Financial Report 2007

MichiganTech *Create the Future.*

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THE MICHIGAN TECH PLAN

MISSION

We prepare students to create the future.

VISION

Michigan Tech will grow as a premier research university of international stature, delivering education, new knowledge, and innovation for the needs of our technological world.

GOALS

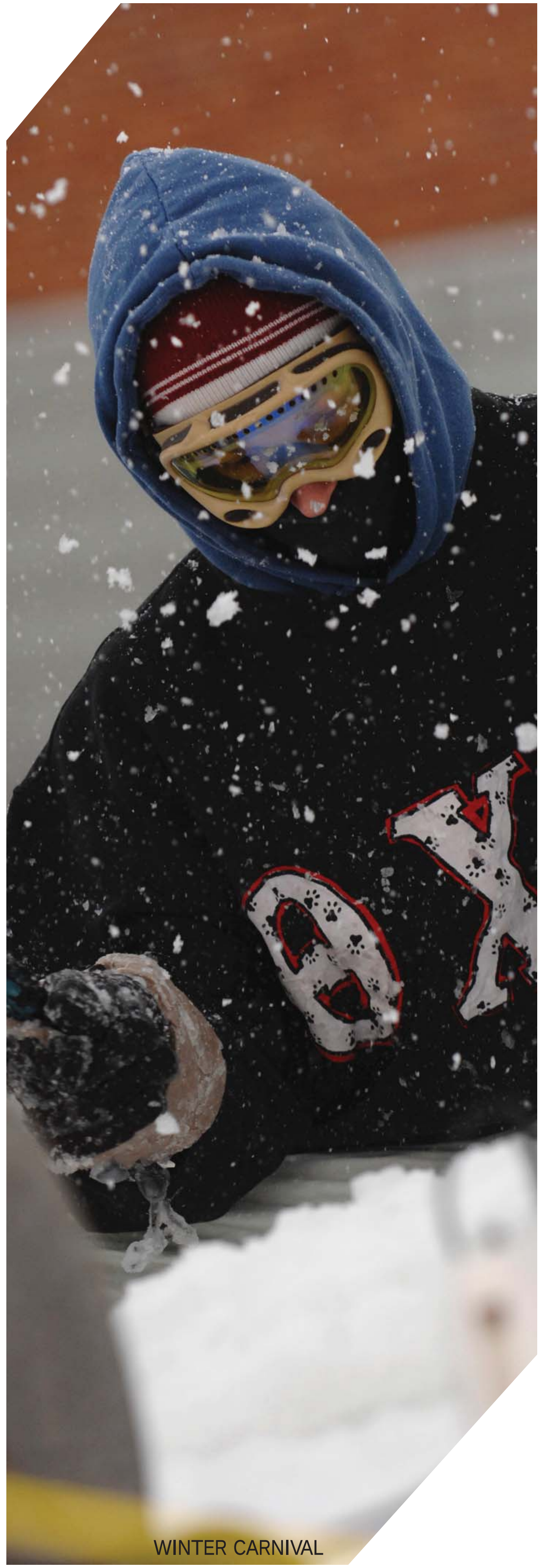
Michigan Tech's focus is improving lives and preserving our world through sound, innovative uses of science, engineering, and technology. Our society strives for economic prosperity, improved health, and responsible use of environmental resources. Moving forward, Michigan Tech will be a leader in responding to these needs and challenges in Michigan, the nation, and the world. We will attract exceptional faculty and students who will develop, understand, apply, manage, and communicate science and technology—all with the goal of a prosperous, sustainable world.

Progress toward these ambitious objectives will be measured by the national and international impact of our research and scholarly activities, and by the accomplishments and reputation of our faculty and graduates. Increasingly, Michigan Tech will be sought out and recognized for its ability to educate, to innovate, and foster economic growth.

(1) Attract and support a world-class and diverse faculty, staff, and student population.

(2) Deliver a distinctive and rigorous discovery-based learning experience grounded in science, engineering, technology, sustainability, and the business of innovation.

(3) Establish world-class research, scholarship, and innovation in science, engineering, and technology that promotes sustainable economic development in Michigan and the nation.



WINTER CARNIVAL

LETTER FROM THE PRESIDENT

For any institution of higher education to remain relevant and effective, it must continually change to meet the changing needs of its community, state, nation, and world.

Michigan Technological University has developed a unique response to this challenge. We've created a university where researchers teach, undergraduates do research and development, and business management and entrepreneurship are becoming key players in the curriculum.

Some see research and teaching as incompatible. At Michigan Tech, we've married the two in programs such as Engineering Enterprise, Summer Undergraduate Research Fellowships, the Pavlis Honors Institute, and other special programs. We prepare graduates who can step into any working situation and not only identify and solve problems, but find opportunities for technological and commercial development in the ambiguous world of raw ideas.

This takes a faculty who are good both at teaching and research, a visionary staff, and creative, adaptable students. Competition is stiff for the kind of faculty, staff, and students who can make this approach work. I'm proud to report that we are well on our way to filling the Michigan Tech campus with such people.

The evidence is everywhere. The University attracts record numbers of employer-exhibitors to its Career Fairs and record numbers of student applicants despite tuition increases. Michigan Tech faculty received $50 million in external funding, $6.3 million more than last year, and the University had more invention disclosures per $10 million in research than any other university in Michigan. Supporters raised $28 million in philanthropic gifts last year. We've seen exceptional growth in our technology incubator, called Michigan Tech Enterprise SmartZone, and we acquired the Michigan Tech Research Institute, a research and development facility in Ann Arbor that gives the University a vital presence in southeastern Michigan. Michigan Tech ranked in the top tier of national research universities, and the University was named one of the top 10 "most wired campuses" by *PC Magazine.*

Michigan Tech's star continues to rise at a time when the economy of Michigan is facing an extended recession. State support for the University, in inflation-adjusted dollars, has not gone up since the early 1970s, and high school students' interest in science and math is reported to be waning. Yet, enrollment has again increased. Our vision for Michigan Tech and the future of Michigan remains strong. We will continue to focus on stability and growth, and we will continue to change to meet the needs of our community and world.

Sincerely,

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

ADMINISTRATIVE OFFICERS

As of June 30, 2007

Board of Control

Dr. Kathryn Clark, Chair
Russell A. Gronevelt, Vice Chair
David J. Brule, Sr.
Rodger A. Kershner
Dr. Ruth A. Reck
Martha K. Richardson

Michael C. Henricksen • Norman A. Rautiola:
Appointments ended December 31, 2006

Executive and Board Officers

Dr. Glenn D. Mroz
President

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

Shea McGrew
Vice President for Advancement

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

Ellen S. Horsch
Vice President for Administration

Daniel D. Greenlee, CPA
Chief Financial Officer and Treasurer of the Board of Control

Dr. Les P. Cook
Vice President for Student Affairs

UNIVERSITY STATISTICS

Introduction

Michigan Tech Hits the Top Tier in Undergraduate University Rankings

August 17, 2007—Michigan Technological University's undergraduate education ranks in the top tier of national universities, according to *U.S. News & World Report's* latest edition of "America's Best Colleges". The rankings were released online today and scheduled to hit newsstands on Monday, August 20.

Michigan Tech is one of three public universities in Michigan to make the top tier of the magazine's undergraduate rankings. The other two are the University of Michigan and Michigan State University.

Michigan Tech's ranking improved this year in seven of the 10 categories evaluated, which *U.S. News* calls "indicators of excellence." The University's scores rose in graduation rate, percentage of small classes, average SAT/ACT scores of entering freshmen, and percentage of entering freshmen who are in the top 10 percent of their high-school class, an indication that the quality of students is increasing. Peer assessment of Michigan Tech and average annual giving by alumni also improved.

The *U.S. News* rankings also recognized Michigan Tech as one of 25 national universities whose students finish college with the least amount of educational debt. The average owed by a Michigan Tech graduate is $14,453, the least of any public university in Michigan. Nationwide, some public universities average student debt was more than twice that high.

"We feel extremely proud to be ranked among some of the best undergraduate schools in the country," said Michigan Tech President Glenn Mroz. "We know that Michigan Tech offers an outstanding education and great value for the money. And we are committed to continuing to improve the quality of the education provided here."

Each year, *U.S. News & World Report* ranks public and private undergraduate colleges and universities. This year, they evaluated the undergraduate programs at 262 national universities and 266 liberal arts colleges.

The rankings are based on peer review—a survey of presidents, provosts, and deans of admissions—as well as on retention, which is the proportion of freshmen who return for their second year and graduate within six years; faculty resources, including class size, faculty salaries, student-faculty ratio, and proportion of professors holding the highest degree in their fields; student selectivity, based on entering freshmen's SAT or ACT scores and their high-school class rank; spending on academic programs; and the percentage of alumni who gave to their school.

For more information about the rankings, see www.usnews.com/colleges.

Environmental & Mechanical Engineering Make Top 25 in **US News** *Undergrad Rankings*

AUG. 17, 2007--Two undergraduate programs at Michigan Tech have been ranked among the top 25 in *US News and World Report's* “America’s Best Colleges” guide.

Environmental engineering was listed 13th in the nation, with mechanical engineering ranking 22nd. Programs are ranked solely according to peer assessment.

“Recognition in the *US News* rankings demonstrates that the faculty, staff, and students of the mechanical and environmental engineering programs have earned the respect and notice of our peers,” said Dean of Engineering Tim Schulz. “Their hard work and accomplishments are being recognized across the nation, bringing well-deserved attention to Michigan Tech.”

“This is fantastic,” said William Predebon, chair of mechanical engineering-engineering mechanics. “The credit goes to the faculty, staff, and students.”

“It’s due to the quality instruction by our faculty, their concern for the students, and the excellent support by our staff,” he said. “And we have top-quality students; they are what make it fun to come to work.”

In addition, the department has been working to raise its profile. “The reputation of the faculty and the department play a significant role in the *US News* rankings, and we’ve been doing a lot to get the word out.”

Neil Hutzler, chair of civil and environmental engineering, said the ranking reflects long-standing excellence in the program.

“This is great news. The environmental engineering program has had a very good reputation for a number of years, but it’s always nice to be recognized through the *US News* rankings,” he said. “It speaks well of the quality of the program.”

Hutzler also credited the faculty for raising awareness among their peers through their publications, presentations, and other activities. “We have kept visible in national meetings and by holding office in professional organizations, and we send out a number of informational publications,” he said. “This speaks to ongoing, concerted efforts among the staff and faculty, as well as to the excellence of our students and graduates.”

For more information on this story contact: Marcia Goodrich - mlgoodri@mtu.edu

Enrollment

Admission is open to all students on a competitive basis. The University's entering freshmen consistently have average ACT scores greater than the national average. The following tables show that slightly more than 40% of accepted students enroll at the University. Michigan residents consistently account for approximately 2/3 of the University's enrollment.

Accepted Students*
Summer and Fall Terms

	2006	2005	2004	2003	2002
Freshmen	3,115	3,326	2,856	2,861	2,716
Transfer students	358	337	299	322	373
Graduate students	608	677	632	802	738
Total	**4,081**	**4,340**	**3,787**	**3,985**	**3,827**

Average ACT Scores for Incoming Freshmen, Fall

	MTU	National
2006	25.24	21.10
2005	25.13	20.90
2004	25.35	20.90
2003	25.36	20.80
2002	25.46	21.00

Enrollment has been a priority of the University and is a part of our Strategic Plan.

Enrolled Students*
Summer and Fall Terms

	2006	2005	2004	2003	2002
New freshmen	1,169	1,327	1,227	1,187	1,190
New transfer students	218	213	198	181	215
Graduate students	274	252	223	223	206
Total	**1,661**	**1,792**	**1,648**	**1,591**	**1,611**

Enrollment by Residency*
Fall 2002 to Fall 2006

	2006	2005	2004	2003	2002
Resident	4,260	4,241	4,487	4,531	4,704
Nonresident	1,611	1,551	1,445	1,341	1,253
International	577	596	608	693	668
Total	**6,448**	**6,388**	**6,540**	**6,565**	**6,625**

Full-Time Equivalent Students by Residency*
Fall 2002 to Fall 2006

	2006	2005	2004	2003	2002
Resident	3,973	3,964	3,877	3,853	3,872
Nonresident	1,523	1,484	1,375	1,276	1,202
International	530	572	547	613	598
Total	**6,026**	**6,020**	**5,799**	**5,742**	**5,672**

*Does not include Distance Learning

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.

	2006	2005	2004	2003	2002
Associate	24	28	24	38	35
Bachelor	1,008	1,048	1,042	975	996
Master's	203	185	181	163	182
Doctorate	41	44	42	38	42
Total	**1,276**	**1,305**	**1,289**	**1,214**	**1,255**

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, 2007, 2006, and 2005. 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. The financial statements report information about the University as a whole using accrual accounting methods similar to those used by private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Reporting Entity

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 GASB pronouncement, the Fund is a component unit of the University.

Financial Highlights

There were $50 million dollars of research awards in fiscal year 2007. According to the latest figures compiled by the National Science Foundation, the University has the fastest growing research program among the state's four research universities.

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) are one indicator of the University's financial health. Changes to net assets also need to be considered with nonfinancial facts, such as enrollment levels and condition of the facilities.

The University's current assets of $36.9 million covered the current liabilities of $21.0 million. The current ratio increased to 1.76 in fiscal year 2007 from 1.52 in fiscal year 2006. The 2006 ratio of 1.52 decreased from 2.04 in fiscal year 2005. These ratios are significantly driven by the timing of the receipt of funding for capital-improvement projects.

University liabilities increased by $1.7 million to $73.7 million at June 30, 2007. Long-term debt consisting of bonds payable of $50.1 million is the largest liability at June 30, 2007. University liabilities increased by $418 thousand to $72.1 million at June 30, 2006. For the year ended June 30, 2005, University liabilities decreased by $2.0 million to $71.7 million. The decrease was due to the $1.1 million in construction-related accounts payable and $714 thousand decrease in long-term debt.

Condensed Statements of Net Assets
As of June 30

	2007	2006	2005
Assets			
Current assets	$ 36,898,774	$ 32,959,599	$ 40,146,690
Noncurrent assets:			
Other	21,874,145	18,914,702	16,936,413
Capital assets, net	224,062,347	221,537,171	218,847,998
Total assets	**$ 282,835,266**	**$ 273,411,472**	**$ 275,931,101**
Liabilities			
Current liabilities	$ 21,018,206	$ 21,714,286	$ 19,706,525
Noncurrent liabilities	52,729,823	50,361,869	51,951,511
Total liabilities	**$ 73,748,029**	**$ 72,076,155**	**$ 71,658,036**
Net assets			
Invested in capital assets, net of related debt	$ 173,909,562	$ 170,342,409	$ 173,479,328
Restricted for expendable purposes	24,644,181	19,263,621	19,717,949
Unrestricted	10,533,494	11,729,287	11,075,788
Total net assets	**$ 209,087,237**	**$ 201,335,317**	**$ 204,273,065**

Capital and Debt Activities

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. Construction in progress reflects multiyear projects which, once completed and placed into service, are categorized as buildings and site improvements. At June 30, 2007 construction in progress consisted mainly of work being done on our world-class mineral museum and our Michigan Tech Little Huskies Development Center. At June 30, 2006 construction in progress consisted mainly of work being done on our $10-million general campus-renovation project. At June 30, 2005 construction in progress consisted of both small unrelated projects and the completion of the Wadsworth Hall renovation.

Capital and Debt Activities
As of June 30

Project	2007	2006	2005
Wadsworth Hall renovation	$ -	$ -	$ 1,530,614
General campus renovation project	-	3,800,389	-
Seaman Museum expansion	1,262,063	225,003	-
Little Huskies Child Care	548,476	-	-
Other projects	163,337	21,161	256,791
Total	**$ 1,973,876**	**$ 4,046,553**	**$ 1,787,405**

The funding for the capital projects is as follows:

	Little Huskies Child Care	Seaman Mineral Museum	Other	Total
Estimated cost of construction	$ 600,000	$ 1,589,300	$ 1,776,250	$ 3,965,550
Less: Costs incurred through June 30, 2007	(548,476)	(1,262,063)	(163,337)	(1,973,876)
Estimated cost to complete	**$ 51,524**	**$ 327,237**	**$ 1,612,913**	**$ 1,991,674**
Expected sources of financing:				
Federal funds	$ -	$ 327,237	$ -	$ 327,237
University funds and other sources	51,524	-	1,612,913	1,664,437
Estimated financing	**$ 51,524**	**$ 327,237**	**$ 1,612,913**	**$ 1,991,674**

On July 19, 2006 the University issued $2,990,000 General Revenue Bonds, Series 2006 for the general campus-renovation project and the addition of the Michigan Tech Little Huskies Development Center.

The University's capacity to meet its financial commitment on its obligations is looked upon as extremely strong.

Additional information regarding capital assets and long-term liabilities can be found in the notes to financial statements.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The composition of the University's net assets is summarized as follows:

Net Assets Summary

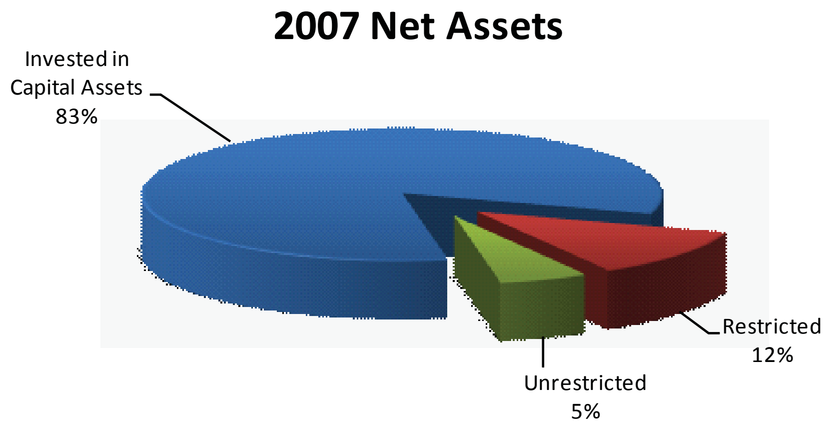
As of June 30

	2007	2006	2005
Invested in capital assets	$ 173,909,562	$ 170,342,409	$ 173,479,328
Restricted-expendable			
Gifts and sponsored programs	3,030,770	1,801,945	1,855,003
Capital projects	(1,963,443)	(6,626,107)	(6,897,438)
Debt service	9,957,270	10,574,379	11,294,296
Student loans	13,619,584	13,513,404	13,466,088
Total restricted net assets	24,644,181	19,263,621	19,717,949
Unrestricted net assets	10,533,494	11,729,287	11,075,788
Total net assets	**$ 209,087,237**	**$ 201,335,317**	**$ 204,273,065**

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 net increase reflects the University's continued development and renewal of its capital assets in accordance with its long-range capital plan.

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 student-loan programs.

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes designated funds that the Board of Control and management have designated for specific purposes, such as public service activities or academic and research initiatives. Unrestricted net assets also include amounts that have been contractually committed for goods and services that have not been received by fiscal year-end.



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:

	2007	2006
Invested in capital assets	$ 35,640	$ 206,321
Permanently restricted net assets	49,278,341	43,038,050
Temporarily restricted net assets		
Capital projects and equipment	831,832	3,754,826
Departmental support	15,815,582	17,073,986
Remainder interests in split-interest agreements	2,525,862	1,924,788
Net appreciation on donor-restricted endowment funds	33,756,236	24,634,312
	52,929,512	47,387,912
Unrestricted		
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	(393,708)	(497,605)
Undesignated	5,284,820	3,573,240
	4,891,112	$ 3,075,635
Total net assets	**$ 107,134,605**	**$ 93,707,918**

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 nonoperating. GASB 35 classifies state appropriations and gifts as nonoperating revenues, which will always result in operating deficits for the University.

Summary of Revenues, Expenses, and Changes in Net Assets

Year ended June 30

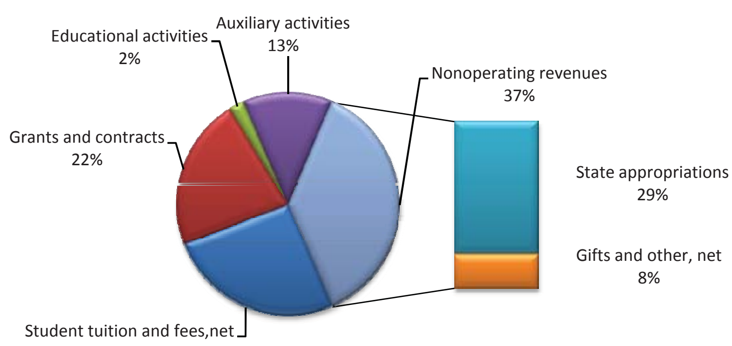
	2007	2006	2005
Operating revenues			
Tuition and fees, net	$ 48,799,993	$ 43,716,315	$ 38,899,981
Grants and contracts	42,431,337	31,346,694	31,990,144
Educational activities	4,105,652	4,297,671	4,008,619
Auxiliary activities	24,843,249	24,899,269	23,283,655
Total operating revenues	120,180,231	104,259,949	98,182,399
Operating expenses	182,310,929	165,366,467	156,397,815
Operating loss	(62,130,698)	(61,106,518)	(58,215,416)
Nonoperating revenues and expenses			
State appropriations, operating	48,131,899	48,403,799	49,829,503
State appropriations, capital	8,120,233	2,541,284	13,374,007
Gifts	13,671,297	8,108,554	9,138,649
Other nonoperating revenues and expenses, net	(40,811)	(884,867)	(842,635)
Net nonoperating revenues	69,882,618	58,168,770	71,499,524
Net increase (decrease) in net assets	7,751,920	(2,937,748)	13,284,108
Net Assets			
Beginning of year	201,335,317	204,273,065	190,988,957
End of year	**$ 209,087,237**	**$ 201,335,317**	**$ 204,273,065**

The $7.75-million increase in net assets during fiscal year 2007 was primarily attributable to the capital appropriations and to gifts.

The $2.9-million decrease in net assets in fiscal year 2006 was $16.2 million less than the fiscal year 2005 net increase of $13.3 million. That comparative net change was attributable to two items, the decrease in the *State Appropriation Operating Revenue* ($1. 4 million) and the decrease in *Capital Appropriations and Capital Grants and Gifts* ($13.1 million). The increase in net assets for the fiscal year 2005 was $3.9 million higher than the fiscal year 2004 net increase of $9.4 million. The net increase was attributable to the increase in state appropriations and gifts.

One of the University's greatest financial strengths is the diverse streams of revenues that supplement its student tuition and fees. In order to supplement student tuition, the University continues to aggressively seek funding from all possible sources consistent with its mission.

2007 Revenues

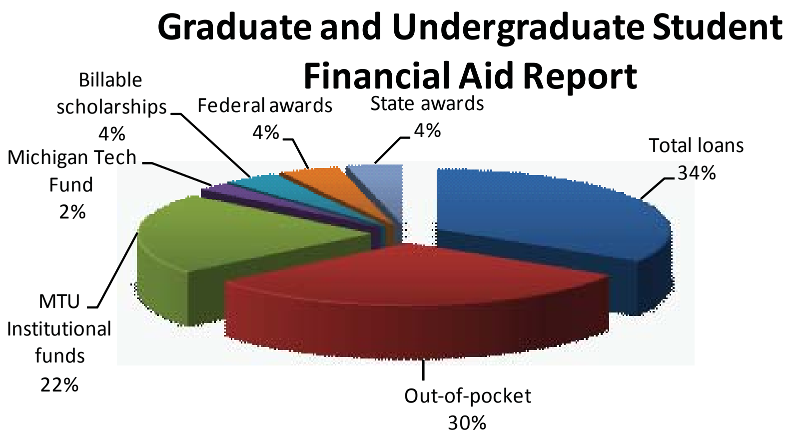


Tuition and Fees Revenue

The University strives to provide students with the opportunity to obtain a quality education at an affordable cost. "Michigan Tech has a commitment to quality," said University President Glenn Mroz. "That's what defines us. Our students deserve outstanding educational programs, and we will continue to deliver them. We also are conscious of keeping Michigan Tech affordable, but tuition increases are inevitable as state support declines." Of the 248 schools considered national universities by *U.S. News*, Michigan Tech was the only university in Michigan to make the "Least Debt" category, ranking 17th.

The state's appropriation to its public universities, including Michigan Tech, has not kept up with inflation, said Board Chair Dr. Kathryn Clark. "Meanwhile, the cost of providing a top-quality education, particularly the high-cost science and engineering programs offered by Michigan Tech, continues to rise."

The following graph identifies the source of funds used to pay our students' bills for the fiscal year ended June 30, 2007.



Grant and Contract Revenue

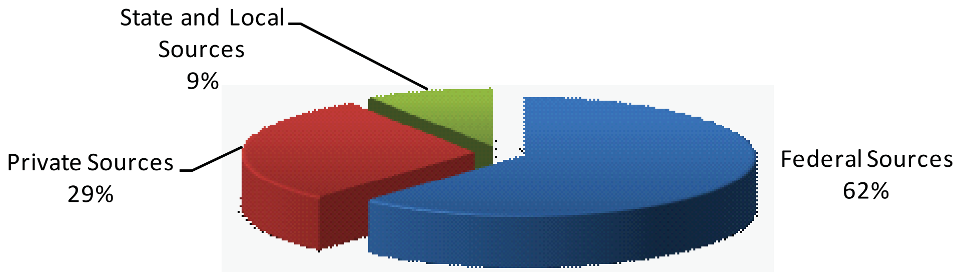
The University receives revenues for sponsored programs from government and private sources, which normally provide for the direct and indirect costs of performing these sponsored activities. Our total annual grant and contract revenue is continuing to exceed $30 million. There were $50 and $44 million dollars of research awards in fiscal years 2007 and 2006, respectively. MTU currently has 22 interdisciplinary research institutes and centers that have enabled the University to continue to increase its awards. The University also acquired MTRI, a research facility in Ann Arbor, MI.

Grant and Contract Revenue
Year ended June 30

	2007	2006	2005
Federal sources			
Department of Agriculture	$ 1,768,441	$ 1,755,687	$ 1,717,822
Department of Commerce	-	174,972	309,674
Department of Defense	6,052,273	3,591,028	2,563,066
Department of Education	4,599,443	3,375,448	3,812,627
Department of Energy	5,714,021	3,467,096	4,752,249
Department of Interior	381,082	192,068	217,736
Department of Transportation	615,143	495,522	685,247
Environmental Protection Agency	114,967	86,741	58,278
National Aeronautics Space Administration	435,112	469,332	577,260
National Science Foundation	5,299,117	4,851,252	4,623,576
Health & Human Servies	894,467	602,400	305,480
Other federal sources	242,698	161,225	270,055
Total federal sources	26,116,764	19,222,771	19,893,070
Nonfederal sources			
State and local	3,805,813	2,675,488	3,695,352
Private	12,508,760	9,448,435	8,401,722
Total nonfederal sources	16,314,573	12,123,923	12,097,074
Total All Sources	**$ 42,431,337**	**$ 31,346,694**	**$ 31,990,144**

The following graphic illustrates the fiscal year 2007 grant and contract revenue by source.

Grant and Contract Revenue



Nonoperating Revenues

Appropriations

The University's largest source of nonoperating revenue is the State of Michigan appropriation.

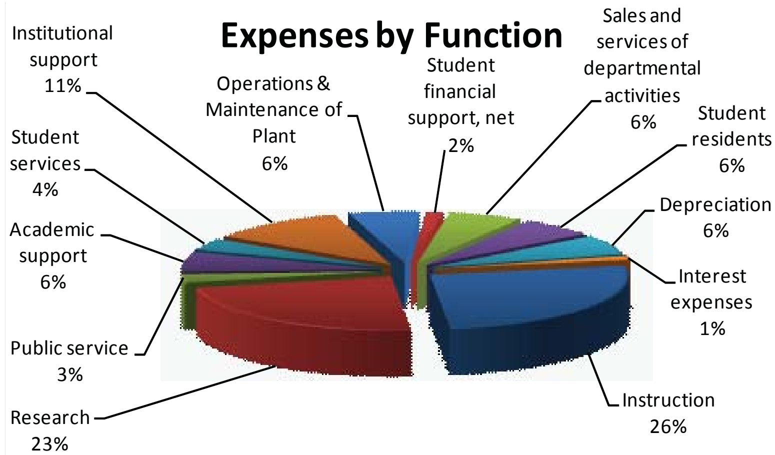
The State's fiscal year begins on October 1 and ends on September 30. The 2007 state appropriations to the University were $48.1 million for operations and $8.1 million for capital. In fiscal year 2007, $4.5 million of operating appropriation was deferred to fiscal year 2008. In addition, the State paid $379 thousand for our July and August MPSERS obligation, but reduced the University's summer appropriation payments accordingly. The University's 2006 state appropriations were $48.4 million for operations and $2.5 million for capital. The 2006 state appropriations for operating purposes decreased $1.4 million or 2.9%. The 2005 state appropriations for operating purposes increased by $2.2 million or 4.7%.

Operating and Nonoperating Expenses

Universities have traditionally used the functional classification of expenses for reporting purposes. These functions represent the core missions of the University. A comparative summary of the University's expenses by functional classification follows for the years ended June 30, 2007, 2006, and 2005:

	2007	2006	2005
Operating Expenses			
Instruction	$ 48,334,820	$ 47,004,934	$ 46,490,818
Research	42,762,092	33,764,792	31,408,035
Public service	4,882,404	4,849,284	5,117,844
Academic support	11,547,401	10,761,553	10,158,445
Student services	6,799,822	6,974,564	5,780,625
Institutional support	20,858,727	18,027,340	15,338,918
Student financial support	2,594,017	1,218,569	1,516,258
Operation and maintenance of plant	10,802,207	10,384,148	10,178,316
Depreciation	11,179,758	11,040,264	9,783,037
Sales and services of departmental activities	11,216,023	13,069,259	11,117,090
Student residents	11,333,658	8,271,760	9,508,429
Total operating expenses	182,310,929	165,366,467	156,397,815
Nonoperating expenses			
Interest	2,112,313	1,991,139	847,480
Other	318,654	348,404	645,500
Total nonoperating expenses	2,430,967	2,339,543	1,492,980
Total expenses	**$ 184,741,896**	**$ 167,706,010**	**$ 157,890,795**

The following graphic illustrates the fiscal year 2007 operating and nonoperating expenses by functional classification:

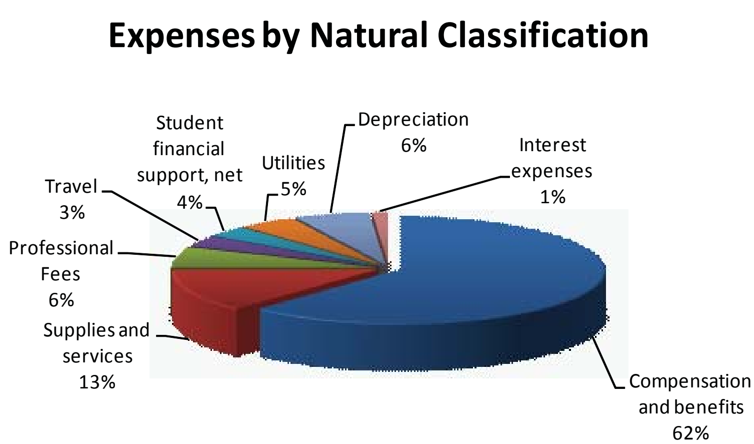


In addition to the functional classification of expenses, it is also informative to review operating expenses by their natural classification. Natural classifications show the type of expense regardless of function. The University and its discrete component unit's operating expenses by natural classification were as follows:

	2007		2006	
	Primary Institution	**Component Unit**	**Primary Institution**	**Component Unit**
Salaries				
Faculty	$ 31,813,075	$ -	$ 30,715,119	$ -
Staff	40,732,192	373,841	35,743,987	992,448
Students	11,001,998	-	10,245,574	-
Total salaries	83,547,265	373,841	76,704,680	992,448
Benefits	30,877,222	143,481	28,496,712	406,686
Compensation & benefits	114,424,487	517,322	105,201,392	1,399,134
Supplies and other services	23,966,971	324,131	21,312,507	494,953
Professional fees	11,649,646	92,721	9,726,659	274,857
Travel	6,336,890	11,474	5,420,786	277,343
Scholarships and fellowships	6,228,430	-	4,663,552	-
Utilities	8,524,747	-	8,001,307	-
Depreciation	11,179,758	25,933	11,040,264	27,831
Total operating expenses	**$ 182,310,929**	**$ 971,581**	**$ 165,366,467**	**$ 2,474,118**

It is the University's priority to provide a quality education for our students and reward faculty and staff for quality performance.

During the fiscal year 2007, the University provided a 3% increase for marketplace and equity salary adjustments.
The following graphic illustrates the fiscal year 2007 operating and nonoperating expenses by natural classification:



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 and cash equivalents increased $726 thousand in 2007 but decreased by $8.5 million in 2006. The net cash flows were primarily due to the timing of the receipt of funding of our construction projects (capital financing activities).

Condensed Statements of Cash Flows
As of June 30

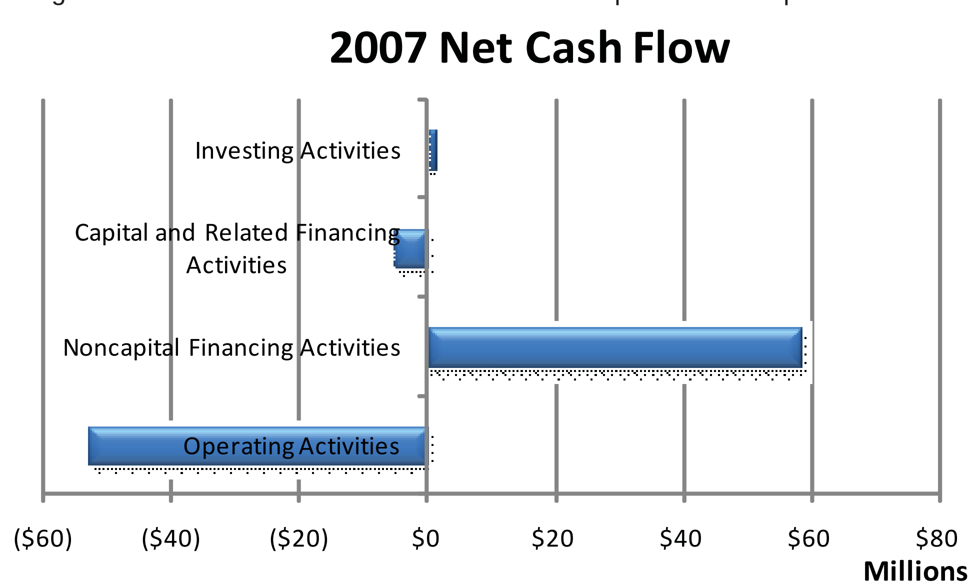
	2007	2006	2005
Cash (used in) provided by			
Operating activities	$ (53,205,229)	$ (48,744,127)	$ (49,687,454)
Noncapital financing activities	58,287,707	54,984,176	56,127,656
Capital and related financing activities	(5,514,971)	(15,685,241)	(23,135,064)
Investing activities	1,158,576	968,853	(3,629,682)
Net increase (decrease) in cash	726,083	(8,476,339)	(20,324,544)
Cash — beginning of the year	14,682,377	23,158,716	43,483,260
Cash — end of the year	**$ 15,408,460**	**$ 14,682,377**	**$ 23,158,716**

Cash received from operating activities consists primarily of student tuition and fees, sponsored program grants and contracts, and auxiliary revenues. The largest payments in operating activities were compensation to employees and to suppliers.

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.



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 for the fiscal year ending June 30, 2008. The University will be required to address the accounting and reporting for costs and obligations related to its post-employment health-care benefits. Using current actuarial assumptions, and presuming a significant change in the current level of retiree benefits, the projected liability for those future benefits is $24.3 million. However, according to GASB No. 45, the University will only have to recognize an annual required contribution of $1.5 million.

Marketing Factors Impacting Future Periods

Thanks to a $1-million gift from the House Family Foundation, Michigan Tech purchased from the Altarum Institute of Ann Arbor its assets in the Environmental and Emerging Technologies Division (EETD).

The acquisition will do more than support university and faculty research initiatives. Over the next few years, net revenues from the division will be set aside to fund an endowed professorship.

"It's a great fit for us," said Provost David Reed. "It increases our capacity for graduate studies and research in the key areas of engineering and the environment. And it helps us fulfill our charge from the state, to help build Michigan's capacity to thrive in a knowledge economy."

The arrangement was attractive to Michigan Tech in part because the division's strengths in sensors and signal processing and in earth sciences dovetail with some of the University's most-active research programs.

Altarum's Environmental and Emerging Technologies Division currently has gross annual research revenues of $4 million, and it has additional potential to ratchet up programs already in place at the University.

The agreement also responds to priorities set by the Lieutenant Governor's Commission on Higher Education and Economic Growth.

"Michigan Tech has always been aligned with the Cherry Commission's aim of promoting the commercialization of university research," said President Glenn Mroz. "By bringing Altarum's Environmental and Emerging Technologies Division into the Michigan Tech fold, we are furthering opportunities for innovation and anchoring those commercialization opportunities here in Michigan."

MTRI RESEARCH

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, which includes retiree health insurance. The University is taking steps to reduce the retiree health care benefit subsidy.

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. Continued adverse economic pressures affecting the State will, at best, result in minimal or declining adjustments in state appropriations for higher education. Static or declining state appropriations generally result in increased tuition and fee levels. We continue to work to manage tuition to make it competitive while providing an outstanding college education for our students.

Michigan Technological University's Board of Control adopted a balanced budget for the fiscal year 2008. The $135 million general fund budget projects a state appropriation of $50.4 million. The budget also reflects a 9.5% average increase in tuition and mandatory fees for undergraduates who are state residents. Graduate students will see a 6.2% increase in tuition and mandatory fees. Room and board rates are slated to rise 6.8%. The budget also includes a 17.6% increase in financial-aid funding, from $15.0 million to $17.6 million.

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.

"Michigan Tech has a commitment to quality," said University President Glenn Mroz. "That's what defines us. Our students deserve outstanding educational programs, and we will continue to deliver them. We also are conscious of keeping Michigan Tech affordable, but tuition increases are inevitable as state support declines. "

The budget includes a salary pool of $3.7 million for salary and wage increases and new faculty positions. The salary pool will be distributed among the different groups of employees, across the board and/or based on merit, marketplace, and equity considerations. This summer, the University is negotiating with the four employee unions, including the American Association of University Professors (AAUP). "The salary pool for each of the four unions has yet to be determined, and we may need to ask the Board of Control for a budget modification later," Mroz said.

Michigan Tech is currently in the early stage of a multiyear fundraising campaign directed primarily at increasing the University's permanent endowment.

While it is not possible to predict the ultimate results, management believes that the University's financial condition will remain strong.

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INDEPENDENT AUDITORS' REPORT

November 26, 2007

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, 2007 and 2006 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 opinions on these financial statements based on our audits. 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 opinions.

As more fully described in Note 15, for fiscal 2007, the University recorded a delayed appropriation from the State of Michigan that was re-appropriated in fiscal 2008 as a receivable in the Statement of Net Assets with the corresponding revenue recorded in the Statement of Revenues, Expenses and Changes in Net Assets. In our opinion, accounting principles generally accepted in the United States of America require that state appropriations be recognized in the period appropriated. If this appropriation had been recorded in conformity with accounting principles generally accepted in the United States of America, current assets and unrestricted net assets would be decreased by $4,474,400 at June 30, 2007 and state appropriations would be decreased by the same amount for the year then ended.

In our opinion, based on our audits and the reports of the other auditors, except for the matter discussed in the previous paragraph, 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 26, 2007 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 4 through 14 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, 2007
(in dollars)

	Michigan Technological University	Michigan Tech Fund
Assets		
Current assets:		
Cash and cash equivalents	$ 15,408,460	$ 7,306,414
Short-term investments	-	49,156,050
Accounts receivable, net	19,379,453	1,462,259
Other assets	2,110,861	39,892
Total current assets	36,898,774	57,964,615
Noncurrent assets:		
Student loans receivable, net of allowance	13,504,270	-
Investments	7,391,331	46,020,389
Capital assets, net of accumulated depreciation	224,062,347	35,640
Other assets	978,544	8,173,635
Total noncurrent assets	245,936,492	54,229,664
Total assets	**$ 282,835,266**	**$ 112,194,279**
Liabilities		
Current liabilities		
Accounts payable	$ 5,412,557	$ 790,622
Other accrued liabilities	8,781,478	-
Deferred revenue	3,487,937	-
Current portion of long-term debt	1,030,000	-
Current portion of noncurrent liabilities	2,306,234	409,753
Total current liabilities	21,018,206	1,200,375
Noncurrent liabilities		
Funds held for others	680,450	-
Insurance and benefit reserves	1,197,579	-
Other liabilities	750,000	3,859,299
Long-term debt, net of current portion	50,101,794	-
Total noncurrent liabilities	52,729,823	3,859,299
Total liabilities	**73,748,029**	**5,059,674**
Net assets		
Invested in capital assets, net of related debt	173,909,562	35,640
Restricted for		
Nonexpendable purposes	-	49,278,341
Expendable purposes	24,644,181	52,929,512
Unrestricted	10,533,494	4,891,112
Total net assets	**209,087,237**	**107,134,605**
Total liabilities and net assets	**$ 282,835,266**	**$ 112,194,279**

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

Statements of Net Assets

June 30, 2006
(in dollars)

	Michigan Technological University	Michigan Tech Fund
Assets		
Current assets:		
Cash and cash equivalents	$ 14,682,377	$ 5,071,167
Short-term investments	-	41,192,704
Accounts receivable, net	16,148,935	4,794,150
Other assets	2,128,287	65,260
Total current assets	32,959,599	51,123,281
Noncurrent assets:		
Student loans receivable, net of allowance	12,754,951	-
Investments	6,159,751	39,625,450
Capital assets, net of accumulated depreciation	221,537,171	206,321
Other assets	-	7,028,812
Total noncurrent assets	240,451,873	46,860,583
Total assets	**$ 273,411,472**	**$ 97,983,864**
Liabilities		
Current liabilities		
Accounts payable	$ 7,274,178	$ 160,077
Other accrued liabilities	7,938,894	-
Deferred revenue	2,720,690	-
Current portion of long-term debt	1,240,290	-
Current portion of noncurrent liabilities	2,540,234	369,374
Total current liabilities	21,714,286	529,451
Noncurrent liabilities		
Funds held for others	707,050	-
Insurance and benefit reserves	1,377,153	-
Other liabilities	-	3,746,495
Long-term debt, net of current portion	48,277,666	-
Total noncurrent liabilities	50,361,869	3,746,495
Total liabilities	**72,076,155**	**4,275,946**
Net assets		
Invested in capital assets, net of related debt	170,342,409	206,321
Restricted for		
Nonexpendable purposes	-	43,038,050
Expendable purposes	19,263,621	47,387,912
Unrestricted	11,729,287	3,075,635
Total net assets	**201,335,317**	**93,707,918**
Total liabilities and net assets	**$ 273,411,472**	**$ 97,983,864**

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, 2007
(in dollars)

	Michigan Technological University	Michigan Tech Fund
Revenues		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $17,988,441)	$ 48,799,993	$ -
Gifts and contributions	-	9,272,375
Federal grants and contracts	26,116,764	-
State and local grants and contracts	3,805,813	-
Nongovernmental grants and contracts	12,508,760	-
Educational activities	4,105,652	-
Sales and services of departmental activities	8,828,984	-
Student resident fees	16,014,265	-
Other operating revenues	-	317,854
Total operating revenues	120,180,231	9,590,229
Expenses		
Operating expenses		
Compensation and benefits	114,424,487	517,322
Supplies and services	50,478,254	428,326
Student financial support	6,228,430	-
Depreciation	11,179,758	25,933
Total operating expenses	182,310,929	971,581
Operating (loss) revenue	(62,130,698)	8,618,648
Nonoperating revenues (expenses)		
State appropriations	48,131,899	-
Gifts	9,438,908	-
Investment income (net of investment expense)	2,390,156	12,828,508
Interest on capital asset-related debt	(2,112,313)	-
Payments to Michigan Tech University	-	(14,783,041)
Loss on disposal of capital assets	(318,654)	-
Net nonoperating revenues (expenses)	57,529,996	(1,954,533)
(Loss) income before other revenues	(4,600,702)	6,664,115
Other revenues		
Capital appropriations	8,120,233	-
Capital grants and gifts	4,232,389	-
Additions to permanent endowments	-	6,762,572
Total other revenues	12,352,622	6,762,572
Net increase in net assets	7,751,920	13,426,687
Net assets		
Beginning of year	201,335,317	93,707,918
End of year	**$ 209,087,237**	**$ 107,134,605**

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, 2006
(in dollars)

	Michigan Technological University	Michigan Tech Fund
Revenues		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $15,974,060)	$ 43,716,315	$ -
Gifts and contributions	-	7,094,299
Federal grants and contracts	19,222,771	-
State and local grants and contracts	2,675,488	-
Nongovernmental grants and contracts	9,448,435	-
Educational activities	4,297,671	-
Sales and services of departmental activities	9,204,817	-
Student resident fees	15,694,452	-
Other operating revenues	-	303,274
Total operating revenues	104,259,949	7,397,573
Expenses		
Operating expenses		
Compensation and benefits	105,201,392	1,399,134
Supplies and services	44,461,259	1,047,153
Student financial support	4,663,552	-
Depreciation	11,040,264	27,831
Total operating expenses	165,366,467	2,474,118
Operating (loss) revenue	(61,106,518)	4,923,455
Nonoperating revenues (expenses)		
State appropriations	48,403,799	-
Gifts	6,963,708	-
Investment income (net of investment expense)	1,454,676	8,232,477
Interest on capital asset-related debt	(1,991,139)	-
Payments to Michigan Tech University	-	(8,341,564)
Loss on disposal of capital assets	(348,404)	-
Net nonoperating revenues (expenses)	54,482,640	(109,087)
(Loss) income before other revenues	(6,623,878)	4,814,368
Other revenues		
Capital appropriations	2,541,284	-
Capital grants and gifts	1,144,846	-
Additions to permanent endowments	-	1,025,549
Total other revenues	3,686,130	1,025,549
Net (decrease) increase in net assets	(2,937,748)	5,839,917
Net assets		
Beginning of year	204,273,065	87,868,001
End of year	**$ 201,335,317**	**$ 93,707,918**

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

Statements of Cash Flows

For the Years Ended June 30, 2007 and 2006
(in dollars)

	2007	2006
Cash flows from operating activities		
Student tuition and fees	$ 48,655,971	$ 43,662,746
Grants and contracts	41,141,213	30,987,468
Payments to employees	(83,327,273)	(76,444,733)
Payments for benefits	(30,598,397)	(27,885,556)
Payments to suppliers	(42,159,174)	(35,840,350)
Payments for utilities	(8,564,071)	(7,850,456)
Payments for financial aid	(6,228,430)	(4,663,552)
Loans issued to students	(3,481,627)	(3,081,339)
Collection of loans to students	2,732,353	2,944,666
Sales and services of departmental activities	8,891,139	9,254,097
Sales and services of educational activities	3,707,574	4,325,413
Student resident fees	15,985,399	15,735,551
Other receipts	40,094	111,918
Net cash used in operating activities	**(53,205,229)**	**(48,744,127)**
Cash flows from noncapital financing activities		
State appropriations	48,825,883	48,137,379
Gifts and grants for other than capital purposes	9,438,908	6,963,708
William D. Ford direct-lending cash received	17,861,076	17,829,949
William D. Ford direct-lending cash disbursed	(17,838,160)	(17,946,860)
Net cash provided by noncapital financing activities	**58,287,707**	**54,984,176**
Cash flows from capital and related financing activities		
Capital appropriations	6,671,690	2,701,359
Capital grants and gifts received	4,238,210	1,239,229
Proceeds from sale of capital assets	96,666	63,391
Purchases of capital assets	(16,189,395)	(16,974,688)
Goodwill acquired in business acquisition	(656,234)	-
Advance from the Fund	750,000	-
Proceeds on issuance of debt	3,011,066	-
Principal paid on capital debt and leases	(1,359,161)	(722,893)
Interest paid on capital debt and leases	(2,077,813)	(1,991,639)
Net cash used in capital and related financing activities	**(5,514,971)**	**(15,685,241)**
Cash flows from investing activities		
Proceeds from sales of maturities of investments	-	1,317,000
Purchase of investments	(109,913)	(1,317,000)
Income on investments	1,268,489	968,853
Net cash provided by investing activities	**1,158,576**	**968,853**
Net increase (decrease) in cash and cash equivalents	726,083	(8,476,339)
Cash and cash equivalents — beginning of year	14,682,377	23,158,716
Cash and cash equivalents — end of year	**$ 15,408,460**	**$ 14,682,377**

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

Statements of Cash Flows
(continued)

	2007	2006
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	$ (62,130,698)	$ (61,106,518)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	11,179,758	11,040,264
Changes in operating assets and liabilities:		
Receivables, net	(2,504,695)	(895,633)
Other assets	17,426	(381,653)
Student loans	(749,319)	(136,672)
Accounts payable	134,952	1,330,820
Other accrued liabilities	520,273	841,381
Deferred revenue	767,248	489,146
Current portion of long-term liabilities	(234,000)	307,579
Funds held for others	(26,600)	73,000
Long-term liabilities	(179,574)	(305,841)
Net cash used in operating activities	**$ (53,205,229)**	**$ (48,744,127)**

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, 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 fundraising 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, and 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.

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 statements that focus on accountability of individual funds.

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.

Summary of Significant Accounting Policies

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 accompanying financial statements. 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 net 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, uni-trusts, 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 8 for further details.

Capital Assets

The University currently uses a $5,000 capitalization threshold, with an estimated useful life in excess of two years. Previously, the University used a $2,500 capitalization threshold. Physical properties are stated at cost when purchased. Other acquisitions are stated at appraised value on date of receipt. The University does not amortize Goodwill. Bond issuance costs are amortized over the life of the related bonds using the straight-line method. 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 financial statements.

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. State appropriation revenue is recognized in the period for which it is appropriated. Restricted grant revenue is recognized only to the extent expended. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

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 the Fund 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

Expenses are recognized when the service is provided or when materials are received. 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.

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 represent permanent endowments. Their use is limited by donor-imposed stipulations that neither expire by the passage 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 from the prior year have been reclassified to conform to the current year's 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 on 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 the 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 $16,454,990 and $14,641,619 as of June 30, 2007 and 2006, respectively. $27 and $2,808,271 of the banks deposits balances was exposed to custodial credit risk because it was uninsured and uncolateralized, as of June 30, 2007 and 2006, respectively.

Custodial credit risk (investments) -

For an investment, custodial credit risk is the risk that, in the even 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 investment pools and in open0end 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.

Foreign currency risk -

The university has no foreign investments.

Investments and Investment Income

The University's investments at June 30, 2007 are as follows:

Investment Type	Fair Value	Interest Rate	Maturity Date	Rating
Mutual fund cash reserve	$ 1,543,961	4.50%	N/A	N/A
Mutual equity index fund	7,391,331	N/A	N/A	N/A
	8,935,292			
Less investments reported as "Cash and cash equivalents" on the accompanying Statement of Net Assets	(1,543,961)			
Total investments	**$ 7,391,331**			

The University's investments at June 30, 2006 were as follows:

Investment Type	Fair Value	Interest Rate	Maturity Date	Rating
Mutual fund cash reserve	$ 1,477,485	2.30%	N/A	N/A
Mutual equity index fund	6,159,751	N/A	N/A	N/A
	7,637,236			
Less investments reported as "Cash and cash equivalents" on the accompanying Statement of Net Assets	(1,477,485)			
Total investments	**$ 6,159,751**			

The University's net investment return is comprised of the following for the years ended June 30, 2007 and 2006.

Investment Income
Year ended June 30

	2007	2006
Investment income		
Interest	$ 1,092,124	$ 882,492
Dividends	176,364	143,109
Net increase in the fair value of investments	1,121,668	429,475
Subtotal	2,390,156	1,455,076
Investment expenses	-	(400)
Net investment income	**$ 2,390,156**	**$ 1,454,676**

The annualized returns on investments and marketable securities for the University, excluding the base cash pool reserve for the years ended June 30, 2007 and 2006, are as follows:

	2007	2006
Intermediate fixed income	4.5%	2.30%
Equity investments	20.0%	10.50%

The fair value of the Fund's investments at June 30, 2007 and 2006 are categorized as follows:

	2007	2006
Marketable securities		
Equities	$ 615,283	$ 828,428
Mutual funds — equities	46,654,716	39,921,929
Mutual funds — fixed income	28,473,729	26,033,201
Corporate bonds and notes	55,677	9,702
US government obligations	1,656,919	1,677,951
Total marketable securities	77,456,324	68,471,211
Limited partnerships		
Hedge funds	7,310,031	6,113,422
Real assets	3,724,835	3,046,698
Private equity	6,665,249	3,166,823
Total limited partnerships	17,700,115	12,326,943
Closely held stock	20,000	20,000
Total investments	**$ 95,176,439**	**$ 80,818,154**

At June 30, 2007, the Fund's remaining capital commitment for investment in limited partnerships is $6,866,474.

The Fund's net investment return is comprised of the following for the years ended June 30, 2007 and 2006:

	2007	2006
Interest and dividends	$ 2,348,070	$ 2,397,155
Capital gain distributions	2,351,728	1,864,416
Net gain on sale of investments	2,415,078	1,634,940
Net unrealized gain on investments	6,106,271	2,561,478
Asset-based management and administrative fees	(392,639)	(225,512)
Total investment return	**$ 12,828,508**	**$ 8,232,477**

(3) Receivables

Accounts receivable are summarized as follows as of June 30, 2007 and 2006.

	2007	2006
Primary institution		
Student tuition and fees	$ 613,438	$ 496,850
State appropriations		
Operating	8,046,161	8,740,145
Capital	2,368,834	920,291
Grants and contracts	7,438,751	5,293,627
Auxiliary activities	402,239	470,420
Other	575,152	292,724
Less allowance for doubtful accounts	(65,122)	(65,122)
Accounts receivable, net	**$ 19,379,453**	**$ 16,148,935**
Component unit		
Pledges receivable	1,462,259	4,794,150
Accounts receivable, net	**$ 1,462,259**	**$ 4,794,150**

In addition, the University has student loans receivable in the amount of $13,504,270 and $12,754,951 net of an allowance for uncollectible accounts of $169,461 for both years at June 30, 2007 and 2006, respectively.

The Fund's pledges receivable are included in accounts receivable and other noncurrent assets on the accompanying statements of net assets. The following shows the balance due of unconditional promises to give to the Fund at June 30, 2007 and 2006. Pledges are unrestricted, temporarily restricted, and permanently restricted by donors for property and equipment purposes, scholarships, endowed chairs, or designated departments of the University, and have been reported at their estimated fair values. The Fund estimated the present value of future cash flows using the risk-free rate at the date of the gift. Rates range from 2.50% to 5.16%.

	2007	2006
Pledges receivable in less than one year	$ 1,569,113	$ 4,912,247
Pledges receivable in one to five years	3,122,147	3,389,540
Pledges receivable in more than five years	547,445	456,644
Less:		
Allowance for uncollectible pledges	(343,490)	(250,548)
Present value discount	(733,945)	(783,962)
Net pledges receivable	**$ 4,161,270**	**$ 7,723,921**

(4) Capital Assets

The following table presents the changes in the various capital asset class categories for the year ended June 30, 2007:

	Beginning Balance	Additions	Disposals	Ending Balance
Primary institution				
Nondepreciable capital assets				
Land	$ 8,912,943	$ 200,500	$ -	$ 9,113,443
Mineral collections	3,526,011	518,377	-	4,044,388
Timber holdings	368,394	-	-	368,394
Construction in progress	4,046,553	8,926,612	(10,999,289)	1,973,876
Cost of nondepreciable capital assets	16,853,901	9,645,489	(10,999,289)	15,500,101
Depreciable capital assets				
Land improvements	1,323,100	-	-	1,323,100
Infrastructure	3,233,370	232,473	-	3,465,843
Buildings	280,068,589	10,999,289	-	291,067,878
Equipment	36,506,691	4,000,900	(949,545)	39,558,046
Library books	950,027	145,197	-	1,095,224
Cost of depreciable capital assets	322,081,777	15,377,859	(949,545)	336,510,091
Total cost of capital assets	338,935,678	$ 25,023,348	$ (11,948,834)	352,010,192
Less: accumulated depreciation				
Land improvements	484,769	66,155	-	550,924
Infrastructure	758,959	162,609	-	921,568
Buildings	93,446,128	6,572,371	-	100,018,499
Equipment	22,176,990	4,236,736	(630,420)	25,783,306
Library books	531,661	141,887	-	673,548
Accumulated depreciation	117,398,507	$ 11,179,758	$ (630,420)	127,947,845
Capital assets, net	**$ 221,537,171**			**$224,062,347**
Component unit, capital assets, net	**$ 206,321**	**$ 2,564,789**	**$ (2,735,470)**	**$ 35,640**

The following table presents the changes in the various capital asset class categories for the year ended June 30, 2006:

	Beginning Balance	Net, Additions	Disposals	Ending Balance
Primary institution				
Nondepreciable capital assets				
Land	$ 8,863,943	$ 49,000	$ -	$ 8,912,943
Mineral collections	3,504,869	21,142	-	3,526,011
Timber holdings	368,394	-	-	368,394
Construction in progress	1,787,405	7,176,155	(4,917,007)	4,046,553
Cost of nondepreciable capital assets	14,524,611	7,246,297	(4,917,007)	16,853,901
Depreciable capital assets				
Land improvements	1,323,100	-	-	1,323,100
Infrastructure	2,861,680	371,690	-	3,233,370
Buildings	272,344,648	7,723,941	-	280,068,589
Equipment	33,770,888	3,506,981	(771,178)	36,506,691
Library books	804,698	145,329	-	950,027
Cost of depreciable capital assets	311,105,014	11,747,941	(771,178)	322,081,777
Total cost of capital assets	325,629,625	$ 18,994,238	$ (5,688,185)	338,935,678
Less: accumulated depreciation				
Land improvements	418,614	66,155	-	484,769
Infrastructure	616,319	142,640	-	758,959
Buildings	87,178,653	6,267,475	-	93,446,128
Equipment	18,175,248	4,425,126	(423,384)	22,176,990
Library books	392,793	138,868	-	531,661
Accumulated depreciation	106,781,627	$ 11,040,264	$ (423,384)	117,398,507
Capital assets, net	**$ 218,847,998**			**$ 221,537,171**
Component unit, capital assets, net	**$ 245,891**	**$ (13,870)**	**$ (25,700)**	**$ 206,321**

(5) Other Assets

On September 30, 2006 the University purchased from the Altarum Institute of Ann Arbor the assets of its Environmental and Emerging Technologies Division (EETD) for a price of $1.4 million. The University renamed EETD as the Michigan Tech Research Institute (MTRI). The purchase price exceeded the net value of the assets and liabilities assumed. The excess of $978,544 is considered goodwill and is included in other noncurrent assets on the accompanying Statement of Net Assets as of June 30, 2007. Management will annually analyze the goodwill for impairment.

Cash Surrender Value of Life Insurance

The Fund is the owner and beneficiary of life insurance policies with a death benefit value of approximately $3,091,000 and $2,618,000 at June 30, 2007 and 2006, respectively. The assignments of these policies were received as gifts for various University programs, scholarships, and other designations.

(6) 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 2007 and 2006 fiscal years.

(7) Accounts Payable and other Accrued Liabilities

Accounts Payable and other Accrued Liabilities
As of June 30

	2007	2006
Primary institution		
Accounts payable		
Vendors for supplies and services	$ 3,287,307	$ 3,577,866
Employee benefits	1,254,733	794,724
Construction payables	870,517	2,901,588
Total	**$ 5,412,557**	**$ 7,274,178**
Other accrued liabilities		
Payroll and payroll taxes	$ 4,757,003	$ 4,511,459
Accrued compensated absences	2,964,550	2,706,704
Deposits payable	737,615	720,731
MTRI final payment	322,310	-
Total	**$ 8,781,478**	**$ 7,938,894**
Component unit		
Accounts payable	**$ 790,622**	**$ 160,077**

The University acquired MTRI during fiscal year 2007. See Note 5. The final installment payment of $322,310 is due on October 1, 2007.

(8) Noncurrent Liabilities

Noncurrent Liabilities
As of June 30, 2007

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Primary institution					
General revenue bonds					
Refunding bonds	$ 630,000	$ -	$ 200,000	$ 430,000	$ 210,000
Variable rate demand	10,000,000	-	-	10,000,000	-
General revenue bonds, 2003	4,700,000	-	100,000	4,600,000	100,000
General revenue bonds, 2004A	32,850,000	-	655,000	32,195,000	670,000
General revenue bonds, 2006	-	2,990,000	-	2,990,000	50,000
Total bonds payable	48,180,000	2,990,000	955,000	50,215,000	1,030,000
Bond premium	933,795	21,066	38,067	916,794	-
Capital leases	404,161	-	404,161	-	-
Total debt	49,517,956	3,011,066	1,397,228	51,131,794	1,030,000
Other liabilities					
Insurance and post-employment benefits	3,917,387	588,676	1,002,250	3,503,813	2,306,234
Funds held for others	707,050	-	26,600	680,450	-
Due to the Fund	-	750,000	-	750,000	-
Total	**$ 54,142,393**	**$ 4,349,742**	**$ 2,426,078**	56,066,057	**$ 3,336,234**
Due within one year				(3,336,234)	
Total noncurrent liabilities				**$ 52,729,823**	
Component unit					
Gift annuities payable	3,438,453	563,959	369,374	3,633,038	409,753
Split-interest agreements	677,416	-	41,402	636,014	-
Total	**$ 4,115,869**	**$ 563,959**	**$ 410,776**	4,269,052	**$ 409,753**
Due within one year				(409,753)	
Total noncurrent liabilities				**$ 3,859,299**	

Noncurrent Liabilities
As of June 30, 2006

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Primary institution					
General revenue bonds					
Refunding bonds	$ 820,000	$ -	$ 190,000	$ 630,000	$ 200,000
Variable rate demand	10,000,000	-	-	10,000,000	-
General revenue bonds, 2003	4,800,000	-	100,000	4,700,000	100,000
General revenue bonds, 2004A	32,850,000	-	-	32,850,000	655,000
Total bonds payable	48,470,000	-	290,000	48,180,000	955,000
Bond premium	967,648	-	33,853	933,795	-
Capital leases	837,054	-	432,893	404,161	285,290
Total debt	50,274,702	-	756,746	49,517,956	1,240,290
Other liabilities					
Insurance and post-employment benefits	3,915,649	837,700	835,962	3,917,387	2,540,234
Funds held for others	634,050	73,000	-	707,050	-
Total	**$ 54,824,401**	**$ 910,700**	**$ 1,592,708**	54,142,393	**$ 3,780,524**
Due within one year				(3,780,524)	
Total noncurrent liabilities				**$ 50,361,869**	
Component unit					
Gift annuities payable	2,080,700	1,663,534	305,781	3,438,453	369,374
Split-interest agreements	582,000	95,416	-	677,416	-
Total	**$ 2,662,700**	**$ 1,758,950**	**$ 305,781**	4,115,869	**$ 369,374**
Due within one year				(369,374)	
Total noncurrent liabilities				**$ 3,746,495**	

Bonds

The principal and interest on 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.

Outstanding Balances on University Issued Bonds
As of June 30

		Outstanding	
	Total issued	2007	2006
General revenue refunding bonds, series 1993, (2.8% – 5.1%) final maturity 2008	$ 3,585,000	$ 430,000	$ 630,000
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	4,600,000	4,700,000
General revenue bond series 2004(A), (2% – 5%) final maturity 2034	32,850,000	32,195,000	32,850,000
General revenue bond series 2006, (4% – 5%) final maturity 2037	2,990,000	2,990,000	-
Total bonds payable	65,325,000	50,215,000	48,180,000
Plus: unamortized net premium	1,036,674	916,794	933,795
Bonds payable, net	**$ 66,361,674**	**$ 51,131,794**	**$ 49,113,795**

The University's General Revenue Refunding Bonds, Series 1993 were issued in the amount of $3,585,000 to refinance previously issued bonds. The bonds are rated Aaa by Moody's and Aaa by Standard & Poor's due to a municipal bond insurance policy.

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 2009. As of June 30, 2007 and 2006, the defeased bonds outstanding were $415 thousand and $600 thousand, respectively.

Principal and Interest Amounts Due

For Fiscal Years Ending June 30

Fiscal Year	Principal	Interest	Total
2008	$ 1,030,000	$ 2,100,018	$ 3,130,018
2009	1,050,000	2,069,208	3,119,208
2010	855,000	2,041,142	2,896,142
2011	870,000	2,016,123	2,886,123
2012	895,000	1,992,686	2,887,686
Total 5 years	4,700,000	10,219,177	14,919,177
2013 to 2017	6,125,000	9,433,983	15,558,983
2018 to 2022	14,955,000	6,945,660	21,900,660
2023 to 2027	7,595,000	5,006,635	12,601,635
2028 to 2032	9,720,000	2,858,048	12,578,048
2033 to 2037	7,120,000	516,230	7,636,230
Total bonds	**$50,215,000**	**$34,979,733**	**$85,194,733**

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 repriced 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. The bonds are rated Aaa/A-1+ by Standard & Poor's and Aaa by Fitch due to a municipal bond insurance policy.

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 were 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. The bonds are rated Aaa by Moody's and Aaa by Standard & Poor's due to a municipal bond insurance policy. The bonds also received an underlying rating of A1 from Moody's.

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. The bonds are rated Aaa by Moody's and Aaa by Standard & Poor's due to a municipal bond insurance policy. The bonds also received an underlying rating of A1 from Moody's.

During fiscal year 2006, the University's Board of Control approved the issuance of bonds for the general campus renovation project and the addition of a child-care center. On July 19, 2006, the University issued $2.990 million General Revenue Bonds, Series 2006. These bonds bear interest at an average rate of 4.7% and mature at various dates from October 2007 through October 2036. These General Revenue Bonds are limited obligations of the bond payable from and secured solely by an irrevocable pledge of General Revenues as provided in the Indenture. These bonds are rated "Aaa" by Moody's Investors Service due to a municipal bond insurance policy. The bonds received an underlying rating of A1 from Moody's.

Capital and Operating Lease Obligations

The University had entered into capital lease agreements for the purchase of office equipment and telecommunications switching equipment. The lease agreement was paid off during fiscal year 2007. The capitalized cost of the equipment was $280.6 thousand and the net book value of the equipment was $234.9 thousand at June 30, 2006.

Commitments and related rental expenses under operating leases with initial or remaining noncancelable lease terms in excess of one year as of and for the years ended June 30, 2007 and 2006 are insignificant.

At the June 2007 meeting, the Board of Control of Michigan Tech approved a four-year lease for the purchase of $1.069 million computer equipment. The lease has a fixed interest rate of 4.4% for the term of the contract. Annual payments of $232,743 will begin in August 2007.

The Fund leases its office space. The term of this lease commenced on October 1, 2003, and will terminate on September 30, 2008. Minimum future rental obligation under the noncancelable operating lease for the next year is $136,147.

Other Liabilities

The University is committed to repay the Fund for the advance used to purchase MTRI. $750,000 of the advance was received during fiscal year 2007 and is included as a liability on the accompanying statement of net assets. The balance of $250,000 will be received during fiscal year 2008. The University shall deliver no less than (i) a cumulative total of $400,000 to the Fund by September 30, 2008; (ii) a cumulative total of $900,000 to the Fund by September 30, 2010, and (iii) a cumulative total of $1,000,000 to the Fund by September 30, 2011.

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 Uni-trusts:*** Donors receive income, generally payable quarterly, at a predetermined percentage rate of their uni-trust'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 contract 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 $4.445 million and $3.170 million at June 30, 2007 and 2006, 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, 2007 and 2006, from these types of agreements are as follows:

	2007	2006
Assets — cash and marketable securities	$8,361,891	$7,364,900
Liabilities to other beneficiaries	4,269,052	4,115,869

Included with contribution revenue on the statements of revenue, expenses, and changes in net assets for the years ended June 30, 2007 and 2006, were $1.306 million and $560 thousand, respectively, in contributions from split-interest agreements and $124 thousand and $(331) 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.

(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 Statements 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, 2005	$ 1,221,396	$ 50,000	$ 355,900	$ 1,627,296
Claims incurred, including changes in estimates	11,051,280	147,605	371,595	11,570,480
Less: claims paid	(10,984,366)	(147,605)	(264,995)	(11,396,966)
Claims liability — June 30, 2006	1,288,310	50,000	462,500	1,800,810
Claims incurred, including changes in estimates	11,979,305	118,745	242,223	12,340,273
Less: claims paid	(12,041,986)	(118,745)	(277,269)	(12,438,000)
Claims liability — June 30, 2007	**$ 1,225,629**	**$ 50,000**	**$ 427,454**	**$ 1,703,083**

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 return the surplus, credit the surplus toward future payments, or provide for increased coverage. 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) Unrestricted Net Assests

Unrestricted net assets are not subject to externally imposed constraints. However, these net assets are subject to internal designations. Unrestricted net assets include amounts designated for specific purposes by action of the Board of Control or management or may otherwise be subject to pending contractual commitments with external parties. All unrestricted net assets are internally designated for programmatic initiatives or capital-asset renewals.

Unrestricted Net Assets Summary

As of June 30

	2007	2006
Unrestricted		
Capital projects and repairs	$ (480,709)	$ (1,025,048)
Auxiliary activities	8,122,457	9,361,936
Designated funds	12,704,216	11,711,149
Uncommitted	(9,812,470)	(8,318,750)
Total unrestricted net assets	**$ 10,533,494**	**$ 11,729,287**

(11) 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 noncontributory 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). This funding policy calls for continued contributions for active members at 6.38% 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 2007 and 2006 rates were 6.85% and 3.65%, respectively. The University is also required to pay a monthly contribution based on the number of retirees who are covered on the Retirement System's health plan. These contribution requirements, which depend on the level of MPSERS covered payroll, were 6.55% for fiscal year 2007. 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, P.O. Box 30170, 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:

	2007	2006	2005
University contributions to MPSERS	$ 1,547,762	$ 1,116,535	$ 957,521
MPSERS retiree health insurance	2,501,261	2,530,395	2,404,463
MPSERS unfunded pension costs	462,842	219,150	113,603
Payroll covered under MPSERS	12,051,932	11,753,350	11,464,091
University contributions to TIAA-CREF	6,687,352	6,112,146	5,738,435
Payroll covered under TIAA-CREF	52,740,928	48,432,776	45,610,747

The University subsidizes a medical benefits plan for TIAA-CREF eligible University employees who retired between October 19, 1992 and June 30, 2006. The University currently 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. In 2007, the retirees' contribution for health-care benefits increased to 100%. From 2005 to 2006, the retirees' contribution for health-care benefits increased from 80% to 90%.

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 $0 and $108 thousand for the years ended June 30, 2007 and 2006.

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 $1.189 million and $1.373 million for the years ended June 30, 2007 and 2006, respectively.

(12) Federal Direct Loan Program

The University distributed $17.838 million and $17.947 million for the years ended June 30, 2007 and 2006, respectively, for student loans through the U.S. Department of Education ("DoED") federal direct-lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net assets includes a receivable for DoED funding of $94 thousand and $117 thousand at June 30, 2007 and 2006, respectively.

(13) 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, 2007 and June 30, 2006 the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2007 and June 30, 2006. 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 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) provided $24.7 million for the construction and renovation costs. The University provided the remainder. The University has executed a deed to the property to the SBA and a lease of the building from the State of Michigan 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.

(14) Functional Classification of Operating Expenses

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

2007	Compensation and Benefits	Supplies and Services	Student Financial Support	Depreciation	Total
Instruction	$ 39,975,030	$ 5,818,163	$ 2,541,627	$ -	$ 48,334,820
Research	28,397,476	12,175,104	2,189,512	-	42,762,092
Public service	2,499,608	2,392,796	(10,000)	-	4,882,404
Academic support	7,020,911	4,500,334	26,156	-	11,547,401
Student services	4,513,163	2,208,005	78,654	-	6,799,822
Institutional support	14,620,282	6,238,445	-	-	20,858,727
Student financial support	1,014,679	176,857	1,402,481	-	2,594,017
Operations and maintenance of plant	5,334,893	5,467,314	-	-	10,802,207
Sales and services of departmental activities	5,715,298	5,500,725	-	-	11,216,023
Student residents	5,333,147	6,000,511	-	-	11,333,658
Depreciation	-	-	-	11,179,758	11,179,758
	$ 114,424,487	**$ 50,478,254**	**$ 6,228,430**	**$ 11,179,758**	**$ 182,310,929**

2006	Compensation and Benefits	Supplies and Services	Student Financial Support	Depreciation	Total
Instruction	$ 38,559,398	$ 6,095,282	$ 2,350,254	$ -	$ 47,004,934
Research	23,452,642	8,331,473	1,980,677	-	33,764,792
Public service	2,578,434	2,139,679	131,171	-	4,849,284
Academic support	6,696,539	4,021,666	43,348	-	10,761,553
Student services	4,286,388	2,603,950	84,226	-	6,974,564
Institutional support	13,256,443	4,756,201	14,696	-	18,027,340
Student financial support	1,055,297	104,092	59,180	-	1,218,569
Operations and maintenance of plant	4,898,252	5,485,896	-	-	10,384,148
Sales and services of departmental activities	5,776,533	7,292,726	-	-	13,069,259
Student residents	4,641,466	3,630,294	-	-	8,271,760
Depreciation	-	-	-	11,040,264	11,040,264
	$ 105,201,392	**$ 44,461,259**	**$ 4,663,552**	**$ 11,040,264**	**$ 165,366,467**

(15) Subsequent Events

On August 15, 2006 the University's primary government (The State of Michigan) passed its Higher Education Bill, PA 340. In this bill the University was appropriated $49,219,300 in State appropriations. On June 6, 2007, the State of Michigan enacted Public Act 17 of 2007 which had two components that affected the University. The first item was titled "Operations – operations reduction" in the amount of $718,200. This amount was not recorded by the University as appropriation revenue as this was communicated to management at the University by the State of Michigan that this was a permanent reduction in the University's appropriations. The second item was titled "Operations – payment delay" in the amount of $4,474,400. This amount was recorded by the University as a State Appropriation Receivable in the accompanying Statement of Net Assets and State Appropriations Revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Assets. Senate Bill 772, enacted October 1, 2007, authorized the State of Michigan to pay the delayed appropriations as the appropriations were defined in the bill as "predicated on activities, programs or projects for which appropriations were authorized for during the State's fiscal year ended September 30, 2007". The University received the payment of the delayed appropriations on October 16, 2007 as authorized by Senate Bill 772. As a result of the receipt of this payment, management has elected to record the appropriations receivable and the related revenue at June 30, 2007.