contribution equal to two times their contribution up to a maximum university contribution of 10 percent. The University's contribution is not vested until the employee has completed two years of service. University contributions to the plan for the years ended September 30, 2017 and 2016 were approximately \$33,053,000 and \$32,593,000, respectively.

Note 9 - Commitments

Construction Commitments

Approximately \$33,607,000 was committed to current university construction projects at September 30, 2017. This amount includes approximately \$29,202,000 for the Mike Ilitch School of Business Elliman and various smaller construction projects. Commitments will be funded through a combination of resources, including external long-term financing, gifts, investment income, and various other university sources.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 9 - Commitments (Continued)

Lease Obligations

The University leases various buildings, office space, and equipment under operating lease agreements. Operating lease expenses totaled \$6,327,000 and \$6,119,000 for the years ended September 30, 2017 and 2016, respectively. Future minimum lease payments under noncancelable operating leases are expected to be paid in the following years ended September 30 (in thousands):

| Fiscal Years | Minimum Lease Obligation |
|--------------|-----------------------------|
| 2018 | \$ 1,765 |
| 2019 | 1,276 |
| 2020 | 1,020 |
| 2021 | 759 |
| 2022 | 590 |
| 2023-2024 | 156 |
| Total | <u>\$ 5,566</u> |

Note 10 - Contingencies

Insurance Program

In conjunction with the conduct of its operations, the University is exposed to various risks of loss and legal actions. To mitigate such risks, 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. The University participates in all of the aforementioned insurance programs except property insurance. The University maintains property insurance with FM Global. MUSIC 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 MUSIC member 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. By agreements with MUSIC, in the event the insurance reserves established by MUSIC are insufficient to meet its second-tier obligations, each of the participating universities shares this obligation. 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, 2017 is approximately \$1,376,000. The University has not been subjected to additional assessments since the formation of MUSIC in 1987.

Note 10 - Contingencies (Continued)

The University is self-insured for certain employee benefits. Claim expenditures and liabilities are recorded when it is probable that a 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 2017 and 2016, totaled approximately \$3,527,000 and \$3,378,000, respectively. Specific excess (umbrella) coverage has been purchased by the University for its self-insured workers' compensation and medical insurance programs. For those risks that the University has purchased commercial insurance, settled claims have not exceeded the commercial coverage in any of the past three years.

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 significant effect on the financial statements.

Loan Guarantees

The University guaranteed an operating line of credit of \$2.25 million and a term loan of \$6.0 million for the Research and Technology Park in the City of Detroit, Inc., a 501(c)(3) organization. During fiscal year 2016, the University paid the outstanding balances on the Research and Technology Park debt in exchange for a mortgage loan payable to the University in the amount of \$5,820,000. The outstanding mortgage receivable amount of \$5,570,000 and \$5,771,000 as of September 30, 2017 and 2016, respectively, is included in current and noncurrent receivables in the statement of net position.

Derivative Instruments

One of the University's derivative instrument agreements requires the University to post collateral when the University credit rating is suspended, withdrawn, or downgraded to BBB+ or below by Standard & Poor's or Baa1 or below by Moody's in order to preclude an additional termination event from occurring. The collateral would be posted in the amount of the fair value of the hedging instrument in a liability position over a specified threshold, which varies with the University's credit rating. The collateral could be posted in the form of cash, U.S. Treasury securities, agency notes, or other securities to which the parties may agree, and the valuation percentage allowed would vary by the creditworthiness and maturities of the underlying securities used for collateral. An additional termination event would occur if the University's rating is suspended, withdrawn, or downgraded to BBB- or below by Standard & Poor's or Baa3 or below by Moody's. The other university derivative instrument agreement does not require the University to post collateral. However, this agreement provides that an additional termination event occurs when the University's credit rating is suspended, withdrawn, or downgraded below BBB- by Standard & Poor's or below Baa3 by Moody's. In order to preclude this additional termination event from terminating the swap, the University would need to provide the counterparty with an acceptable credit support document.

At September 30, 2017 and 2016, the aggregate positive fair value of all hedging derivative instruments with these collateral posting provisions is \$178,000 and \$521,000, respectively. There were no posting requirements because the University maintained credit ratings above the thresholds.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 11 - Natural Classification of Expenses

Operating expenses by natural classification for the years ended September 30, 2017 and 2016 are summarized as follows (in thousands):

| | 2017 | 2016 |
|-------------------------------|-------------------|-------------------|
| Compensation and benefits | \$ 580,399 | \$ 573,529 |
| Supplies, services, and other | 193,300 | 183,119 |
| Depreciation | 61,560 | 55,944 |
| Scholarships and fellowships | <u>13,410</u> | <u>12,254</u> |
| Total operating expenses | <u>\$ 848,669</u> | <u>\$ 824,846</u> |

Note 12 - Postemployment Benefits Other Than Pensions

The University offers a postemployment benefit of a fixed payout life insurance policy to its retirees. The University obtained an actuarial valuation as of September 30, 2016 to determine its future obligations for these benefits. The aggregate unfunded accrued liability, which has been recorded as accrued employee benefits on the statement of net position, was \$10,832,000 and \$10,179,000 at September 30, 2017 and 2016, respectively. The related expense was \$653,000 for both 2017 and 2016.

In addition, the University makes available a plan under which certain retirees may receive healthcare coverage. There is no implicit rate subsidy and the employees pay 100 percent of the cost. As a result, there is no required or recorded liability relating to the retiree healthcare plan.

Note 13 - Restricted Net Position

Restricted net position for the years ended September 30, 2017 and 2016 is as follows (in thousands):

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Restricted - Nonexpendable: | | |
| Scholarships, research, and academic support | \$ 2,261 | \$ 2,019 |
| Loans | 9,025 | 9,440 |
| Restricted - Expendable: | | |
| Scholarships, research, and academic support | 63,750 | 60,178 |
| Capital projects | <u>27,435</u> | <u>46,638</u> |
| Total restricted net position | <u>\$ 102,471</u> | <u>\$ 118,275</u> |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 14 - Fair Value

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The University has the following recurring fair value measurements as of September 30, 2017 and 2016 (in thousands):

| Investments by Fair Value Level | Fair Market Measurements Using: | | | Total Fair Value at September 30, 2017 |
|--|---------------------------------|------------|----------|---|
| | Level 1 | Level 2 | Level 3 | |
| Fixed-income securities: | | | | |
| U.S. government securities | \$ 1,353 | \$ - | \$ - | \$ 1,353 |
| Corporate bonds | - | 124,548 | - | 124,548 |
| Corporate bond funds | 90,187 | - | - | 90,187 |
| Money market mutual funds | 5,847 | - | - | 5,847 |
| Asset-backed securities/CMOs | - | 4,898 | - | 4,898 |
| Other | - | - | 6,652 | 6,652 |
| Total fixed-income investments | 97,387 | 129,446 | 6,652 | 233,485 |
| Equity securities: | | | | |
| U.S. | 3,296 | - | - | 3,296 |
| Non-U.S. | - | - | - | - |
| Total equity securities | 3,296 | - | - | 3,296 |
| Investments measured by fair value level | \$ 100,683 | \$ 129,446 | \$ 6,652 | 236,781 |
| Investments Measured at Net Asset Value (NAV) or Equivalent | | | | |
| Fixed-income securities | | | | 44,213 |
| Multistrategy hedge funds | | | | 285 |
| Total investments measured at NAV | | | | 44,498 |
| Total investments measured at fair value | | | | \$ 281,279 |
| Hedging Derivative Instruments | | | | |
| Interest rate swaps - Effective | \$ 178 | | | |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 14 - Fair Value (Continued)

| Investments by Fair Value Level | Fair Market Measurements Using: | | | Total Fair Value at September 30, 2016 |
|--|---------------------------------|------------|----------|---|
| | Level 1 | Level 2 | Level 3 | |
| Fixed-income securities: | | | | |
| U.S. government securities | \$ 5,140 | \$ - | \$ - | \$ 5,140 |
| Corporate bonds | - | 145,864 | - | 145,864 |
| Corporate bond funds | 86,014 | - | - | 86,014 |
| Money market mutual funds | 4,279 | - | - | 4,279 |
| Asset-backed securities/CMOs | - | 9,474 | - | 9,474 |
| Other | - | - | 1,420 | 1,420 |
| Total fixed-income investments | 95,433 | 155,338 | 1,420 | 252,191 |
| Equity securities: | | | | |
| U.S. | 1,245 | - | - | 1,245 |
| Non-U.S. | 1,764 | - | - | 1,764 |
| Total equity securities | 3,009 | - | - | 3,009 |
| Investments measured by fair value level | \$ 98,442 | \$ 155,338 | \$ 1,420 | 255,200 |
| Investments Measured at Net Asset Value (NAV) or Equivalent | | | | |
| Equity and fixed-income securities | | | | 52,438 |
| Multistategy hedge funds | | | | 332 |
| Total investments measured at NAV | | | | 52,770 |
| Total investments measured at fair value | | | | \$ 307,970 |
| Hedging Derivative Instruments | | | | |
| Interest rate swaps - Effective | | \$ 521 | | |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 14 - Fair Value (Continued)

The Foundation has the following recurring fair value measurements as of September 30, 2017 and 2016 (in thousands):

| Investments by Fair Value Level | Fair Market Measurements Using: | | | Total Fair Value at September 30, 2017 |
|--|---------------------------------|---------|---------|---|
| | Level 1 | Level 2 | Level 3 | |
| Fixed-income securities: | | | | |
| U.S. government securities | \$ 25,395 | \$ - | \$ - | \$ 25,395 |
| Money market mutual funds | 25,252 | - | - | 25,252 |
| Total fixed-income investments | 50,647 | - | - | 50,647 |
| Equity securities: | | | | |
| U.S. | 11,944 | - | - | 11,944 |
| Non-U.S. | 2,235 | - | - | 2,235 |
| Total equity securities | 14,179 | - | - | 14,179 |
| Investments measured by fair value level | \$ 64,826 | \$ - | \$ - | 64,826 |
| Investments Measured at Net Asset Value (NAV) or Equivalent | | | | |
| Equity and fixed-income securities | | | | 157,532 |
| Credit and loan limited partnership investments | | | | 18,481 |
| Multistrategy hedge funds | | | | 79,834 |
| Equity private investments | | | | 5,206 |
| Real assets comingled funds and private investments | | | | 27,700 |
| Total investments measured at NAV | | | | 288,753 |
| Total investments measured at fair value | | | | \$ 353,579 |

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 14 - Fair Value (Continued)

| Investments by Fair Value Level | Fair Market Measurements Using: | | | Total Fair Value at September 30, 2016 |
|--|---------------------------------|----------|---------|---|
| | Level 1 | Level 2 | Level 3 | |
| Fixed-income securities: | | | | |
| Corporate securities | \$ - | \$ 1,255 | \$ - | \$ 1,255 |
| Corporate bond funds | 82,449 | - | - | 82,449 |
| Money market mutual funds | 6,518 | - | - | 6,518 |
| Total fixed-income investments | 88,967 | 1,255 | - | 90,222 |
| Equity securities: | | | | |
| U.S. | 52,135 | - | - | 52,135 |
| Non-U.S. | 36,025 | - | - | 36,025 |
| Other | 3,437 | - | - | 3,437 |
| Total equity securities | 91,597 | - | - | 91,597 |
| Investments measured by fair value level | \$ 180,564 | \$ 1,255 | \$ - | \$ 181,819 |
| Investments Measured at Net Asset Value (NAV) or Equivalent | | | | |
| Equity and fixed-income securities | | | | 81,455 |
| Credit and loan limited partnership investments | | | | 17,450 |
| Multistrategy hedge funds | | | | 17,029 |
| Equity private investments | | | | 7,353 |
| Commodities private investments | | | | 4,541 |
| Total investments measured at NAV | | | | 127,828 |
| Total investments measured at fair value | | | | \$ 309,647 |

The fair value of the University's and the Foundation's fixed-income and equity securities classified in Level 1 at September 30, 2017 and 2016 was valued using prices quoted in active markets for those securities.

The fair value of the University's fixed-income securities classified in Level 2 at September 30, 2017 and 2016 was valued using a matrix pricing technique. The Foundation's September 30, 2016 Level 2 fixed-income securities were also valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices given that it is not a holding available to be bought or sold in active markets (i.e., the holding does not trade using a ticker symbol).

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 14 - Fair Value (Continued)

The fair value of the University's fixed-income securities classified in Level 3 at September 30, 2017 and 2016 was valued using otherwise unobservable inputs. The securities (primarily donated life insurance policies and gifted investments that are not actively traded in public markets) were valued using their cash surrender values or book values.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the table that follows.

Investments in Entities that Calculate Net Asset Value per Share

The University and the Foundation hold shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At September 30, 2017 and 2016, the University's fair value, unfunded commitments, and redemption policies of those investments is as follows (in thousands):

| | Total Fair Value at September 30 | | | Redemption Policy at September 30, 2017 |
|------------------------------------|----------------------------------|-----------|---|---|
| | | | Outstanding Commitments at September 30, 2017 | |
| | 2017 | 2016 | | |
| Equity and fixed-income securities | \$ 44,213 | \$ 52,438 | \$ - | Primarily daily/monthly |
| Multistrategy hedge funds | 285 | 332 | - | Redemptions are not permitted |
| Total investments measured at NAV | \$ 44,498 | \$ 52,770 | \$ - | |

At September 30, 2017 and 2016, the Foundation's fair value, unfunded commitments, and redemption policies of those investments is as follows (in thousands):

| | Total Fair Value at September 30 | | | Redemption Policy at September 30, 2017 |
|---------------------------------------|----------------------------------|------------|---|--|
| | | | Outstanding Commitments at September 30, 2017 | |
| | 2017 | 2016 | | |
| Equity and fixed-income securities | \$ 157,532 | \$ 81,455 | \$ - | Primarily monthly with a maximum of 30 days notice |
| Credit and loan private investments | 18,481 | 17,450 | 3,325 | Redemptions are not permitted |
| Multistrategy hedge funds | 79,834 | 17,029 | - | quarterly with 90 days notice |
| Equity private investments | 5,206 | 7,353 | 1,051 | Redemptions are not permitted |
| Commodities private investments | 27,700 | 4,541 | - | Maximum of quarterly with 90 days notice |
| Total investments measured at the NAV | \$ 288,753 | \$ 127,828 | \$ 4,376 | |

Note 14 - Fair Value (Continued)

The University's and the Foundation's equity and fixed-income investments include limited partnership investments and commingled investment funds that invest primarily in publicly traded domestic and publicly traded international long only equity investments and domestic fixed-income securities and instruments. These are investments in long only publicly listed equity securities. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. A majority of these investments can typically be liquidated on a monthly basis, with a 30-day notification period.

The Foundation's September 30, 2017 and 2016 credit and loan private investments include investments in private limited partnership investments that invest in domestic and European loan funds. The fair values of these investments have been estimated using the net asset values of the investments. The remaining investment period of these investments is less than five years. The nature of these investments involve capital calls and distributions being made throughout the investment period based upon the activity of the underlying investments. Because no public market exists for selling these types of investments, they are viewed as long-term investments in nature with funds being committed over the life of the investment.

The Foundation's September 30, 2017 and 2016 multistrategy hedge funds class includes investments in hedge funds that pursue a variety of strategies to diversify risks and reduce volatility. The strategies may include equity long/short strategies, equity market-neutral strategies, fixed-income relative value, credit long/short, and global macro strategies, risk parity strategies, short bias, even driven, and fixed-income arbitrage positions. The fair values of the multistrategy hedge funds investments have been estimated using the net asset value per share of the investments. The redemption policy is either quarterly, with a 90-day notification period, or monthly, with a 30-day notification period. The University's small hedge fund investment in this class is held within a trust in which the University is a minority beneficiary. Therefore, the University cannot request redemptions.

The Foundation's September 30, 2017 and 2016 equity private investments include investments in private equity funds that invest in venture capital, growth equity, buyout funds, and direct lending strategies. The fair values of the investments in this class have been estimated using the net asset value of the University's ownership interest in partners' capital. The remaining investment period of these investments is less than four years. The nature of these investments involves capital calls being made throughout the investment period, as well as income distributions being received as underlying investments are bought and sold. Because no public market exists for selling these types of investments, they are viewed as long-term in nature with funds being committed over the life of the investment.

The Foundation's September 30, 2017 and 2016 real assets investments include investments in comingled funds and private investments that invest in inflation-linked fixed-income instruments, commodity derivative instruments, and real estate funds. The fair values of the investments in this class have been estimated using the net asset value of the University's ownership interest in partners' capital. The Foundation's real assets investments have a variety of redemption policies and notification periods, the most restrictive of which permit quarterly redemptions with a 90-day notification period.

Wayne State University

Notes to Financial Statements September 30, 2017 and 2016

Note 15 - Subsequent Events

Subsequent to September 30, 2017, the University entered into a Service Concessionaire Agreement (SCA) with Corvias Campus Living-WSU, LLC (Corvias), whereby Corvias will manage, maintain, and operate housing resources on campus for a 40-year term, which ends in November 2057.

As outlined within the SCA, Corvias will construct and renovate housing projects on campus. The budget for these housing projects is \$151,349,731 and all projects are planned for completion by 2020. In addition, Corvias defeased \$102,890,223 of the University's housing debt and provided an additional \$12,443,503, which will be used by the University for various transactional and housing expenses.

The University will reflect the total \$266,683,299 provided by Corvias as a deferred inflow of resources, which will be amortized over the term of the SCA agreement. In fiscal year 2018, the University will amortize \$5,555,902, which will leave a balance of deferred inflows of resources of \$261,127,397 at September 30, 2018.

For illustrative purposes, a summarized comparison of the University's assets, liabilities, deferred inflows of resources, deferred outflows of resources, and net position at September 30, 2017 and September 30, 2017 adjusted to include the Corvias activity is included below:

| | Corvias | |
|--------------------------------|-------------------|-------------------|
| | 2017 | 2017 |
| | (in millions) | |
| Total assets | \$ 1,454.1 | \$ 1,617.9 |
| Deferred outflows of resources | <u>12.8</u> | <u>12.8</u> |
| | <u>\$ 1,466.9</u> | <u>\$ 1,630.7</u> |
| | | |
| Total liabilities | \$ 807.8 | \$ 704.9 |
| Deferred inflows of resources | - | 266.7 |
| Net position | <u>659.1</u> | <u>659.1</u> |
| | <u>\$ 1,466.9</u> | <u>\$ 1,630.7</u> |

Note 16 - Future Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the University to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending September 30, 2018.

Note 16 - Future Accounting Pronouncements (Continued)

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending September 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which aims to improve accounting and financial reporting for leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending September 30, 2021.

Supplemental Information

Wayne State University

Combining Statement of Net Position (Deficit) September 30, 2017 (with comparative totals for September 30, 2016) (in thousands)

| | 2017 | | | | | | | | | | | 2016 | | | | |
|---|------------------|------------------|---------------------------|-----------------------------|----------------------------|------------------------|-------------------|-------------------|-----------------------------|-------------|-------------------|---|---------------------|-------------------|---------|---------|
| | 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 | University Total | Wayne State University Foundation Total | Total | Total | | |
| | | | | | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | | | | |
| Cash and temporary investments | \$ 183,678 | \$ 32,485 | \$ 2,678 | \$ (1,764) | \$ 52,733 | \$ 269,810 | \$ 54,801 | \$ 10,829 | \$ 1,411 | \$ 18,179 | \$ 355,030 | \$ 9,047 | \$ 364,077 | \$ 346,057 | | |
| Current receivables - Net | 69,646 | 58,763 | 6,341 | 761 | 24,979 | 160,490 | 11,900 | 103 | - | 254 | 172,747 | 146 | 172,893 | 140,116 | | |
| Inventories | 895 | - | 478 | - | - | 1,373 | - | - | - | - | 1,373 | - | 1,373 | 1,468 | | |
| Prepaid expenses and deposits | 39,258 | 196 | 144 | 20 | 162 | 39,780 | 1,072 | - | - | 275 | 41,127 | - | 41,127 | 39,828 | | |
| Total current assets | 293,477 | 91,444 | 9,641 | (983) | 77,874 | 471,453 | 67,773 | 10,932 | 1,411 | 18,708 | 570,277 | 9,193 | 579,470 | 527,469 | | |
| Noncurrent Assets | | | | | | | | | | | | | | | | |
| Investments | - | - | - | - | - | - | - | - | 4,106 | - | 4,106 | 353,579 | 357,685 | 313,587 | | |
| Noncurrent receivables - Net | - | 5,928 | - | 3 | 875 | 6,806 | 1,287 | 28,778 | - | - | 36,871 | 132 | 37,003 | 49,152 | | |
| Derivative instruments | - | - | - | - | - | - | 178 | - | - | - | 178 | - | 178 | 521 | | |
| Capital assets - Net | - | - | - | - | - | - | 842,659 | - | - | - | 842,659 | - | 842,659 | 852,884 | | |
| Total noncurrent assets | - | 5,928 | - | 3 | 875 | 6,806 | 844,124 | 28,778 | 4,106 | - | 883,814 | 353,711 | 1,237,525 | 1,216,144 | | |
| Total assets | 293,477 | 97,372 | 9,641 | (980) | 78,749 | 478,259 | 911,897 | 39,710 | 5,517 | 18,708 | 1,454,091 | 362,904 | 1,816,995 | 1,743,613 | | |
| Deferred Outflows of Resources | - | - | - | - | - | - | 12,792 | - | - | - | 12,792 | - | 12,792 | 13,408 | | |
| Liabilities | | | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | | | |
| Accounts payable and accrued liabilities | 46,662 | 6,518 | 2,522 | 138 | 6,723 | 62,563 | 23,048 | - | 89 | 13,922 | 99,622 | 555 | 100,177 | 99,836 | | |
| Unearned revenue | 156,062 | 1,239 | 8,881 | - | 10,593 | 176,775 | 53 | - | - | - | 176,828 | - | 176,828 | 170,662 | | |
| Deposits | 2,296 | 500 | 66 | - | 5 | 2,867 | - | - | - | 4,420 | 7,287 | - | 7,287 | 7,817 | | |
| Long-term debt - Current portion | - | - | - | - | - | - | 16,772 | - | - | - | 16,772 | - | 16,772 | 16,129 | | |
| Total current liabilities | 205,020 | 8,257 | 11,469 | 138 | 17,321 | 242,205 | 39,873 | - | 89 | 18,342 | 300,509 | 555 | 301,064 | 294,444 | | |
| Noncurrent Liabilities | | | | | | | | | | | | | | | | |
| Federal portion of student loan funds | - | - | - | - | - | - | - | 29,379 | - | - | 29,379 | - | 29,379 | 32,526 | | |
| Accrued employee benefits and other liabilities | 24,762 | - | 5,401 | - | - | 30,163 | - | - | 845 | 366 | 31,374 | - | 31,374 | 31,922 | | |
| Long-term debt - Net of current portion | - | - | - | - | - | - | 446,508 | - | - | - | 446,508 | - | 446,508 | 463,274 | | |
| Total noncurrent liabilities | 24,762 | - | 5,401 | - | - | 30,163 | 446,508 | 29,379 | 845 | 366 | 507,261 | - | 507,261 | 527,722 | | |
| Total liabilities | 229,782 | 8,257 | 16,870 | 138 | 17,321 | 272,368 | 486,381 | 29,379 | 934 | 18,708 | 807,770 | 555 | 808,325 | 822,166 | | |
| Net Position (Deficit) | | | | | | | | | | | | | | | | |
| Net investment in capital assets | - | - | - | - | - | - | 393,243 | - | - | - | 393,243 | - | 393,243 | 386,906 | | |
| Restricted: | | | | | | | | | | | | | | | | |
| Nonexpendable | - | - | - | - | - | - | - | 9,025 | 2,261 | - | 11,286 | 195,253 | 206,539 | 191,859 | | |
| Expendable | | | | | | | 61,428 | 61,428 | 27,435 | - | 2,322 | - | 91,185 | 159,323 | 250,508 | 241,205 |
| Unrestricted | 63,695 | 89,115 | (7,229) | (1,118) | - | 144,463 | 17,630 | 1,306 | - | - | 163,399 | 7,773 | 171,172 | 114,885 | | |
| Total net position (deficit) | \$ 63,695 | \$ 89,115 | \$ (7,229) | \$ (1,118) | \$ 61,428 | \$ 205,891 | \$ 438,308 | \$ 10,331 | \$ 4,583 | \$ - | \$ 659,113 | \$ 362,349 | \$ 1,021,462 | \$ 934,855 | | |

Wayne State University

**Combining Statement of Revenues, Expenses, Transfers,
and Changes in Net Position (Deficit)**
Year Ended September 30, 2017
**(with comparative totals for the year ended September 30, 2016)
(in thousands)**

| Year Ended September 30 | | | | | | | | | | | | | |
|---|--------------|-----------------|---------------------------|-----------------------------|----------------------------|------------------------|------------|-------------------|-----------------------------|------------------------|------------------------------|-----------------------------|---------------------|
| 2017 | | | | | | | | | | | | | |
| | 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 | University Adjustments | Wayne State University Total | University Foundation Total | 2016 Total |
| Operating Revenues | | | | | | | | | | | | | |
| Student tuition and fees | \$ 378,063 | \$ - | \$ 4,343 | \$ - | \$ - | \$ 382,406 | \$ 138 | \$ - | \$ - | \$ 382,544 | \$ - | \$ 382,544 | \$ 366,085 |
| Less scholarship allowances | - | - | - | - | - | - | - | - | - | (103,938) | (103,938) | - | (103,938) (98,200) |
| Net student tuition and fees | 378,063 | - | 4,343 | - | - | 382,406 | 138 | - | - | (103,938) | 278,606 | - | 278,606 267,885 |
| Federal grants and contracts | - | - | - | - | 108,032 | 108,032 | 525 | - | - | 108,557 | - | 108,557 | 105,446 |
| State and local grants and contracts | - | - | - | - | 24,473 | 24,473 | - | - | - | 24,473 | - | 24,473 | 21,850 |
| Nongovernmental grants and contracts | 2,672 | 118,340 | - | - | 44,001 | 165,013 | - | - | - | 165,013 | - | 165,013 | 93,655 |
| Departmental activities | 9,614 | 8,732 | - | 952 | 2,027 | 21,325 | - | - | - | 21,325 | - | 21,325 | 21,998 |
| Auxiliary enterprises - Net of scholarship allowances | - | - | 42,280 | - | - | 42,280 | - | - | - | (5,160) | 37,120 | - | 37,120 37,685 |
| Recovery of indirect costs of sponsored programs | 34,217 | - | - | - | (34,217) | - | - | - | - | - | - | - | - |
| Other operating revenues | 5,203 | - | - | - | - | 5,203 | - | 61 | - | - | 5,264 | - | 5,264 4,480 |
| Total operating revenues | 429,769 | 127,072 | 46,623 | 952 | 144,316 | 748,732 | 663 | 61 | - | (109,098) | 640,358 | - | 640,358 552,999 |
| Operating Expenses | | | | | | | | | | | | | |
| Instruction | 224,213 | 42,413 | - | - | 10,763 | 277,389 | - | - | - | (930) | 276,459 | - | 276,459 278,551 |
| Research | 46,385 | 2,712 | - | - | 110,387 | 159,484 | - | - | - | (3,042) | 156,442 | - | 156,442 146,916 |
| Public service | 3,724 | 27,563 | - | 2,435 | 28,888 | 62,610 | - | - | - | (422) | 62,188 | - | 62,188 60,697 |
| Academic support | 70,467 | 2,929 | - | - | 712 | 74,108 | - | - | - | (7,761) | 66,347 | - | 66,347 66,978 |
| Student services | 41,059 | 568 | - | - | 310 | 41,937 | - | - | - | (71) | 41,866 | - | 41,866 38,724 |
| Institutional support | 80,440 | 4,653 | - | - | 134 | 85,227 | - | - | - | (178) | 85,049 | - | 85,049 78,120 |
| Operation and maintenance of plant | 52,235 | 1,086 | - | - | 5 | 53,326 | 7,417 | - | - | (335) | 60,408 | - | 60,408 60,733 |
| Scholarships and fellowships | 80,278 | 64 | - | - | 42,166 | 122,508 | - | - | - | (109,098) | 13,410 | - | 13,410 12,254 |
| Auxiliary enterprises | - | - | 24,992 | - | - | 24,992 | - | - | - | (52) | 24,940 | - | 24,940 25,929 |
| Depreciation | - | - | - | - | - | - | 61,560 | - | - | - | 61,560 | - | 61,560 55,944 |
| Capital additions - Net | - | - | - | - | - | - | (12,791) | - | - | 12,791 | - | - | - |
| Transfers out (in): | | | | | | | | | | | | | |
| Debt service | 21,244 | 986 | 12,153 | - | - | 34,383 | (34,383) | - | - | - | - | - | - |
| Loan matching | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Plant improvement and extension | 10,102 | 156 | 4,026 | - | 181 | 14,465 | (14,465) | - | - | - | - | - | - |
| Other | 142 | 4 | - | - | (175) | (29) | - | 33 | (4) | - | - | - | - |
| Total operating expenses | 630,289 | 83,134 | 41,171 | 2,435 | 193,371 | 950,400 | 7,338 | 33 | (4) | (109,098) | 848,669 | - | 848,669 824,846 |
| Operating (Loss) Income | (200,520) | 43,938 | 5,452 | (1,483) | (49,055) | (201,668) | (6,675) | 28 | 4 | - | (208,311) | - | (208,311) (271,847) |

Wayne State University

Combining Statement of Net Position (Deficit) September 30, 2016 (in thousands)

| | Year Ended September 30 | | | | | | | | | | | | | | |
|---|-------------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|------------------|------------------|------------------|-----------------------------|-------------------|---------------------|-------------------|-------|
| | 2017 | | | | | | | | | | | | 2016 | | |
| | General Fund | Designated Fund | Auxiliary Fund | Independent Fund | Expendable Fund | Subtotal Funds | Student Fund | Endowment Fund | Wayne State | | | | | | |
| | Fund | Fund | Fund | Fund | Fund | Funds | Fund | Fund | University Total | University Total | University Foundation Total | Total | Total | Total | Total |
| Nonoperating Revenues (Expenses) | | | | | | | | | | | | | | | |
| State operating appropriation | \$ 195,821 | \$ - | \$ - | \$ 243 | \$ 196,064 | \$ - | \$ - | \$ - | \$ 196,064 | \$ - | \$ 196,064 | \$ 196,064 | \$ 191,451 | \$ 191,451 | |
| Federal Pell grant | - | - | - | - | 33,085 | 33,085 | - | - | - | 33,085 | - | 33,085 | 33,085 | 31,174 | |
| Gifts | - | 11,584 | 20 | 2,069 | 8,548 | 22,221 | - | 7 | 130 | - | 22,358 | 832 | 23,190 | 31,131 | |
| Investment (loss) income: | | | | | | | | | | | | | | | |
| Change in fair value of derivatives | - | - | - | - | - | (343) | - | - | - | (343) | - | (343) | (343) | 177 | |
| Endowment and similar funds | - | - | - | - | 91 | 91 | - | - | (91) | - | - | - | - | - | |
| Other | 5,421 | (723) | 10 | - | 1,147 | 5,855 | 1,100 | 96 | 409 | - | 7,460 | 35,394 | 42,854 | 41,178 | |
| Net distributions from the Foundation | 1,395 | (501) | - | 6 | 9,601 | 10,501 | 39 | (32) | (115) | - | 10,393 | (10,393) | - | - | |
| Interest on capital asset - Related debt | - | - | - | - | - | (20,500) | - | - | - | (20,500) | - | (20,500) | (20,500) | (20,656) | |
| Loss on capital assets retired | - | - | - | - | - | (33) | - | - | - | (33) | - | (33) | (33) | (675) | |
| Other | - | - | - | - | - | - | 2,280 | (75) | (183) | - | 2,022 | - | 2,022 | 4,050 | |
| Net nonoperating revenues (expenses) | 202,637 | 10,360 | 30 | 2,075 | 52,715 | 267,817 | (17,457) | (4) | 150 | - | 250,506 | 25,833 | 276,339 | 277,830 | |
| Income (Loss) Before Other | 2,117 | 54,298 | 5,482 | 592 | 3,660 | 66,149 | (24,132) | 24 | 154 | - | 42,195 | 25,833 | 68,028 | 5,983 | |
| Other | | | | | | | | | | | | | | | |
| State capital appropriation | - | - | - | - | - | - | 585 | - | - | - | 585 | - | 585 | 2,474 | |
| Capital gifts | - | - | - | - | - | - | 3,545 | - | - | - | 3,545 | - | 3,545 | 38,993 | |
| Gifts for permanent endowments | - | - | - | - | - | - | - | - | - | - | - | 14,449 | 14,449 | 14,374 | |
| Total other | - | - | - | - | - | - | 4,130 | - | - | - | 4,130 | 14,449 | 18,579 | 55,841 | |
| Increase (Decrease) in Net Position | 2,117 | 54,298 | 5,482 | 592 | 3,660 | 66,149 | (20,002) | 24 | 154 | - | 46,325 | 40,282 | 86,607 | 61,824 | |
| Net Position (Deficit) - Beginning of year | 61,578 | 34,817 | (12,711) | (1,710) | 57,768 | 139,742 | 458,310 | 10,307 | 4,429 | - | 612,788 | 322,067 | 934,855 | 873,031 | |
| Net Position (Deficit) - End of year | \$ 63,695 | \$ 89,115 | \$ (7,229) | \$ (1,118) | \$ 61,428 | \$ 205,891 | \$ 438,308 | \$ 10,331 | \$ 4,583 | - | \$ 659,113 | \$ 362,349 | \$ 1,021,462 | \$ 934,855 | |

Wayne State University

Combining Statement of Net Position (Deficit) September 30, 2016 (in thousands)

| | 2016 | | | | | | | | | | | | |
|--|--------------|-----------------|---------------------------|-----------------------------|----------------------------|------------------------|------------|-------------------|-----------------------------|-------------|------------------|---|-------|
| | 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 | University Total | Wayne State University Foundation Total | Total |
| Assets | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | |
| Cash and temporary investments | \$ 169,889 | \$ 30,543 | \$ (2,123) | \$ (1,818) | \$ 53,854 | \$ 250,345 | \$ 51,454 | \$ 13,609 | \$ 1,376 | \$ 17,466 | \$ 334,250 | \$ 11,807 | |
| Current receivables - Net | 70,558 | 14,910 | 5,015 | 404 | 24,864 | 115,751 | 23,184 | 103 | 0 | 242 | 139,280 | 836 | |
| Inventories | 952 | - | 516 | - | - | 1,468 | - | - | - | - | 1,468 | - | |
| Prepaid expenses and deposits | 37,495 | 610 | 135 | - | 128 | 38,368 | 1,169 | - | - | 291 | 39,828 | - | |
| Total current assets | 278,894 | 46,063 | 3,543 | (1,414) | 78,846 | 405,932 | 75,807 | 13,712 | 1,376 | 17,999 | 514,826 | 12,643 | |
| Noncurrent Assets | | | | | | | | | | | | | |
| Investments | - | - | - | - | - | - | - | - | 3,940 | - | 3,940 | 309,647 | |
| Noncurrent receivables - Net | - | 6,224 | - | 2 | 1,002 | 7,228 | 12,803 | 29,121 | - | - | 49,152 | - | |
| Derivative instruments | - | - | - | - | - | - | 521 | - | - | - | 521 | - | |
| Capital assets - Net | - | - | - | - | - | 852,884 | - | - | - | - | 852,884 | - | |
| Total noncurrent assets | - | 6,224 | - | 2 | 1,002 | 7,228 | 866,208 | 29,121 | 3,940 | - | 906,497 | 309,647 | |
| Total assets | 278,894 | 52,287 | 3,543 | (1,412) | 79,848 | 413,160 | 942,015 | 42,833 | 5,316 | 17,999 | 1,421,323 | 322,290 | |
| Deferred Outflows of Resources | - | - | - | - | - | - | 13,408 | - | - | - | 13,408 | - | |
| Liabilities | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | |
| Accounts payable and accrued liabilities | 39,600 | 15,460 | 2,833 | 264 | 10,895 | 69,052 | 17,659 | - | 82 | 12,820 | 99,613 | 223 | |
| Unearned revenue | 151,996 | 960 | 7,221 | - | 10,434 | 170,611 | 51 | - | - | - | 170,662 | - | |
| Deposits | 2,732 | 500 | 132 | - | 5 | 3,369 | - | - | - | 4,448 | 7,817 | - | |
| Long-term debt - Current portion | - | - | - | - | - | - | 16,129 | - | - | - | 16,129 | - | |
| Total current liabilities | 194,328 | 16,920 | 10,186 | 264 | 21,334 | 243,032 | 33,839 | - | 82 | 17,268 | 294,221 | 223 | |
| Noncurrent Liabilities | | | | | | | | | | | | | |
| Federal portion of student loan funds | - | - | - | - | - | - | - | 32,526 | - | - | 32,526 | - | |
| Accrued employee benefits and other | 22,988 | 550 | 6,068 | 34 | 746 | 30,386 | - | - | 805 | 731 | 31,922 | - | |
| Long-term debt - Net of current portion | - | - | - | - | - | - | 463,274 | - | - | - | 463,274 | - | |
| Total noncurrent liabilities | 22,988 | 550 | 6,068 | 34 | 746 | 30,386 | 463,274 | 32,526 | 805 | 731 | 527,722 | - | |
| Total liabilities | 217,316 | 17,470 | 16,254 | 298 | 22,080 | 273,418 | 497,113 | 32,526 | 887 | 17,999 | 821,943 | 223 | |
| Net Position (Deficit) | | | | | | | | | | | | | |
| Net investment in capital assets | - | - | - | - | - | - | 386,906 | - | - | - | 386,906 | - | |
| Restricted: | | | | | | | | | | | | | |
| Nonexpendable | - | - | - | - | - | - | - | 9,440 | 2,019 | - | 11,459 | 180,400 | |
| Expendable | - | - | - | - | - | 57,768 | 57,768 | 46,638 | - | 2,410 | 106,816 | 134,389 | |
| Unrestricted | 61,578 | 34,817 | (12,711) | (1,710) | - | 81,974 | 24,766 | 867 | - | - | 107,607 | 7,278 | |
| Total net position (deficit) | \$ 61,578 | \$ 34,817 | \$ (12,711) | \$ (1,710) | \$ 57,768 | \$ 139,742 | \$ 458,310 | \$ 10,307 | \$ 4,429 | \$ - | \$ 612,788 | \$ 322,067 | |
| | | | | | | | | | | | | \$ 934,855 | |

Wayne State University

**Combining Statement of Revenues, Expenses, Transfers,
and Changes in Net Position (Deficit)
Year Ended September 30, 2016
(in thousands)**

| Year Ended September 30 | | | | | | | | | | | | | |
|---|--------------|-----------------|---------------------------|-----------------------------|----------------------------|------------------------|------------|-------------------|-----------------------------|------------------------|------------------|---|------------|
| 2016 | | | | | | | | | | | | | |
| | 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 | University Adjustments | University Total | Wayne State University Foundation Total | Total |
| Operating Revenues | | | | | | | | | | | | | |
| Student tuition and fees | \$ 361,871 | \$ - | \$ 4,077 | \$ - | \$ - | \$ 365,948 | \$ 137 | \$ - | \$ - | \$ (98,200) | \$ 366,085 | \$ - | \$ 366,085 |
| Less scholarship allowances | - | - | - | - | - | - | - | - | - | (98,200) | (98,200) | - | (98,200) |
| Net student tuition and fees | 361,871 | - | 4,077 | - | - | 365,948 | 137 | - | - | (98,200) | 267,885 | - | 267,885 |
| Federal grants and contracts | - | - | - | - | 104,910 | 104,910 | 536 | - | - | - | 105,446 | - | 105,446 |
| State and local grants and contracts | - | - | - | - | 21,850 | 21,850 | - | - | - | - | 21,850 | - | 21,850 |
| Nongovernmental grants and contracts | - | 56,328 | - | - | 37,327 | 93,655 | - | - | - | - | 93,655 | - | 93,655 |
| Departmental activities | 9,706 | 10,088 | - | 931 | 1,273 | 21,998 | - | - | - | - | 21,998 | - | 21,998 |
| Auxiliary enterprises - Net of scholarship allowances | - | - | 43,187 | - | - | 43,187 | - | - | - | (5,502) | 37,685 | - | 37,685 |
| Recovery of indirect costs of sponsored programs | 32,070 | - | - | - | (32,070) | - | - | - | - | - | - | - | - |
| Other operating revenues | 4,414 | - | - | - | - | 4,414 | - | 66 | - | - | 4,480 | - | 4,480 |
| Total operating revenues | 408,061 | 66,416 | 47,264 | 931 | 133,290 | 655,962 | 673 | 66 | - | (103,702) | 552,999 | - | 552,999 |
| Operating Expenses | | | | | | | | | | | | | |
| Instruction | 252,113 | 16,105 | - | - | 11,668 | 279,886 | - | - | - | (1,335) | 278,551 | - | 278,551 |
| Research | 39,332 | 3,717 | - | - | 108,504 | 151,553 | - | - | - | (4,637) | 146,916 | - | 146,916 |
| Public service | 1,559 | 29,365 | - | 2,567 | 27,710 | 61,201 | - | - | - | (504) | 60,697 | - | 60,697 |
| Academic support | 66,044 | 7,900 | - | - | 681 | 74,625 | - | - | - | (7,647) | 66,978 | - | 66,978 |
| Student services | 38,055 | 311 | - | - | 358 | 38,724 | - | - | - | - | 38,724 | - | 38,724 |
| Institutional support | 72,765 | 5,794 | - | - | 164 | 78,723 | - | - | - | (603) | 78,120 | - | 78,120 |
| Operation and maintenance of plant | 52,775 | 1,104 | - | - | 9 | 53,888 | 7,233 | - | - | (388) | 60,733 | - | 60,733 |
| Scholarships and fellowships | 75,124 | 159 | - | - | 40,672 | 115,955 | - | - | - | (103,701) | 12,254 | - | 12,254 |
| Auxiliary enterprises | - | - | 25,929 | - | - | 25,929 | - | - | - | - | 25,929 | - | 25,929 |
| Depreciation | - | - | - | - | - | - | 55,944 | - | - | - | 55,944 | - | 55,944 |
| Capital additions - Net | - | - | - | - | - | - | (15,113) | - | - | 15,113 | - | - | - |
| Transfers out (in): | | | | | | | | | | | | | |
| Debt service | 21,244 | 986 | 12,153 | - | - | 34,383 | (34,383) | - | - | - | - | - | - |
| Loan matching | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Plant improvement and extension | 10,709 | 1,472 | 9,922 | 98 | 479 | 22,680 | (22,680) | - | - | - | - | - | - |
| Other | 131 | - | - | - | (202) | (71) | - | 71 | - | - | - | - | - |
| Total operating expenses | 629,851 | 66,913 | 48,004 | 2,665 | 190,043 | 937,476 | (8,999) | 71 | - | (103,702) | 824,846 | - | 824,846 |
| Operating (Loss) Income | (221,790) | (497) | (740) | (1,734) | (56,753) | (281,514) | 9,672 | (5) | - | - | (271,847) | - | (271,847) |

Wayne State University

**Combining Statement of Revenues, Expenses, Transfers,
and Changes in Net Position (Deficit) (Continued)**
Year Ended September 30, 2016
(in thousands)

| Year Ended September 30 | | | | | | | | | | | | | |
|--|------------------|------------------|--------------------|-------------------|------------------|------------------------|-------------------|------------------|-----------------------------|------------------|-----------------------------|-------------------|-------------------|
| 2016 | | | | | | | | | | | | | |
| | General Fund | Designated Fund | Auxiliary Fund | Independent Fund | Expendable Fund | Subtotal Current Funds | Plant Fund | Student Fund | Endowment and Similar Funds | University Total | University Foundation Total | Wayne State Total | |
| | Fund | Fund | Fund | Fund | Fund | Funds | Fund | Fund | Funds | Total | Total | Total | |
| Nonoperating Revenues (Expenses) | | | | | | | | | | | | | |
| State operating appropriation | \$ 191,211 | \$ - | \$ - | \$ 240 | \$ 191,451 | \$ - | \$ - | \$ - | \$ - | \$ 191,451 | \$ - | \$ 191,451 | |
| Federal Pell grant | - | - | - | - | 31,174 | 31,174 | - | - | - | 31,174 | - | 31,174 | |
| Gifts | - | 13,631 | 12 | 1,431 | 13,343 | 28,417 | - | 4 | 450 | - | 28,871 | 2,260 | 31,131 |
| Investment income (loss): | | | | | | | | | | | | | |
| Change in fair value of derivatives | - | - | - | - | - | 177 | - | - | - | 177 | - | 177 | |
| Endowment and similar funds | - | - | - | - | 109 | 109 | - | - | (109) | - | - | - | |
| Other | 6,418 | 5,854 | 7 | - | 1,261 | 13,540 | 1,040 | 86 | 328 | - | 14,994 | 26,184 | 41,178 |
| Net distributions from the Foundation | 1,363 | (922) | - | 6 | 10,132 | 10,579 | 41 | 4 | (13) | - | 10,611 | (10,611) | - |
| Interest on capital asset - Related debt | - | - | - | - | - | (20,656) | - | - | - | (20,656) | - | (20,656) | |
| Loss on capital assets retired | - | - | - | - | - | (675) | - | - | - | (675) | - | (675) | |
| Other | - | - | - | - | - | 4,434 | (109) | (275) | - | 4,050 | - | 4,050 | |
| Net nonoperating revenues (expenses) | 198,992 | 18,563 | 19 | 1,437 | 56,259 | 275,270 | (15,639) | (15) | 381 | - | 259,997 | 17,833 | 277,830 |
| (Loss) Income Before Other | (22,798) | 18,066 | (721) | (297) | (494) | (6,244) | (5,967) | (20) | 381 | - | (11,850) | 17,833 | 5,983 |
| Other | | | | | | | | | | | | | |
| State capital appropriation | - | - | - | - | - | - | 2,474 | - | - | - | 2,474 | - | 2,474 |
| Capital gifts | - | - | - | - | - | - | 38,993 | - | - | - | 38,993 | - | 38,993 |
| Gifts for permanent endowments | - | - | - | - | - | - | - | 12 | - | 12 | 14,362 | 14,374 | |
| Total other | - | - | - | - | - | - | 41,467 | - | 12 | - | 41,479 | 14,362 | 55,841 |
| (Decrease) Increase in Net Position | (22,798) | 18,066 | (721) | (297) | (494) | (6,244) | 35,500 | (20) | 393 | - | 29,629 | 32,195 | 61,824 |
| Net Position (Deficit) | | | | | | | | | | | | | |
| Beginning of year | 84,376 | 16,751 | (11,990) | (1,413) | 58,262 | 145,986 | 422,810 | 10,327 | 4,036 | - | 583,159 | 289,872 | 873,031 |
| End of year | \$ 61,578 | \$ 34,817 | \$ (12,711) | \$ (1,710) | \$ 57,768 | \$ 139,742 | \$ 458,310 | \$ 10,307 | \$ 4,429 | \$ - | \$ 612,788 | \$ 322,067 | \$ 934,855 |



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