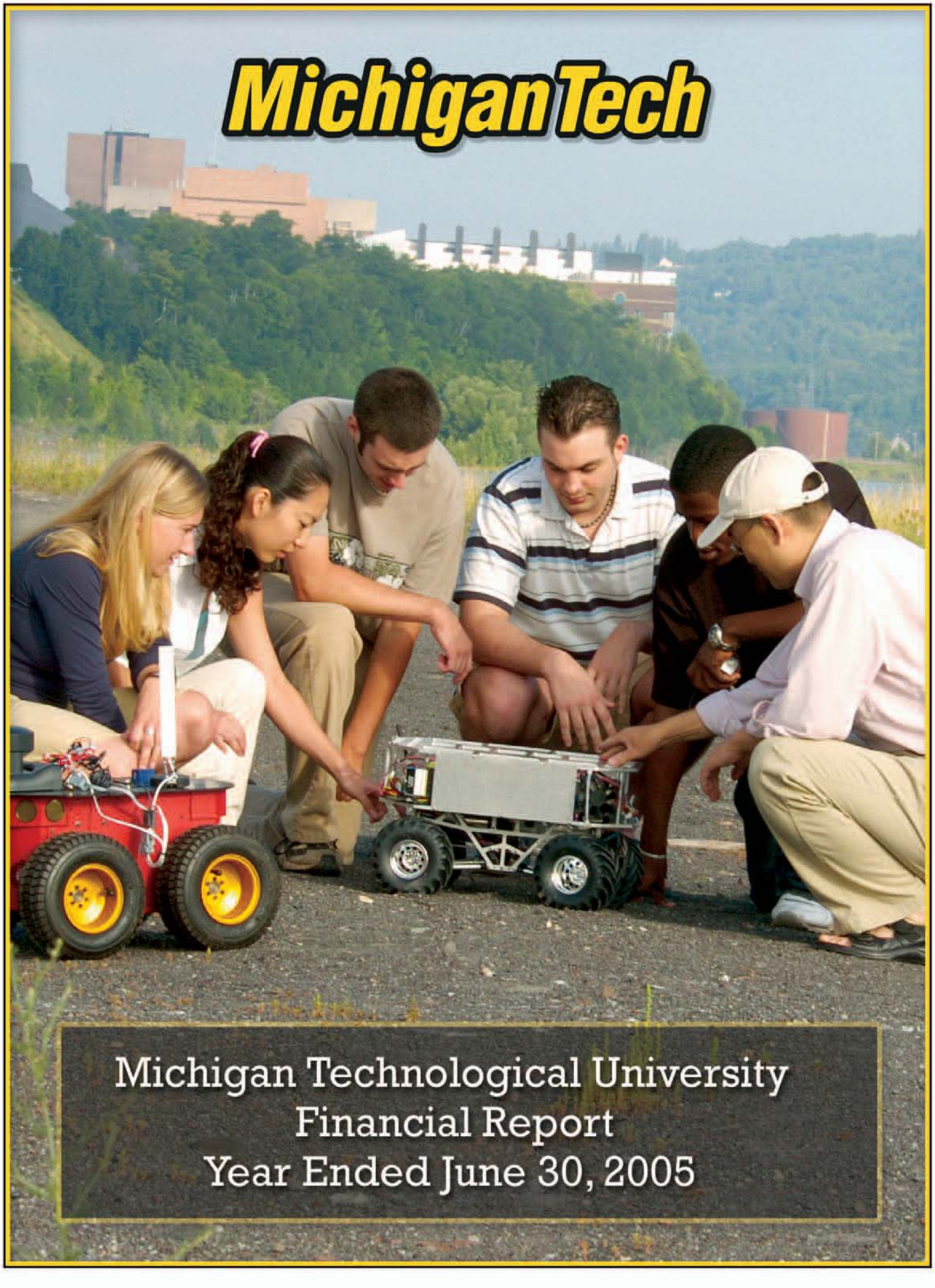

Michigan Tech

Michigan Technological University
Financial Report
Year Ended June 30, 2005

ADMINISTRATIVE OFFICERS

As of June 30, 2005

Board of Control

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David J. Brule, Sr.
Kathryn Clark
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Norman A. Rautiola
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President

Dr. David D. Reed
Provost, Senior Vice President for Academic Affairs, and Vice President for Research

Dr. Dale R. Tahtinen
Vice President for Governmental Relations and Secretary to the Board of Control

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Vice President for Administration

Dr. Les P. Cook
Vice President for Student Affairs

LETTER FROM THE PRESIDENT

Michigan Tech turned 120 years young on May 1. As with any milestone, it triggers a natural instinct to reflect on just what it is that makes the University endure over such a long period of time. As noted author of Good to Great, Jim Collins succinctly points out, endurance comes down to results, impact and esteem. It is our outcomes or results relative to our mission, the impact that students, alumni, faculty and staff have or will have on the world around them, and the level of esteem that people have for the institution. At Michigan Tech we define ourselves by people – our core principle is that we measure ourselves by the success of our students. Through the years, over fifty-two thousand Alumni have had their lives shaped and changed by experiences at Michigan Tech, and the outcomes are astounding with leaders in all aspects of business, government, and a recipient of a Nobel Prize defining our proud tradition.

To pursue this path of leadership and innovation, Michigan Tech has changed greatly over the years and continues to change at an increasing pace to educate and train students. Our EnterpriseTM Program, with over 600 students in 20 “companies” is but one of several pioneering programs that prepares students for the world ahead. The Michigan Tech SmartZone (a partnership with the cities of Houghton and Hancock) has filled its incubator space with eight new companies and currently advises 132 entrepreneurs or businesses. ThermoAnalytics, a company based on technology developed in University research, was recently named Michigan “SmartZone Company of the Year” in statewide competition. The Governor of Michigan also recently announced the “50 Companies to Watch in Michigan” – seven of these are either led by Michigan Tech grads, based on technology developed at Michigan Tech, or both.

Moving forward in uncertain budget times for the State of Michigan, we are increasing our emphasis on raising the endowment of the University to assure endurance. One example is the recent establishment of a Professorship in Electrical and Computer Engineering. Endowed professorships, chairs, scholarships, fellowships and program support are all key to the future of Michigan Tech to ensure that we can attract the brightest and best people to continue to lead change in education, research and development.

In a recent meeting with former presidents Ray Smith and Dale Stein, Dale concisely summed up our conversation in one simple statement – “as stewards of Michigan Tech, our job is to bring the University to a level of even greater service to the people of the State of Michigan, the nation, and the world, especially those students and families that entrust their future to us.” One hundred and twenty years of “futures” shows us that our core belief is sound and the University has grown and changed to meet this charge. It has also shown that when the inputs are bright, motivated people, the outcomes are successful students, alumni, faculty and staff who are able to create the future.

Sincerely,

Glenn D. Mroz

By Glenn D. Mroz '74, President
Michigan Technological University

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UNIVERSITY MISSION

We prepare students to create the future.

UNIVERSITY VISION

Michigan Tech will be a national university of choice.

Michigan Tech will be a nationally prominent and internationally recognized technological university which bridges technology and business and will meet the needs of a global and technologically rich society through excellence in undergraduate and graduate education, scholarship, and research.

UNIVERSITY GUIDING PRINCIPLES

-The success of our students will always be the most important measure of the success of the institution.

-Everyone's contribution to our success is needed, and will be valued and rewarded.

-Through collaborative efforts, we will serve the people of Michigan, the nation, and the world.

-Hallmarks of this university will be the creativity and leadership of our graduates, the relevance and benefits of our research, and the values we place on ethics, sustainability, diversity, and quality of life.

-MTU's faculty will emphasize scholarship, research, and inspirational teaching.

-Our faculty should be read and respected by leaders of science, industry, government, policy groups, and business.

-Engineering, science and technology, and the business of technology will remain the focus of our university. We recognize that success in this focus requires vital programs that contribute to the cultural development, social skills, and well-rounded education of our students.

UNIVERSITY STATISTICS

Introduction

At Michigan Tech, we prepare students to create the future.

Engineering, the sciences, communication, business, environmental studies, computing, and technology are all offered with guidance from faculty who are experts in their fields. Research is performed across all disciplines, both at the undergrad and graduate level, and occurs within the many labs on campus and outdoors in our incredible setting. After you close your books, you can enjoy virtually any recreational activity close to campus, including our Mt. Ripley Ski Hill, cross-country ski trails, Portage Lake Golf Course, jogging/walking trails, streams and lakes for fishing, and woods for hiking. Each year, Winter Carnival features huge snow statues, special events, and NCAA Division I men's ice hockey for our Husky fans. We also celebrate autumn's beauty with K-Day, Homecoming with a hobo theme, diversity with the Parade of Nations, and sunshine with Spring Fling.

Admissions

The following table shows the average American College Testing (ACT) scores for entering University freshmen. The United States average in 2003-2004 was 20.9.

Average ACT Scores for Incoming Freshmen, Fall

2000	25.26
2001	25.31
2002	25.46
2003	25.36
2004	25.35

The following table shows that 3,787 students were admitted (accepted) during the summer and fall of 2004.

Accepted Students
Summer and Fall Terms

	2004	2003	2002	2001	2000
Freshman	2,856	2,861	2,716	2,785	2,938
Transfer Students	299	322	372	387	370
Graduate Students	632	802	738	625	621
Total	**3,787**	**3,985**	**3,826**	**3,797**	**3,929**

Enrollment

Admission is open to all students on a competitive basis. During the fall 2004 semester, Michigan residents accounted for approximately 69% of the University's enrollment.

Enrollments at the University have remained fairly stable over the last five years. From fall 2003 to fall 2004, the University saw no significant change in total full-time enrollment. Over that same period, enrolled freshmen increased by 3.4%, and enrolled transfer students increased by 9.4%.

Enrolled Students
Summer and Fall Terms

	2004	2003	2002	2001	2000
New Freshmen	1,227	1,187	1,190	1,200	1,275
New Transfer Students	198	181	215	234	242
Graduate Students	223	223	206	185	218
Total	**1,648**	**1,591**	**1,611**	**1,619**	**1,735**

Enrollment by Residency*
Fall 2000 to Fall 2004

	2004	2003	2002	2001	2000
Resident	4,487	4,531	4,704	4,766	4,632
Non-Resident	1,445	1,341	1,253	1,187	1,134
International	608	693	668	657	570
Total	**6,540**	**6,565**	**6,625**	**6,610**	**6,336**

*Includes Distance Learning

Retention

The following table shows the latest retention and graduation rates for freshmen entering the University. The level and changes in retention and graduation rates reflect the diversity of the entering students.

Retention rate is the first year-retention for baccalaureate degree seeking students based on the prior year entering class. Graduation rate is the federal "Student Right to Know" graduation rate for baccalaureate degree-seeking students based on the entering class from six years prior.

	Fall Retention Rate	Fall Graduation Rate
2004	81.3	62.7
2003	81.1	60.9
2002	77.9	65.0
2001	76.1	64.7
2000	79.9	64.8

Degrees Awarded

The University awards four levels of degrees, including associate, bachelor, master's and doctoral/professional degrees. Listed below is a five-year history of degrees awarded.

	2004	2003	2002	2001	2000
Associate	24	38	35	50	63
Bachelor	1,042	975	996	1,074	1,129
Masters	181	163	182	145	159
Doctorate	42	38	42	21	42
Total	**1,289**	**1,214**	**1,255**	**1,290**	**1,393**

Management's Discussion and Analysis

This discussion and analysis section of the Michigan Technological University (the "University") annual financial report provides an overview of our financial activities during the fiscal years ended June 30, 2005, 2004 and 2003. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Michigan Tech Fund whenever appropriate. Responsibility for the completeness and fairness of this information rests with the University management.

Using the Annual Report

The University's financial report includes three financial statements: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Michigan Tech Fund (the "Fund") is an independent nonprofit corporation formed for the exclusive benefit of the University. In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39—"Determining Whether Certain Organizations are Component Units." Under this recent GASB pronouncement, the Fund is a component unit of the University.

Financial Highlights

Tuition and state appropriations are the primary sources of funding for the University's academic programs.

The University recognized a $13.3 million net income in fiscal year 2005. The primary reason for the net income was the nonrecurring $13.4 million capital appropriation from the State of Michigan for the Integrated Learning Center, as well as $3.4 million of capital grants and gifts.

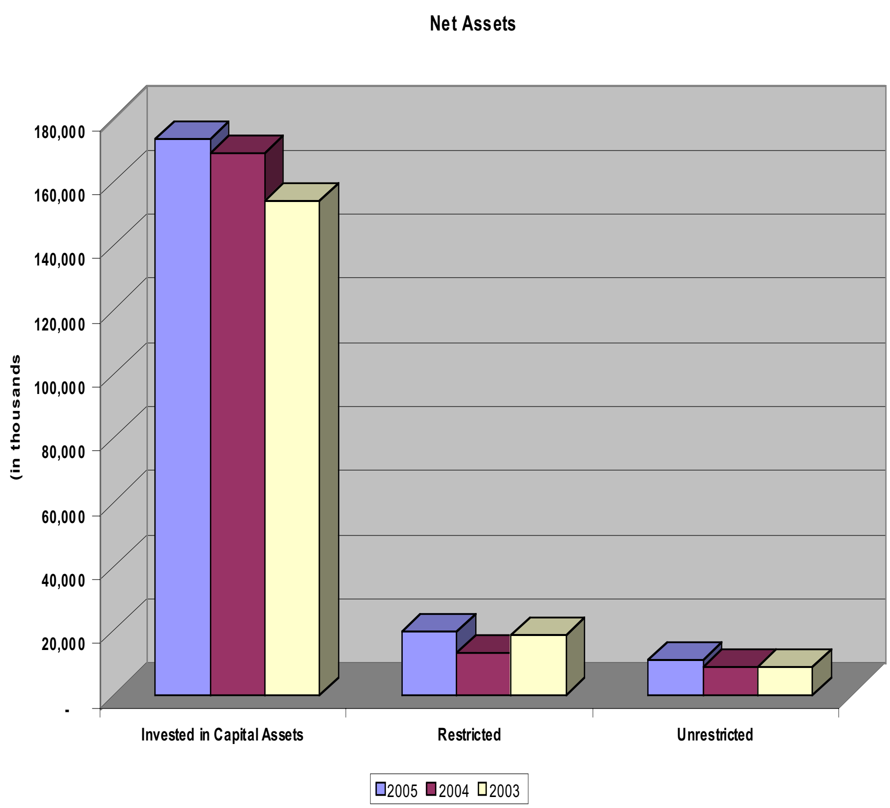
During fiscal year 2005, the cash balance decreased by $20.3 million. Most of this cash decrease was from spending the bond proceeds for the Wadsworth Hall renovation.

The University strengthened its unrestricted net assets by $2.1 million during the fiscal year ended June 30, 2005.

Condensed Statements of Net Assets

The Statements of Net Assets include all assets and liabilities. The University's net assets (the difference between assets and liabilities) is one indicator of the University's financial health. These changes also need to be considered with non-financial facts such as enrollment levels and condition of the facilities.

The University's current assets of $40.1 million covered the current liabilities of $19.7 million. The current ratio decreased to 2.04 in fiscal year 2005 from 2.92 in fiscal year 2004. This ratio decrease was due to spending the bond proceeds for the Wadsworth Hall renovation. The ratio in 2003 was 2.58 and the increase from 2003 to 2004 (2.92), was due to unspent proceeds on the same renovation.



Condensed Statements of Net Assets
As of June 30

	2005	2004	2003
Assets			
Current Assets	$ 40,146,690	$ 61,424,536	$ 40,345,332
Noncurrent assets			
Other	16,936,413	11,554,231	10,948,290
Capital assets, net	218,847,998	191,697,619	165,764,086
Total Assets	**$ 275,931,101**	**$264,676,386**	**$217,057,708**
Liabilities			
Current liabilities	$ 19,706,525	$ 21,068,609	$ 15,619,542
Noncurrent liabilities	51,951,511	52,618,820	19,854,204
Total Liabilities	**$ 71,658,036**	**$ 73,687,429**	**$ 35,473,746**
Net Assets			
Invested in capital assets, net of related debt	$ 173,479,328	$168,769,965	$154,049,592
Restricted for expendable purposes	19,717,949	13,290,951	18,741,963
Unrestricted	11,075,788	8,928,041	8,792,407
Total Net Assets	**$ 204,273,065**	**$190,988,957**	**$181,583,962**

Capital and Debt Activities

Capital and Debt Activities
As of June 30

Project	2005	2004	2003
Wadsworth Hall Renovation	$1,530,614	$11,160,634	$ -
ILC (Phase I)	-	17,543,265	2,132,000
Other projects			
ATDC	-	-	208,000
High voltage	-	-	458,000
Life Safety	-	-	812,000
Small projects	256,791	272,453	276,483
Total	**$1,787,405**	**$28,976,352**	**$3,886,483**

One of the critical factors in continuing the quality of the University's academic programs, research programs, and residential life is the development and renewal of its capital assets. The University continues to implement its long-range capital plan to modernize its complement of older facilities balanced with new construction. At June 30, 2005 construction-in-progress consisted of both small unrelated projects and the completion of the the Wadsworth Hall renovation. At June 30, 2004, construction-in-progress consisted of work being done on two major projects, the Wadsworth Hall renovation and the Integrated Learning Center (ILC) building. At June 30, 2003, construction-in-progress consisted mainly of work being done on the ILC building, along with the Life Safety project and several smaller projects.

	Wads	Other	Total
Estimated cost of construction	$ 6,900,000	$624,000	$ 7,524,000
Less: Costs incurred through June 30, 2005	(1,530,614)	(256,791)	(1,787,405)
Estimated cost to complete	**$ 5,369,386**	**$367,209**	**$ 5,736,595**
Expected sources of financing:			
State Building Authority funds	$ -	$ -	$ -
University funds and other sources	5,369,386	367,209	5,736,595
Estimated financing	**$ 5,369,386**	**$367,209**	**$ 5,736,595**

University liabilities decreased by $2.0 million to $71.7 million at June 30, 2005. Long-term debt of $49.6 million, consisting of bonds payable and capitalized lease obligations, is the largest liability at June 30, 2005. The Wadsworth Hall renovation bonds are rated "AAA" by Standard and Poor's and "A1" by Moody's. The University's previously issued bonds have been rated "AAA" by both Fitch IBCA and Standard & Poor's rating agencies. This is the highest achievable rating based on the scale used in university bond ratings. The University's capacity to meet its financial commitment on its obligations is looked upon as extremely strong based upon this bond rating. For the year ending June 30, 2004, University liabilities increased by $38.2 million, to $73.7 million. The majority of this new debt ($32.9 million) was the issuance of bonds to fund the Wadsworth Hall renovation, mentioned earlier. Current liabilities also increased by $5.5 million, during this time.

Net Assets

The University's net assets consist of capital assets, net of related debt, expendable restricted net assets and unrestricted net assets.

Net assets invested in capital assets represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The $4.7 million increase reflects the receipt of gifts and capital appropriations in excess of the annual depreciation expense.The $14.7 million increase in 2004 also reflects the receipt of gifts and capital appropriations.

Expendable restricted net assets represent assets whose use is restricted by a party independent of the University. This includes restrictions related to gifts, research contracts, grants, and the Perkins loan program.

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes funds that the Board of Control and management have designated for specific purposes, such as research incentives of $3.0 and $2.8 million for fiscal years 2005 and 2004, respectively. It also includes amounts that have been contractually committed for goods and services that have not been received by fiscal year end. The increase from 2003 of $3.4 million in the designated fund is primarily for the same reasons as in 2004 and 2005.

Net Assets Summary
As of June 30

	2005	2004	2003
Invested in capital assets	$173,479,328	$168,769,965	$154,049,592
Restricted - expendable			
Gifts and sponsored programs	1,855,003	1,386,929	1,083,144
Capital projects and debt service	4,396,858	(1,302,793)	4,986,329
Student loans	13,466,088	13,206,815	12,672,490
Total restricted net assets	19,717,949	13,290,951	18,741,963
Unrestricted			
Capital projects and repairs	(466,052)	212,974	1,148,499
Auxiliary activities	7,479,190	7,773,500	5,397,018
Designated funds	12,000,768	11,605,798	8,216,066
Uncommitted	(7,938,118)	(10,664,231)	(5,969,176)
Total unrestricted net assets	11,075,788	8,928,041	8,792,407
Total net assets	$204,273,065	$190,988,957	$181,583,962

Discrete Component Unit's Net Asset Categories

Permanently restricted net assets are held in perpetuity, the income from which supports scholarships and fellowships, faculty chairs, and other University programs. The net assets of the Michigan Tech Fund are as follows:

	2005	2004
Invested in capital assets	$ 245,891	$ 253,365
Temporarily restricted net assets		
Capital projects and equipment	3,944,689	7,162,857
Departmental support	17,441,753	16,684,573
Remainder interests in split-interest agreements	2,539,344	2,469,878
Net appreciation on donor-restricted endowment funds	19,742,094	15,466,714
	$43,667,880	$41,784,022
Permanently restricted net assets	$42,012,501	$39,000,192
Unrestricted		
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	(511,053)	(576,784)
Undesignated	2,452,782	2,045,590
	$ 1,941,729	$ 1,468,806

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

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year. In accordance with GASB reporting principles, activities are reported as either operating or non-operating. GASB 35 classifies state appropriations and gifts as nonoperating revenues, which will result in operating deficits.

One of the University's greatest financial strengths is the diverse streams of revenues that supplement its student tuition and fees, including voluntary private support from individuals, foundations and corporations, along with government and other sponsored programs, and state appropriations. In order to supplement student tuition, the University continues to aggressively seek funding from all possible sources consistent with its mission. It also prudently manages the financial resources realized from these efforts to fund its operating activities.

Summary of Revenues, Expeneses, and Changes in Net Assets

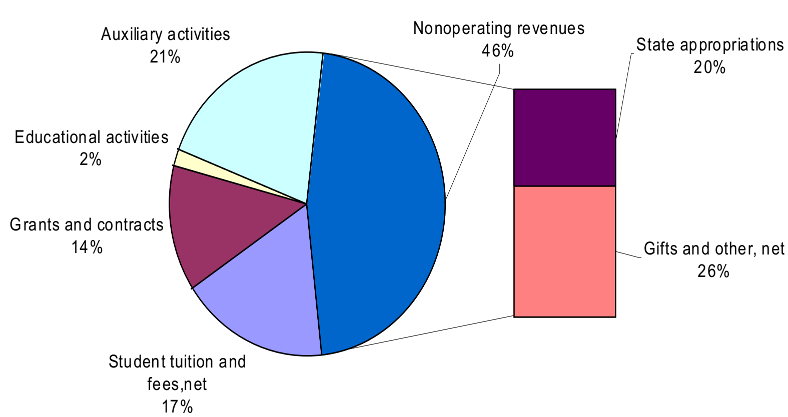
Year ended June 30

	2005	2004	2003
Operating revenues			
Tuition and fees, net	$ 38,899,981	$ 39,292,624	$ 34,497,642
Grants and contracts	31,990,144	30,456,602	28,645,086
Educational activities	4,008,619	5,256,932	5,112,635
Auxiliary activities	23,283,655	21,024,223	19,664,281
Total operating revenues	98,182,399	96,030,381	87,919,644
Operating expenses	156,397,815	152,315,238	151,555,680
Operating loss	(58,215,416)	(56,284,857)	(63,636,036)
Nonoperating revenues and expenses			
State appropriations, operating	49,829,503	47,591,150	53,308,106
State appropriations, capital	13,374,007	8,033,155	541,007
Gifts	9,138,649	10,637,834	9,651,453
Other nonoperating revenues and expenses, net	(842,635)	(572,287)	(1,292,068)
Net nonoperating revenues	71,499,524	65,689,852	62,208,498
Net increase (decrease) in net assets	13,284,108	9,404,995	(1,427,538)
Net Assets			
Beginning of year	190,988,957	181,583,962	183,011,500
End of year	$204,273,065	$190,988,957	$181,583,962

Tuition and Fees Revenue

The University strives to provide students with the opportunity to obtain a quality education at an affordable cost. The fiscal year 2005 decrease in net tuition and fees reflects the modest 2.3% tuition increase being offset by additional financial aid to our students. The substantial increase of $4.8 million in 2004 was due to an overall 12.9% increase in tuition and fees, which was necessitated by a $5.7 million decrease in state operating appropriations.

2005 Revenues



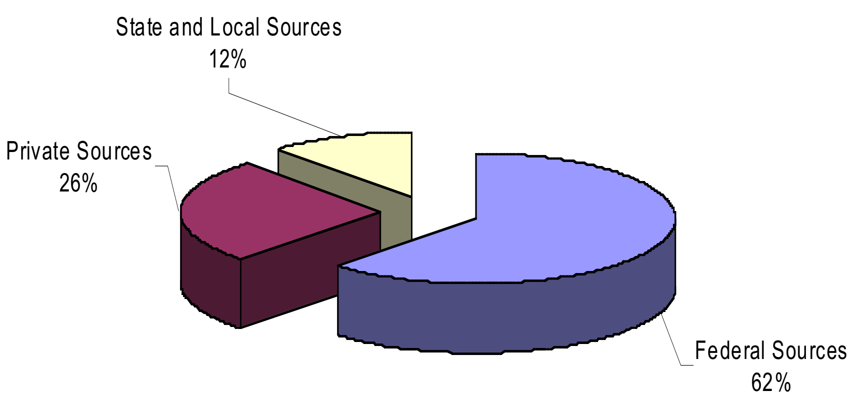
Grants and Contracts Revenue

The University receives revenues for sponsored programs from government and private sources, which normally provide for the direct and indirect costs of performing these sponsored activities. For the second year in a row, our total grants and contracts revenue has exceeded $30 million. MTU currently has 15 interdisciplinary research institutes and centers that have enabled the University to continue to increase it's awards. For the first time in the University's history, our federal awards for research and sponsored projects has exceeded $25 million.

Grants and Contracts Revenue
Year ended June 30

	2005	2004	2003
Federal sources			
Department of Agriculture	$ 1,717,822	$ 1,470,207	$ 1,038,386
Department of Commerce	309,674	304,911	202,422
Department of Defense	2,563,066	2,506,294	1,393,000
Department of Education	3,812,627	3,907,411	3,794,000
Department of Energy	4,752,249	3,998,950	3,284,265
Department of Interior	217,736	421,016	564,200
Department of Transportation	685,247	642,085	316,355
Environmental Protection Agency	58,278	17,932	34,540
National Aeronautics Space Administration	577,260	460,102	467,550
National Science Foundation	4,623,576	4,046,795	4,372,790
Health & Human Services	305,480	158,834	43,184
Other Federal Sources	270,055	268,574	370,181
Total Federal Sources	19,893,070	18,203,111	15,880,873
Non-federal sources			
State and Local	3,695,352	1,497,773	2,288,267
Private	8,401,722	10,755,718	10,475,946
Total Non-Federal Sources	12,097,074	12,253,491	12,764,213
Total All Sources	$31,990,144	$30,456,602	$28,645,086

Grants and Contracts Revenue



Non-Operating Revenues

Appropriations

The University's largest source of non-operating revenue is the State of Michigan appropriation. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year.

The State's fiscal year begins on October 1, 2004 and ends on September 30, 2005. The appropriations to the University from the state were $49.8 million for operations and $13.4 million for capital. The 2005 state appropriations for operating purposes increased by $2.2 million or 4.7%. The 2004 state appropriations decreased by $5.7 million or 10.7%, due to state budget challenges, brought on by declining state tax revenues.

Operating and Non-Operating Expenses

In addition to their functional classification, it is also informative to review operating expenses by their natural classification. A comparative summary of the University's expenses by functional classification follows for the years ended June 30, 2005, 2004 and 2003:

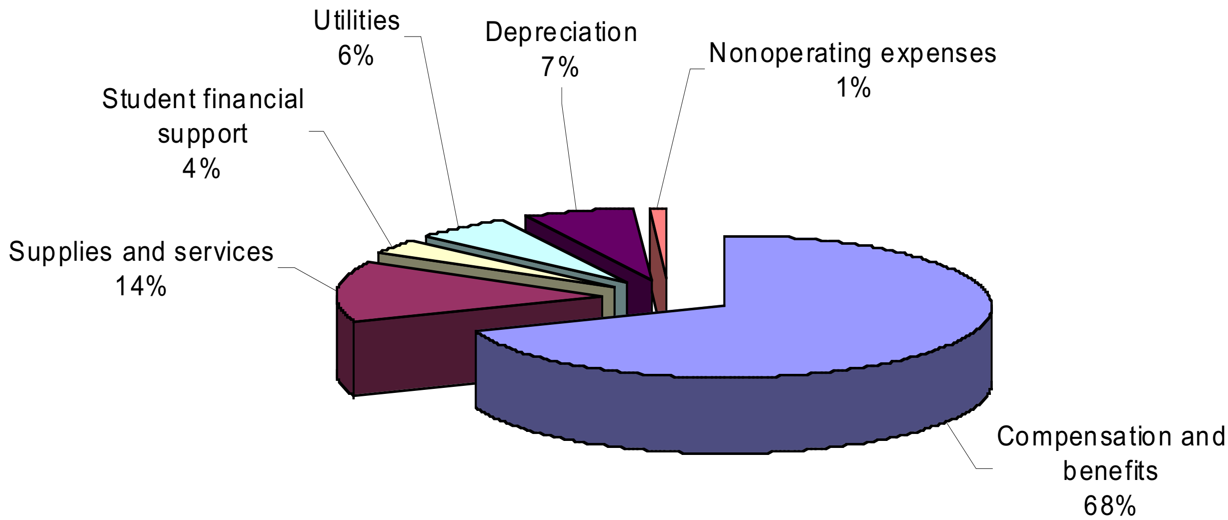
Operating and Nonoperating Expenses
Year ended June 30

	2005	2004	2003
Operating Expenses			
Instruction	$ 46,490,818	$ 50,157,065	$ 52,985,590
Research	31,408,035	27,701,938	21,532,234
Public service	5,117,844	4,510,461	5,054,907
Academic support	10,158,445	10,611,101	10,376,535
Student services	5,780,625	5,894,513	5,969,175
Institutional support	15,338,918	16,520,089	15,934,171
Student financial support	1,516,258	1,877,858	1,399,097
Operation and maintenance of plant	10,178,316	4,037,292	8,033,025
Depreciation	9,783,037	10,519,708	10,811,441
Sales and services of departmental activities	11,117,090	11,820,211	11,017,131
Student residents	9,508,429	8,665,002	8,442,374
Total operating expenses	156,397,815	152,315,238	151,555,680
Nonoperating expenses			
Interest	847,480	506,272	290,436
Other	645,500	405,705	880,783
Total nonoperating expenses	1,492,980	911,977	1,171,219
Total expenses	$157,890,795	$153,227,215	$152,726,899

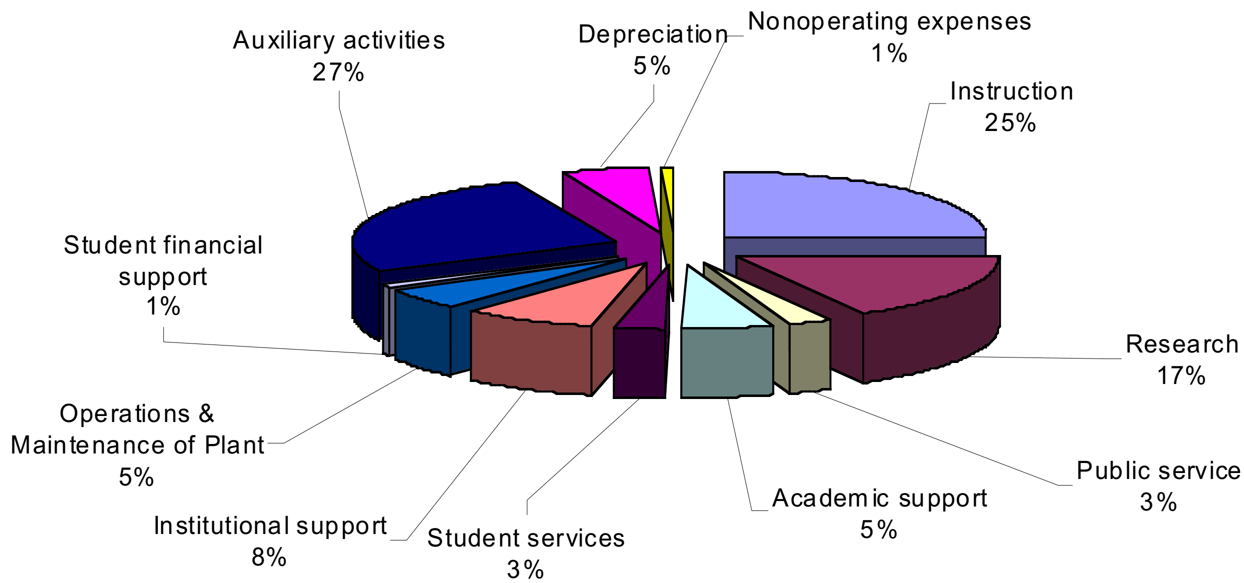
The University and its discrete component unit's operating expenses by natural classification were as follows:

	2005		2004	
	Primary Institution	**Component Unit**	**Primary Institution**	**Component Unit**
Salaries				
Faculty	$ 29,298,162	$ -	$ 28,093,277	$ -
Staff	33,547,252	1,028,520	34,532,967	1,386,175
Students	10,318,828	-	10,191,128	-
Total salaries	73,164,242	1,028,520	72,817,372	1,386,175
Benefits	25,551,199	356,832	24,672,164	488,286
Compensation and benefits	98,715,441	1,385,352	97,489,536	1,874,461
Supplies and other services	19,490,297	577,384	19,208,400	799,704
Professional fees	10,429,654	120,726	9,088,035	162,339
Travel	4,762,237	131,232	4,253,920	190,799
Scholarships and fellowships	5,164,650	-	5,307,206	-
Utilities	8,052,499	-	6,448,433	-
Depreciation	9,783,037	30,344	10,519,708	34,900
Total operating expenses	**$156,397,815**	**$ 2,245,038**	**$152,315,238**	**$ 3,062,203**

The following is a graphic illustration of the fiscal year 2005 operating expenses by natural classification:



The following is a graphic illustration of the fiscal year 2005 operating expenses by function:



Condensed Statements of Cash Flows

Another way to assess the financial health of an institution is to look at its Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statements of Cash Flows also help users assess:

-an entity's ability to generate future net cash flows
-its ability to meet its obligations as they come due
-its needs for external financing

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Cash received from operating activities consists primarily of student tuition and fees, sponsored program grants and contracts, and auxiliary revenues. Significant sources of cash provided by noncapital financing activities include state appropriations and private gifts used to fund operating activities. Cash provided by capital and related financing activities is restricted and therefore unavailable for operating activities. Cash used in capital and related financing activities is primarily for the acquisition of capital assets and the payment of debt service. Cash provided by investing activities includes investment income and the purchase or liquidation of investments.

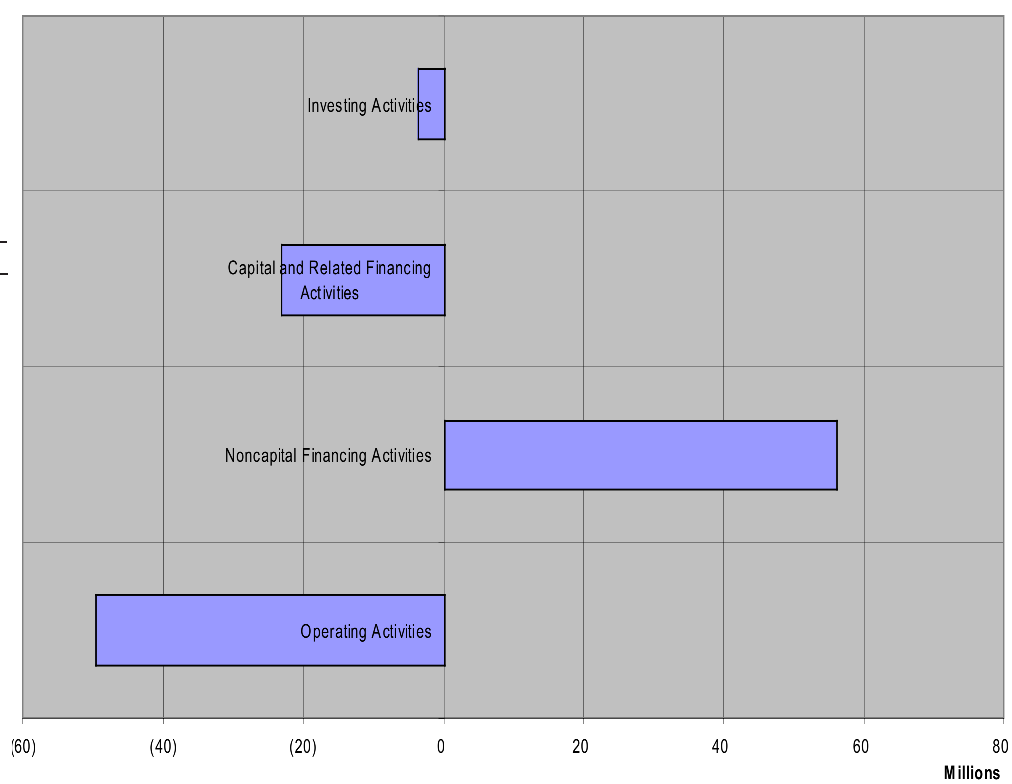
Condensed Statements of Cash Flows

Year ended June 30

	2005	2004	2003
Cash (used in) provided by			
Operating activities	$(49,687,454)	$(46,596,149)	$(50,371,204)
Noncapital financing activities	56,127,656	54,689,980	59,949,842
Capital and related financing activities	(23,135,064)	12,383,341	970,970
Investing activities	(3,629,682)	352,210	7,043,907
Net (decrease) increase in cash	(20,324,544)	20,829,382	17,593,515
Cash - beginning of the year	43,483,260	22,653,878	5,060,363
Cash - end of the year	$ 23,158,716	$ 43,483,260	$ 22,653,878

Cash and cash equivalents decreased $20.3 million in 2005, as compared to an increase of $20.8 million in 2004, and $17.6 million in 2003. The 2005 net cash outflow was primarily due to our construction projects (capital financing activities) as well as investing in the equities market. The 2004 net cash inflow was entirely from the 2004 bond issue (capital financing activities). The 2003 net cash inflow was primarily from the liquidation of our investments (investing activities).

2005 Net Cash Flows



Major sources of funds included in operating activities during the fiscal years ended June 30, 2005, 2004 and 2003 are student tuition and fees ($39.2, $38.4 and $35.4 million, respectively), and grants and contracts ($31.5, $30.3 and $30.4 million, respectively). The largest payments in operating activities were compensation to employees ($98.8, $96.7 and $98.9 million, respectively) and to suppliers ($35.0, $32.0 and $30.9 million, respectively).

New Accounting Pronouncements

The University will be required to implement the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective with the fiscal year ending June 30, 2008. The University will be required to address the accounting and reporting for costs and obligations related to postemployment healthcare and other non-pension benefits. The University has not yet determined the full impact of GASB Statement No. 45 on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective with the fiscal year ending June 30, 2006. The University will be required to address the accounting and reporting for impaired capital assets, if any, and insurance recoveries. The University has not yet determined the impact, if any, of GASB Statement No. 42 on its financial statements.

Economic Factors Impacting Future Periods

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. The University also faces the challenge of funding post-employment benefit plans.

Academic and administrative reallocation and assessment programs continue across the University. These efforts are geared to assessing our performance related to our strategic plan, rethinking the way we do business, and freeing up resources to support change. The University's ongoing efforts toward revenue diversification and cost containment will enable the University to provide the necessary resources to support its high level of excellence.

A crucial element to the University's future continues to be our relationship with the State of Michigan. State revenues have fallen significantly over the last few years, which has impacted the University's state appropriation over the last several years.

We continue to work to manage tuition to make it competitive while providing an outstanding college education for our students.

INDEPENDENT AUDITOR'S REPORT

September 2, 2005

Board of Control
Michigan Technological University
Houghton, Michigan

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of ***Michigan Technological University,*** a component unit of the State of Michigan, as of June 30, 2005 and 2004 and for the years then ended, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Michigan Tech Fund, a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Michigan Tech Fund, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Michigan Tech Fund were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, 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 ***Michigan Technological University*** as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, during fiscal 2005 the University adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 40, *Deposit and Investment Risk Disclosures*. This pronouncement requires the disclosure of credit risk, custodial credit risk, interest rate risk, concentration of credit risk, the University's investment policy and various additional information.

As described in Note 1 to the financial statements, during fiscal 2004 the University adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units,* which amends GASB Statement No. 14, *The Financial Reporting Entity*. Adoption of this pronouncement results in the University including in its financial statements, the financial statements of the Michigan Tech Fund as a discretely presented component unit.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 4, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis presented on pages 3 through 11 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Rehmann Robson

STATEMENTS OF NET ASSETS

June 30, 2005
(in dollars)

	Primary Institution	Discrete Component Unit
Assets		
Current assets		
Cash and cash equivalents	$ 23,158,716	$ 10,854,936
Short term investments	-	27,810,888
Accounts receivable, net	15,241,340	6,439,496
Other assets	1,746,634	41,475
Total current assets	40,146,690	45,146,795
Noncurrent assets		
Student loans receivable, net of allowance	12,618,279	-
Other assets	-	6,496,454
Investments	4,318,134	38,892,620
Capital assets, net of accumulated depreciation	218,847,998	245,891
Total noncurrent assets	235,784,411	45,634,965
Total assets	**$ 275,931,101**	**$ 90,781,760**
Liabilities		
Current liabilities		
Accounts payable	$ 7,451,396	$ 276,662
Other accrued liabilities	7,097,513	-
Deferred revenue	2,284,726	-
Current portion of long-term debt	640,235	-
Current portion of noncurrent liabilities	2,232,655	250,825
Total current liabilities	19,706,525	527,487
Noncurrent liabilities		
Funds held for others	634,050	-
Insurance and benefit reserves	1,682,994	-
Other liabilities	-	2,386,272
Long-term debt, net of current portion	49,634,467	-
Total noncurrent liabilities	51,951,511	2,386,272
Total liabilities	**71,658,036**	**2,913,759**
Net assets		
Invested in capital assets, net of related debt	173,479,328	245,891
Restricted for		
Nonexpendable purposes	-	42,012,501
Expendable purposes	19,717,949	43,667,880
Unrestricted	11,075,788	1,941,729
Total net assets	**204,273,065**	**87,868,001**
Total liabilities and net assets	**$ 275,931,101**	**$ 90,781,760**

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

STATEMENTS OF NET ASSETS

June 30, 2004
(in dollars)

	Primary Institution	Discrete Component Unit
Assets		
Current assets		
Cash and cash equivalents	$ 43,483,260	$ 7,154,692
Short term investments	-	23,889,210
Accounts receivable, net	16,263,777	10,114,316
Other assets	1,677,499	33,475
Total current assets	61,424,536	41,191,693
Noncurrent assets		
Student loans receivable, net of allowance	11,554,231	-
Other assets	-	6,584,699
Investments	-	36,945,819
Capital assets, net of accumulated depreciation	191,697,619	266,803
Total noncurrent assets	203,251,850	43,797,321
Total assets	**$ 264,676,386**	**$ 84,989,014**
Liabilities		
Current liabilities		
Accounts payable	$ 8,602,539	$ 195,837
Other accrued liabilities	6,903,148	-
Deferred revenue	2,489,219	-
Current portion of long-term debt	675,259	13,535
Current portion of noncurrent liabilities	2,398,444	163,102
Total current liabilities	21,068,609	372,474
Noncurrent liabilities		
Funds held for others	586,450	-
Insurance and benefit reserves	1,684,343	-
Other liabilities	-	2,110,155
Long-term debt, net of current portion	50,348,027	-
Total noncurrent liabilities	52,618,820	2,110,155
Total liabilities	**73,687,429**	**2,482,629**
Net assets		
Invested in capital assets, net of related debt	168,769,965	253,365
Restricted for		
Nonexpendable purposes	-	39,000,192
Expendable purposes	13,290,951	41,784,022
Unrestricted	8,928,041	1,468,806
Total net assets	**190,988,957**	**82,506,385**
Total liabilities and net assets	**$ 264,676,386**	**$ 84,989,014**

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2005
(in dollars)

	Primary Institution	Discrete Component Unit
Revenues		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $15,707,288)	$ 38,899,981	$ -
Gifts and contributions	-	7,018,725
Federal grants and contracts	19,893,070	-
State and local grants and contracts	3,695,352	-
Nongovernmental grants and contracts	8,401,722	-
Educational activities	4,008,619	-
Sales and services of departmental activities	9,482,759	-
Student resident fees	13,800,896	-
Other operating revenues	-	363,504
Total operating revenues	98,182,399	7,382,229
Expenses		
Operating Expenses		
Compensation and benefits	98,715,441	1,385,352
Supplies and services	42,734,687	829,342
Student financial support	5,164,650	-
Depreciation	9,783,037	30,344
Total operating expenses	156,397,815	2,245,038
Operating revenue (loss)	(58,215,416)	5,137,191
Nonoperating revenues (expenses)		
State appropriations	49,829,503	-
Gifts	5,732,807	-
Investment income (net of investment expense)	650,345	7,277,156
Interest on capital asset - related debt	(847,480)	(435)
Payments to Michigan Tech University	-	(10,165,605)
Loss on disposal of capital assets	(645,500)	-
Net nonoperating revenues (expenses)	54,719,675	(2,888,884)
Income (loss) before other revenues	(3,495,741)	2,248,307
Other revenues		
Capital appropriations	13,374,007	-
Capital grants and gifts	3,405,842	-
Additions to permanent endowments	-	3,113,309
Total other revenues	16,779,849	3,113,309
Net increase in net assets	13,284,108	5,361,616
Net assets		
Beginning of year	190,988,957	82,506,385
End of year	$204,273,065	$ 87,868,001

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2004
(in dollars)

	Primary Institution	Discrete Component Unit
Revenues		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $16,152,914)	$ 39,292,624	$ -
Gifts and contributions	-	8,259,459
Federal grants and contracts	18,203,111	-
State and local grants and contracts	1,497,773	-
Nongovernmental grants and contracts	10,755,718	-
Educational activities	5,256,932	-
Sales and services of departmental activities	7,664,729	-
Student resident fees	13,359,494	-
Other operating revenues	-	251,138
Total operating revenues	96,030,381	8,510,597
Expenses		
Operating Expenses		
Compensation and benefits	97,489,536	1,874,461
Supplies and services	38,998,788	1,152,842
Student financial support	5,307,206	-
Depreciation	10,519,708	34,900
Total operating expenses	152,315,238	3,062,203
Operating revenue (loss)	(56,284,857)	5,448,394
Nonoperating revenues (expenses)		
State appropriations	47,591,150	-
Gifts	5,948,500	-
Investment income (net of investment expense)	339,690	8,617,184
Interest on capital asset - related debt	(506,272)	(1,267)
Payments to Michigan Tech University	-	(8,319,477)
Loss on disposal of capital assets	(405,705)	-
Net nonoperating revenues	52,967,363	296,440
Income (loss) before other revenues	(3,317,494)	5,744,834
Other revenues		
Capital appropriations	8,033,155	-
Capital grants and gifts	4,689,334	-
Additions to permanent endowments	-	1,413,699
Total other revenues	12,722,489	1,413,699
Net increase in net assets	9,404,995	7,158,533
Net assets		
Beginning of year	181,583,962	75,347,852
End of year	$190,988,957	$ 82,506,385

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2005 and 2004
(in dollars)

	2005	2004
Cash flows from operating activities		
Student tuition and fees	$ 39,195,499	$38,434,172
Grants and contracts	31,495,651	30,269,134
Payments to employees	(72,898,691)	(72,611,682)
Payments for benefits	(25,895,502)	(24,133,013)
Payments to suppliers	(35,038,114)	(31,955,499)
Payments for utilities	(7,698,758)	(6,494,417)
Payments for financial aid	(5,164,650)	(5,307,166)
Loans issued to students	(3,467,709)	(2,927,353)
Collection of loans to students	2,403,626	2,321,500
Sales and services of departmental activities	9,463,725	7,681,869
Sales and services of educational activities	3,986,828	4,827,750
Student resident fees	13,777,746	13,399,055
Other receipts (payments)	152,895	(100,499)
Net cash used in operating activities	(49,687,454)	(46,596,149)
Cash flows from noncapital financing activities		
State appropriations	49,773,828	48,664,587
Gifts and grants for other than capital purposes	5,732,807	5,948,517
William D. Ford direct lending cash received	16,887,602	16,369,640
William D. Ford direct lending cash disbursed	(16,266,581)	(16,292,764)
Net cash provided by noncapital financing activities	56,127,656	54,689,980
Cash flows from capital and related financing activities		
Capital appropriations	14,177,282	6,149,514
Capital grants and gifts received	3,463,915	4,597,464
Proceeds from sale of capital assets	132,240	23,992
Purchases of capital assets	(39,670,481)	(31,149,379)
Proceeds on issuance of debt	-	33,865,608
Principal paid on capital debt and leases	(714,730)	(643,197)
Interest paid on capital debt and leases	(523,290)	(460,661)
Net cash (used in) provided by capital and related financing activities	(23,135,064)	12,383,341
Cash flows from investing activities		
Purchase of investments	(4,080,000)	-
Income on investments	450,318	352,210
Net cash (used in) provided by investing activities	(3,629,682)	352,210
Net (decrease) increase in cash and cash equivalents	(20,324,544)	20,829,382
Cash and cash equivalents - beginning of year	43,483,260	22,653,878
Cash and cash equivalents - end of year	$ 23,158,716	$43,483,260

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

STATEMENTS OF CASH FLOWS
(Continued)

	2005	2004
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	$ (58,215,416)	$ (56,284,857)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	9,783,037	10,519,708
Changes in operating assets and liabilities:		
Receivables, net	(105,585)	732,499
Other assets	(69,135)	(126,339)
Student loans	(1,064,048)	(605,941)
Accounts payable	89,666	593,352
Other accrued liabilities	194,365	766,297
Deferred revenue	(180,800)	(2,226,171)
Current portion of long-term liabilities	(165,789)	420,765
Funds held for others	47,600	48,655
Long-term liabilities	(1,349)	(434,117)
Net cash used in operating activities	$ (49,687,454)	$ (46,596,149)

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

Notes to the Financial Statements

(1) Basis of Presentation and Summary of Significant Accounting Policies

Reporting Entity

Michigan Technological University (the "University") is an institution of higher education and is considered to be a component unit of the State of Michigan because its Board of Control is appointed by the Governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, State Building Authority (SBA) revenues and payments to the State retirement program for University employees.

As required by Governmental Accounting Standards Board (GASB) No. 39 (see discussion of adoption of this accounting standard below) the University's basic financial statements include the financial statements of both the University and its component unit, the Michigan Tech Fund (the "Fund"), which is a legally separate tax-exempt component unit of the University. The Fund acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Fund's Board of Directors includes members of the University's Board of Control, certain officers of the University and other community representatives elected by the Fund Board. Although the University does not necessarily control the timing or amount of receipts from the Fund, the majority of resources, or income earned thereon, the Fund's holdings and investments are restricted by the donors to the activities of the University. Because these restricted resources held by the Fund can be used only by, or for the benefit of, the University, the Fund is considered a component unit of the University. The Fund's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University. However, the Fund's financial activities are summarized with those of the University in the notes to the financial statements.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting with the exception that certain investment income and interest earned on the Federal Perkins student loan program are recorded only when received.

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretation, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

In applying these accounting pronouncements, the University follows the guidance for special purpose governments engaged only in "business type" activities rather than issuing financial statement that focus on accountability of individual funds.

Summary of Significant Accounting Policies and Financial Statements

Effective for the fiscal year ended June 30, 2004, the University adopted the provisions of the GASB issued Statement No. 39—"Determining Whether Certain Organizations are Component Units." This statement broadens the definition of component units to require blended or discrete presentation of virtually all material organizations affiliated with public colleges and universities. Generally, it requires reporting, as a discretely presented component unit, an organization that raises and holds economic resources for the direct benefit of a government unit. Under the GASB No. 39 criteria, the Michigan Tech Fund is an affiliated organization that meets the criteria for discrete component unit presentation.

Effective for the fiscal year ended June 30, 2005, the University adopted the provisions of the GASB issued Statement No. 40—"Deposit and Investment Risk Disclosures." This statement is an amendment of the GASB Statement No. 3, which classified deposits and investments into three categories of custodial credit risk. This Statement addresses the common deposit and investment risks related to credit risk, concentration of credit risk, interest risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

This Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Governmental Accounting Standards Board believes that there are risks inherent in all deposits and investments, and it believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions.

The Fund's financial statements are prepared in accordance with the accounting standards established by the FASB. Accordingly, a reporting model different from that of the University is used.

Cash and Cash Equivalents

The University considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories included in other current assets are recorded at the lower of cost or market determined on a first-in, first-out basis.

Investments

The University policy is to record investments at fair value.

The Fund reports investments at fair value, and realized and unrealized gains and losses are reflected in the statement of activities. Gifts of securities are recorded at their fair value based on the mean of the high and low quoted price of stock transactions at the date of the gift. Except for investments that are not readily marketable or where donors specifically provide otherwise, investments are maintained by a custodial institution responsible for consummating investment transactions at the request of the Fund to facilitate cash flow requirements. The Fund employs an asset allocation investment policy and uses the services of an investment consulting firm to facilitate the implementation of this policy. Asset allocations are reviewed monthly and rebalanced quarterly, when necessary. The Fund's Investment and Finance Committee of the Board of Trustees oversees investment activity and makes decisions concerning any changes in investments or asset allocation adjustments. Each month, the Fund allocates and credits investment earnings (including realized and unrealized gains and losses) on permanently restricted, temporarily restricted, and unrestricted assets to departmental funds based on an average of each fund's beginning and ending monthly balances.

Split-Interest Agreements of the Fund

Life income trusts, pooled income funds, unitrusts, and certain other investments are maintained by a separate trust company. Trustee functions include management of the investments, distributions to donors, complying with tax filing requirements, and providing periodic statements of activity to the Fund. Refer to Note 7 for further details.

Capital Assets

The University uses a $2,500 capitalization threshold, with an estimated useful life in excess of two years. Physical properties are stated at cost when purchased. Other acquisitions are stated at appraised value on date of receipt. Depreciation is provided for physical properties on a straight-line basis over the estimated useful life of the property, as follows:

Classification	Life
Land improvements and infrastucture	20 years
Buildings	40 years
Computer equipment	5 years
Equipment	7 years
Library Books	5 years

The capital assets of the Fund consist of office equipment, computers, software, and furniture. Capital assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives of three to seven years. At the time of disposal, capital assets are removed from the records and any gain or loss is recognized in the statement of activities.

Gifts-in-Kind to the Fund

The Fund records land, buildings, equipment, and art properties at estimated fair value at the date of the gift based upon appraised values. The responsibility for having an appraisal completed for the gifted property rests with the donor. In most cases, the Fund serves as an agent for the receipt of property and equipment and immediately transfers these gifts to the University. The Fund has a policy to list for sale any gifts-in-kind received and not subject to immediate transfer to the University.

Contributions and Pledges Receivable to the Fund

Contributions received and unconditional promises to give to the Fund are recognized at their fair values as revenues in the periods received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Revenue Recognition

Revenues are recognized when earned and expenses are recognized when the service is provided or when materials are received. Restricted grant revenue is recognized only to the extent expended. Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

State appropriation revenue is recognized in the period for which it is appropriated.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues—Operating revenues of the Primary Institution include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts and federal appropriations; and (4) interest on institutional student loans. Operating revenues of the Fund consist of gifts, grants and fundraising activities in support of Foundation and University programs.

Nonoperating Revenues—Nonoperating revenues of the Primary Institution include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, investment income, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 35.

Classification of Expenses

The University has classified its expenses as either operating or nonoperating expenses according to the following criteria:

Operating Expenses—Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies, and other services; (4) professional fees; and (5) depreciation expenses related to University property, plant, and equipment.

Nonoperating expenses—Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on capital asset-related debt and other expenses that are defined as nonoperating expenses by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 35.

Scholarship Allowances and Student Financial Aid

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's accounts as if the student made the payment.) All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a total university basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third party aid.

Income Taxes

The University is classified as a political subdivision of the State of Michigan under Internal Revenue Code Section 115(A) and is therefore exempt from Federal Income Taxes. Certain activities of the University, to the extent profitable, may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The Fund is exempt from federal income taxes under Internal Revenue Code section 501(c)(3).

Net Assets

The University's net assets are classified as follows:

- Invested in capital assets, net of related debt—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted for nonexpendable purposes—Net assets from contributions and other inflows of assets that repre sent permanent endowments. Their use is limited by donor imposed stipulations that neither expire by the pas sage of time nor can be fulfilled or otherwise removed by the Fund.

- Restricted for expendable purposes—Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the University or Fund pursuant to those stipulations or that expire by the passage of time.

- Unrestricted—Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the University's Board of Control or may otherwise be limited by contractual agreements with outside parties.

Reclassifications

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 financial statement presentation.

(2) Cash and Investments

Authorizations

The University utilizes the "pooled cash" method of accounting for substantially all of its cash and cash equivalents. The University investment policies are governed and authorized by University Bylaws and the Board of Control.

Interest rate risk - The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Investment policies for cash and cash equivalents, as set forth by the Board of Control, authorize the University to invest, with limitations, in commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services. Investments may also be made in securities of the U.S. Treasury and Federal agencies, and in time savings accounts.

University policies regarding investments and marketable securities as set forth by the Board of Control, authorize the University to invest in U.S. Treasury Obligations; commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services; or Federal agency securities certificates of deposit issued by FDIC insured banks; or an NCUA credit union member; or Eurodollar time deposits in Tier 1, 2, or 3 banks.

Custodial credit risk (deposits) - For deposits, custodial credit risk is present if the University's deposits would not be covered by depository insurance. State law does not require and the University does not have a policy for deposit custodial credit risk. Deposits were reflected in the accounts of the banks at $22,766,672 and $40,105,195 as of June 30, 2005 and 2004, respectively. $3,901,210 and $1,263,028 of the banks deposits balances was exposed to custodial credit risk because it was uninsured and uncollateralized, as of June 30, 2005 and 2004, respectively.

Custodial credit risk (investments) - For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investments pools and in open end 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 therefore has no custodial credit risk in its investment portfolio.

Concentration of credit risk - The University investments are in mutual funds, so there is no concentration of credit risk issue.

Foreign currency risk - The University has no foreign investments.

Investments and Investment Income

Beginning in fiscal year 2005, the University began investing assets in the equities market. The University's investments at June 30, 2005 are as follows:

Investment Type	Fair Value	Interest Rate	Maturity Date	Rating
Mutual fund cash reserve	$ 2,746,913	2.27%	N/A	N/A
Mutual equity index funds	4,318,134	N/A	N/A	N/A
	7,065,047			
Less investments reported as "Cash and cash equivalent" on the accompanying Statement of Net Assets	(2,746,913)			
Total investments	$ 4,318,134			

The University had no investments as of June 30, 2004.

The University's net investment return is comprised of the following for the years ended June 30, 2005 and 2004:

Investment Income (Loss)
Year ended June 30

	2005	2004
Investment income (loss)		
Interest	$379,694	$ 346,294
Dividends	84,305	5,916
Net increase (decrease) in the fair value of investments	200,026	-
Subtotal	664,025	352,210
Investment expenses	(13,680)	(12,520)
Net investment income (loss)	$650,345	$ 339,690

The annualized returns (losses) on investments and marketable securities for the University, excluding the base cash pool reserve for the year ended June 30, 2005, are as follows:

Intermediate fixed income	9.0%
Equity investments	-9.6%

The fair value of the Fund's investments at June 30, 2005 and 2004 are categorized as follows:

	2005	2004
Marketable Securities		
Equities	$ 953,920	$ 896,065
Mutual funds - equities	33,237,385	35,762,785
Mutual funds - bonds	21,959,943	16,638,355
Corporate bonds and notes	68,546	83,614
US government obligations	1,151,067	1,370,898
Total marketable securities	57,370,861	54,751,717
Other investments		
Limited partnerships	9,312,647	6,063,312
Closely held stock	20,000	20,000
Total other securities	9,332,647	6,083,312
Total Investments	$ 66,703,508	$60,835,029

The Fund's net investment return is comprised of the following for the years ended June 30, 2005 and 2004:

	2005	2004
Interest and dividends	$1,638,313	$1,552,073
Net gain on sale of Investments	3,601,142	1,531,991
Net unrealized gain on investments	2,267,271	5,770,166
Asset-based management and administrative fees	(229,570)	(237,046)
Total investment return	$7,277,156	$8,617,184

(3) Receivables

The University's accounts receivable are summarized as follows as of June 30. State appropriations are based on Senate Bill Number 1105.

	2005	2004
Primary Institution		
Student tuition and fees	$ 374,654	$ 1,003,438
State appropriations		
Operating	8,473,725	8,418,192
Capital	1,080,366	1,883,499
Grants and contracts	4,586,215	4,273,794
Auxiliary activities	521,896	503,877
Other	269,606	246,689
Less allowance for doubtful accounts	(65,122)	(65,712)
Accounts receivable, net	$15,241,340	$16,263,777

In addition, the University has student loans receivable in the amount of $12,618,279 and $11,554,231 net of an allowance for uncollectible accounts of $169,461 at June 30, 2005 and 2004, respectively.

The Fund's pledges receivable are included in accounts receivable and other noncurrent assets on the accompanying statements of net assets. As of June 30, 2005 and 2004 pledges receivable at the Fund consisted of the following:

	2005	2004
Pledges receivable in less than one year	$ 7,099,738	$10,638,590
Pledges receivable in one to five years	2,840,482	3,233,051
Pledges receivable in more than five years	356,422	431,704
Less		
Allowance for uncollectible pledges	(716,797)	(559,141)
Present value discount	(453,508)	(624,896)
Net pledges receivable	$ 9,126,337	$13,119,308

(4) Capital Assets

Capital Assets Activity by Major Class of Asset

as of June 30, 2005

	Beginning Balance	Net, Additions	Disposals	Ending Balance
Primary Institution				
Nondepreciable capital assets				
Land	$ 8,863,943	$ -	$ -	$ 8,863,943
Mineral collections	3,490,594	14,275	-	3,504,869
Timber holdings	368,394	-	-	368,394
Construction in progress	28,976,352	34,029,038	(61,217,985)	1,787,405
Cost of nondepreciable capital assets	41,699,283	34,043,313	(61,217,985)	14,524,611
Depreciable capital assets				
Land improvements	1,625,799	-	(302,699)	1,323,100
Infrastructure	10,026,756	117,971	(7,283,047)	2,861,680
Buildings	212,470,442	59,874,206	-	272,344,648
Equipment	88,518,480	4,617,871	(59,365,463)	33,770,888
Library books	4,982,019	143,539	(4,320,860)	804,698
Cost of depreciable capital assets	317,623,496	64,753,587	(71,272,069)	311,105,014
Total cost of capital assets	359,322,779	$98,796,900	$(132,490,054)	325,629,625
Less: accumulated depreciation				
Land improvements	655,158	66,155	(302,699)	418,614
Infrastructure	7,761,448	137,918	(7,283,047)	616,319
Buildings	82,121,424	5,057,229	-	87,178,653
Equipment	72,506,262	4,388,950	(58,719,964)	18,175,248
Library books	4,580,868	132,785	(4,320,860)	392,793
Accumulated depreciation	167,625,160	$ 9,783,037	$ (70,626,570)	106,781,627
Capital Assets, Net	$191,697,619			$218,847,998
Component Unit, Capital Assets, Net	$ 266,803	$ (20,912)	$ -	$ 245,891

Capital Assets Activity by Major Class of Asset

As of June 30, 2004

	Beginning Balance	Net, Additions	Disposals	Ending Balance
Primary Institution				
Nondepreciable capital assets				
Land	$ 8,832,278	$ 31,665	$ -	$ 8,863,943
Mineral collections	3,461,257	29,337	-	3,490,594
Timber holdings	368,394	-	-	368,394
Construction in progress	3,886,483	26,843,808	(1,753,939)	28,976,352
Cost of nondepreciable capital assets	16,548,412	26,904,810	(1,753,939)	41,699,283
Depreciable capital assets				
Land improvements	1,625,799	-	-	1,625,799
Infrastructure	8,444,818	1,581,938	-	10,026,756
Buildings	206,755,133	5,837,244	(121,935)	212,470,442
Equipment	86,856,487	4,051,890	(2,389,897)	88,518,480
Library books	4,849,319	132,700	-	4,982,019
Cost of depreciable capital assets	308,531,556	11,603,772	(2,511,832)	317,623,496
Total cost of capital assets	325,079,968	$38,508,582	$(4,265,771)	359,322,779
Less: accumulated depreciation				
Land improvements	589,003	66,155	-	655,158
Infrastructure	7,696,931	64,517	-	7,761,448
Buildings	77,335,701	4,789,280	(3,557)	82,121,424
Equipment	69,236,839	5,476,296	(2,206,873)	72,506,262
Library books	4,457,408	123,460	-	4,580,868
Accumulated depreciation	159,315,882	$10,519,708	$(2,210,430)	167,625,160
Capital assets, net	$165,764,086			$191,697,619
Component Unit, Capital assets, net	$ 227,595	$ 39,208	$ -	$ 266,803

(5) Line of Credit

The University has an unused line of credit arrangement with one bank under which it may borrow up to $10,000,000. This agreement is set at a variable rate of interest, which is 1% below the Wall Street prime rate. There are no restrictive covenants associated with this line of credit. No activity on the line of credit occurred during the 2005 and 2004 fiscal years.

(6) Accounts Payable and other Accrued Liabilities

Accounts Payable and other Accrued Liabilities
As of June 30

	2005	2004
Primary Institution		
Accounts payable		
Vendors for supplies and services	$2,335,494	$2,037,011
Employee benefits	706,775	591,407
Construction payables	4,409,127	5,974,121
Total	$7,451,396	$8,602,539
Other accrued liabilities		
Payroll and payroll taxes	$4,059,594	$3,773,823
Accrued compensated absences	2,506,354	2,782,720
Deposits payable	531,565	346,605
Total	$7,097,513	$6,903,148
Component Unit		
Accounts Payable	$ 276,662	$ 195,837

(7) Noncurrent Liabilities

Noncurrent Liabilities
As of June 30, 2005

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Primary Institution					
General revenue bonds					
Refunding bonds	$ 1,000,000	$ -	$ 180,000	$ 820,000	$ 190,000
Variable rate demand	10,000,000	-	-	10,000,000	-
General revenue bonds, 2003	4,900,000	-	100,000	4,800,000	100,000
General revenue bonds, 2004A	32,850,000	-	-	32,850,000	-
Total bonds payable	48,750,000	-	280,000	48,470,000	290,000
Bond premium	1,001,502	-	33,854	967,648	-
Capital leases	1,271,784	-	434,730	837,054	350,235
Total debt	51,023,286	-	748,584	50,274,702	640,235
Other liabilities					
Insurance and post employment benefits	4,082,787	964,520	1,131,658	3,915,649	2,232,655
Total	$55,106,073	$ 964,520	$1,880,242	54,190,351	$2,872,890
Due within one year				(2,872,890)	
Total noncurrent liabilities				$51,317,461	
Component Unit					
Note payable	$ 13,535	$ -	$ 13,535	$ -	$ -
Gift annuities payable	1,650,104	599,119	194,126	2,055,097	250,825
Split-interest agreements	623,153	18,829	59,982	582,000	-
Total	$ 2,286,792	$ 617,948	$ 267,643	2,637,097	$ 250,825
Due within one year				(250,825)	
Total noncurrent liabilities				$ 2,386,272	

Noncurrent Liabilities
As of June 30, 2004

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Primary Institution					
General revenue bonds					
Refunding bonds	$ 1,170,000	$ -	$ 170,000	$ 1,000,000	$ 180,000
Variable rate demand	10,000,000	-	-	10,000,000	-
General revenue bonds, 2003	4,900,000	-	-	4,900,000	100,000
General revenue bonds, 2004A	-	32,850,000	-	32,850,000	-
Total bonds payable	16,070,000	32,850,000	170,000	48,750,000	280,000
Bond premium	-	1,015,608	14,106	1,001,502	-
Capital leases	1,730,875	-	459,091	1,271,784	395,259
Total debt	17,800,875	33,865,608	643,197	51,023,286	675,259
Other liabilities					
Insurance and post employment benefits	4,096,139	778,560	791,912	4,082,787	2,398,444
Total	$21,897,014	$34,644,168	$1,435,109	55,106,073	$3,073,703
Due within one year				(3,073,703)	
Total noncurrent liabilities				$52,032,370	
Component Unit					
Note payable	$ 25,034	$ -	$ 11,499	$ 13,535	$ 13,535
Gift annuities payable	751,357	898,747	-	1,650,104	163,102
Split-interest agreements	779,845	-	156,692	623,153	-
Total	$ 1,556,236	$ 898,747	$ 168,191	2,286,792	$ 176,637
Due within one year				(176,637)	
Total noncurrent liabilities				$ 2,110,155	

Bonds

Outstanding Balances on University Issued Bonds
As of June 30

		Outstanding	
	Total Issued	**2005**	**2004**
General revenue refunding bonds, series 1993, (2.8% - 5.1%) final maturity 2008	$ 3,583,000	$ 820,000	$ 1,000,000
General revenue variable rate demand bonds series 1998, final maturity 2019	21,000,000	10,000,000	10,000,000
General revenue bonds, series 2003 (2% - 5%), final maturity 2034	4,900,000	4,800,000	4,900,000
General revenue bond series 2004(A) (2.00% - 4.49%), final maturity 2034	32,850,000	32,850,000	32,850,000
Total bonds payable	62,333,000	48,470,000	48,750,000
Plus: unamortized net premium	1,015,608	967,648	1,001,502
Bonds payable, net	$63,348,608	$49,437,648	$49,751,502

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. Premiums on bonds payable are recorded in total and amortized according to the bonds outstanding method, which approximates the effective interest method.

In fiscal year 1998, the University issued $21 million of General Revenue Variable Rate Demand Bonds (GRVDB). Initially priced at 3.45%, the bonds are re-priced weekly. The funds have been used to complete four building projects on campus: the Dow Environmental Sciences and Engineering building, the Rozsa Center for the Performing Arts, the Center for Ecosystem Science, and the Harold Meese Career Center. Additionally, proceeds from the bonds were used to pay off the balances on the University Images loan and the Harold Meese Career Center mortgage. Annual debt service requirements begin in 2015. The GRVDB issue is collateralized with a $10 million letter of credit through the Bank of America. The letter would only be used if the University is unable to make payments on the bonds.

In fiscal year 2003, the University issued $4.9 million of General Revenue Bonds, Series 2003 (GRB). These bonds bear interest at 2% to 5% and mature at various dates from October 2004 through October 2033. The funds will be used to complete three building projects on campus: residence hall life safety improvements, university electrical distribution system replacement, and Wadsworth Hall renovation planning. The GRB issue is collateralized with a $5 million letter of credit through XL Capital Assurance Inc. The letter would only be used if the University is unable to make payments on the bonds.

On October 7, 2003 the University's Board of Control approved the renovation of Wadsworth Hall. In conjunction with this approval, the University issued $32.9 million of General Revenue Bonds to facilitate this project. These bonds bear interest at 2% to 4.49% and mature at various dates from October 2006 through October 2034.

Principal and Interest Amounts Due
For Fiscal Years Ending June 30

Fiscal Year	Principal	Interest	Total
2006	$ 290,000	$ 2,011,491	$ 2,301,491
2007	955,000	1,993,231	2,948,231
2008	980,000	1,967,331	2,947,331
2009	1,000,000	1,938,521	2,938,521
2010	805,000	1,912,455	2,717,455
Total 5 Years	4,030,000	9,823,029	13,853,029
2011 to 2015	4,385,000	9,162,654	13,547,654
2016 to 2020	15,220,000	7,548,027	22,768,027
2021 to 2025	6,440,000	5,259,035	11,699,035
2026 to 2030	8,220,000	3,442,732	11,662,732
2031 to 2035	10,175,000	1,171,064	11,346,064
Total bonds payable	$48,470,000	$36,406,541	$84,876,541

In fiscal year 1994, the University defeased in substance the 1989 issue of General Revenue Bonds with an issue of General Revenue Refunding Bonds valued at $3.585 million. These bonds bear interest at 2.80% to 5.10% and mature at various dates through 2008. As of June 30, 2005 and 2004, the defeased bonds outstanding were $770 thousand and $930 thousand, respectively.

On April 29th, 2005, the Michigan Technological University's Board of Control approved a bond resolution, authorizing the issurance and delivery of $2.5 million in General Revenue Bonds, These bonds will provide the match funding to $7.5 million in State of Michigan Captital Appropration funds to Michigan Technological University for university capital improvements. As of this financial statement date, this bond issue has not been issued or delivered. This bond is expected to be issued within the next nine months.

Capital and Operating Lease Obligations

The University has entered into capital lease agreements for the purchase of office equipment and telecommunications switching equipment. The capitalized cost of the equipment was $146.8 and $747 thousand; the net book value of the equipment was $117.9 and $310 thousand at June 30, 2005 and 2004, respectively.

Scheduled Maturities of Capital Leases
For Fiscal Years Ending June 30

Fiscal Year	Principal	Interest	Total
2006	$ 350,235	$ 23,713	$ 373,948
2007	337,869	12,276	350,145
2008	148,950	1,736	150,686
Total lease payments	$ 837,054	$ 37,725	$ 874,779

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the years ended June 30, 2005 and 2004 are insignificant.

Split-Interest Agreements of the Fund

Some donors enter into trust or other arrangements under which the Fund receives benefits that are shared with other beneficiaries. These types of arrangements, known as split-interest agreements, include pooled (life) income funds, charitable remainder trusts, and charitable gift annuities. Provisions for the various donor trust agreements are as follows:

- **Century II Pooled Income Fund:** All income of the pooled Fund is distributed to its participants on a pro-rata basis.
- **Charitable Remainder Unitrusts:** Donors receive income, generally payable quarterly, at a predetermined percentage rate of their unitrust's annual value at December 31.
- **Charitable Remainder Annuity Trusts:** Donors receive a fixed percentage rate of income based on the initial value of the annuity trust, generally payable quarterly.
- **Charitable Gift Annuities of the Fund:** Donors receive a fixed percentage rate of income based on the initial value of the gift annuity, payable quarterly. Assets received under a gift annuity contract are held as general assets of the Fund, and the annuity liability is a general obligation of the Fund. All assets received under a gift annuity con tract are pooled with other gift annuity contract funds and invested in equity and fixed income mutual funds and in cash equivalents. Those investments are held in an account segregated from the Fund's other investments.

Irrevocable split-interest agreements in which the Fund does not control the trust assets are recognized in the Fund's financial statements when it is notified of the trust's existence. The present value of the estimated future distributions to be received by the Fund is recorded as contribution revenue and a contribution receivable from a remainder trust. Amounts reflected as receivable from these types of agreements were $3,067 and $2,894 at June 30, 2005 and 2004, respectively.

Irrevocable split-interest agreements in which the Fund does control the trust assets are recognized in the Fund's financial statements when the trust is executed. The fair value of the trust assets and the present value of the expected future payments to be made to other beneficiaries are recorded as assets and liabilities, respectively, and the difference is recorded as contribution revenue. Amounts included in the accompanying statements of net assets at June 30, 2005 and 2004, from these types of agreements are as follows:

	2005	2004
Assets - cash and marketable securities	$5,534,365	$4,504,632
Liabilities to other beneficiaries	$2,662,700	$2,300,592

Included with contribution revenue on the statements of revenue, expenses, and changes in net assets for the years ended June 30, 2005 and 2004, were $477 thousand and $506 thousand, respectively, in contributions from split-interest agreements and $55 thousand and $238 thousand from changes in the value of split-interest agreements. The calculations of present value follow the guidelines as set forth in Section 642(c) of the Internal Revenue Code.

(8) Post-Employment Benefits

The University offers participation in one of two retirement plans for all qualified employees: the Michigan Public School Employees' Retirement System (MPSERS) and the Teachers Insurance and Annuities Association College Retirement Equities Fund (TIAA-CREF).

MPSERS is a non-contributory defined benefit cost sharing multiple employer retirement plan through the Michigan Public School Employees' Retirement System Plan (the "Plan"). Benefit provisions and contribution requirements of MPSERS are established and may be amended by state statute. Due to State of Michigan House Bill HB4047, University employees hired after December 31, 1995 can no longer participate in this retirement plan, unless they were previously enrolled in the plan at the University or one of the other six universities that are part of MPSERS.

During fiscal year 1997, the University implemented the funding policy changes finalized by MPSERS. An actuarial valuation was prepared for MPSERS that separated the plan into two components—university members and all other members. The valuation determined the university members' portion of plan assets and unfunded actuarial accrued liability (UAAL). The new funding policy calls for continued contributions for active members at 6.52% of member payroll. To fund the costs of the UAAL over the next forty years, the University will make additional contributions at a rate that will be determined annually. The fiscal year 2005 and 2004 rate was 2.24% and 0.88% respectively. The University is also required to pay a monthly contribution based on the number retirees who are covered on the Retirement System's health plan. This future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. Additional pension data for MPSERS is contained in MPSERS' comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Systems, 7150 Harris Dr., P.O. Box 30026, Lansing, MI 48901.

The TIAA-CREF Plan is a defined contribution retirement plan. All employees, who work at least 3/4 time are eligible to participate in the TIAA-CREF plan. For employees hired after December 31, 1995 employer contributions begin two years after date of hire or age 35 whichever is sooner. Employee benefits vest immediately. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator. The University contributes a specified percentage of employee wages and has no liability beyond its own contribution.

Contributions and covered payroll under the plans (excluding participants' additional contributions) for the three years ended June 30 are summarized as follows:

	2005	**2004**	**2003**
University contributions to MPSERS	$ 957,521	$ 882,116	$ 885,000
MPSERS retiree health insurance	2,404,463	2,318,520	2,372,000
MPSERS unfunded pension costs	113,603	50,091	31,000
Payroll covered under MPSERS	11,464,091	11,930,000	12,478,936
University contributions to TIAA-CREF	5,738,435	5,631,708	5,706,023
Payroll covered under TIAA-CREF	45,610,747	44,690,000	45,122,372

The University subsidizes a medical benefits plan for TIAA-CREF eligible University employees who have or will have retired from October 19, 1992 through June 30, 2006. The University recognizes the cost of providing this benefit as an expense on an annual basis.

During 1997, the Board approved a change in the TIAA-CREF eligible University employees' benefits. The University matches the participating employee's 2% of salary contribution to the employee's TIAA-CREF retirement annuity. From 2005 to 2006, the retired employees contribution for health care benefits will increase from 80% to 90%. In 2007 the retired employees contribution for healthcare benefits will increase to 100%. The University's subsidy will likewise decrease for fiscal year 2007 and beyond because retired employees will be responsible for 100% of their health care costs. Retirees can pay for their coverage with their annuity.

Retirement Supplemental Voluntary Plan

During 2002, the University adopted the Retirement Supplemental Voluntary Plan (RSVP) to facilitate the voluntary retirement of eligible employees. The RSVP is not an early retirement program. The decision to retire is left to the discretion of the individual employee, and remains entirely voluntary. However, if an employee decides to retire, the RSVP provides several retirement options: a monetary option; a phased retirement option; a combination of the monetary and phased retirement options; and a program for employment after retirement. The University recognizes the related costs in the year the employee decides to retire. The University recognized $245 thousand and $159 thousand for the years ended June 30, 2005 and 2004.

Employee Severance Plan

During 2003, the University adopted the Employee Severance Plan (ESP) to facilitate the voluntary termination of eligible employees. The decision to terminate was voluntary and left to the discretion of the individual employee. Under this plan, the employee receives a fixed payment over 10 years, beginning in fiscal year 2004. The net present value of the ESP liability was $1.554 million and $1.731 million for the years ended June 30, 2005 and 2004.

(9) Self Insurance

The University is essentially self-insured for medical benefits claims, unemployment compensation and workers' compensation. Stop loss coverage has been purchased by the University for the employees' health benefits. Liabilities for estimates of losses retained by the University under self-insurance programs have been determined and accrued on the accompanying Statement of Net Assets. Changes in the estimated liability for self-insured plans during the past two fiscal years are as follows:

	Medical Benefits	Unemployment Comp	Worker's Comp	Total
Claims liability - July 1, 2003	$ 1,263,504	$ 23,781	$ 372,297	$ 1,659,582
Claims incurred, including changes in estimates	9,512,584	107,369	80,654	9,700,607
Less: Claims paid	(9,658,001)	(96,750)	(110,540)	(9,865,291)
Claims liability - June 30, 2004	1,118,087	34,400	342,411	1,494,898
Claims incurred, including changes in estimates	10,350,545	131,829	156,482	10,638,856
Less: Claims paid	(10,247,236)	(116,229)	(142,993)	(10,506,458)
Claims liability - June 30, 2005	$ 1,221,396	$ 50,000	$ 355,900	$ 1,627,296

Liability and Property

The University participates with eleven other Michigan universities in the Michigan Universities Self-Insurance Corporation ("MUSIC"). MUSIC's purpose is to provide indemnity to members against auto, comprehensive general liability, errors and omissions, and property losses commonly covered by insurance. Premiums are assessed annually for (1) insurance risks retained by MUSIC, (2) costs related to excess coverage and (3) general and administrative expenses. MUSIC also provides risk management and loss control services and programs.

Loss coverages are structured on a three layer basis with each member retaining a portion of its losses, MUSIC covering the second layer of losses and commercial carriers covering the third layer. Comprehensive general liability coverage is provided on a per occurrence basis; errors and omissions coverage is provided on a claims made basis.
In the event of excess assets, MUSIC will either return the surplus, credit the surplus toward future payments or provide for increased coverages. Recommended reserves for both MUSIC and each member are actuarially determined on an annual basis. MUSIC will be self-sustaining through member payments and will purchase commercial coverage for claims in excess of established annual limits for each line of coverage. Members may fund their respective reserves as they deem appropriate.

(10) Commitments and Contingencies

The University has internally funded reserves for certain employee benefits. Accrued liabilities are generally based on actuarial valuations and represent the present value of unpaid expected claims, including estimates of claims incurred but not reported.

In the normal course of business, the University is named party to various legal actions. Historically, the University has not experienced significant losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, management believes the resolution of these matters will not have a material adverse effect on the University's financial position or results of operations.

Certain employees of the University are covered under the MPSERS retirement plan. As of June 30, 2005 and June 30, 2004 the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2005 and June 30, 2004. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's position that the University is not responsible for any shortfall in the Fund as a result of changes in benefits made by MPSERS.

The University has substantially completed construction on the $35 million John and Ruanne Opie Library and the Ann and Kanwal Rekhi Computer Science Hall. The State Building Authority (SBA) has committed to provide up to $25 million and has already provided $21.2 million of this. The University has already provided $10 million. The University has executed a deed to the property to the SBA and a lease of the building from the State and the SBA. During the lease term, the SBA will hold title to the facilities, the State will make all annual lease payments to the SBA from general fund appropriations; and the University will pay all operating and maintenance costs of the facilities. At the expiration of the lease, the SBA has agreed to sell the facility to the University for the sum of one dollar.

The University receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. University administration believes there is no liability for reimbursement which may arise as the result of audits.

(11) Functional Classification Operating Expenses

The University's operating expenses by functional classification were as follows:

	2005				
	Compensation and Benefits	Supplies and Services	Student Financial Support	Depreciation	Total
Instruction	$ 38,163,225	$ 6,127,637	$ 2,199,956	$ -	$ 46,490,818
Research	20,381,927	8,783,697	2,242,411	-	31,408,035
Public service	2,833,195	2,100,302	184,347	-	5,117,844
Academic support	6,091,460	4,031,975	35,010	-	10,158,445
Student services	3,919,810	1,792,812	68,003	-	5,780,625
Institutional support	11,400,087	3,924,736	14,095	-	15,338,918
Student financial support	1,014,128	81,302	420,828	-	1,516,258
Operations and maintenance of plant	4,645,206	5,533,110	-	-	10,178,316
Sales and services of departmental activities	5,601,191	5,515,899	-	-	11,117,090
Student residents	4,665,212	4,843,217	-	-	9,508,429
Depreciation	-	-	-	9,783,037	9,783,037
	$ 98,715,441	$42,734,687	$ 5,164,650	$ 9,783,037	$156,397,815

	2004				
	Compensation and Benefits	Supplies and Services	Student Financial Support	Depreciation	Total
Instruction	$ 40,050,257	$ 7,488,542	$ 2,618,266	$ -	$ 50,157,065
Research	16,813,249	9,015,367	1,873,322	-	27,701,938
Public service	2,544,079	1,915,015	51,367	-	4,510,461
Academic support	6,372,699	4,216,967	21,435	-	10,611,101
Student services	4,014,476	1,813,184	66,853	-	5,894,513
Institutional support	11,904,651	4,615,438	-	-	16,520,089
Student financial support	1,097,398	107,105	673,355	-	1,877,858
Operations and maintenance of plant	4,621,201	(583,909)	-	-	4,037,292
Sales and services of departmental activities	5,488,023	6,329,580	2,608	-	11,820,211
Student residents	4,583,503	4,081,499	-	-	8,665,002
Depreciation	-	-	-	10,519,708	10,519,708
	$ 97,489,536	$38,998,788	$ 5,307,206	$ 10,519,708	$152,315,238