

STATE OF MICHIGAN FINANCIAL SCHEDULES

MICHIGAN TECHNOLOGICAL UNIVERSITY

YEAR ENDED JUNE 30, 2006

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for the Year Ended June 30, 2006**

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

September 19, 2006

Board of Trustees
Michigan Technological University
Houghton, Michigan

We have audited, 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, the basic financial statements of **Michigan Technological University** for the year ended June 30, 2006 (not presented herein), and have issued our report dated September 19, 2006 thereon, which expressed an unqualified opinion on those statements. As stated in our report, we did not audit the financial statements of the Michigan Tech Fund, a discretely presented component unit of **Michigan Technological University**, which statements were audited by other auditors whose report thereon was furnished to us, and our opinion, insofar as it relates to the amounts included for the Michigan Tech Fund, was based solely on the report of the other auditors.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information (as listed in the table of contents) is presented for purposes of additional analysis as a supplement to the basic financial statements noted above, and is presented solely for the purpose of conforming the basic financial statements of the University, a component unit of the State of Michigan, with the State of Michigan Comprehensive Annual Financial Report format. Such financial information, which is not a required part of the basic financial statements, has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of **Michigan Technological University**, the State of Michigan Department of Management and Budget, and the State of Michigan Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERISTY
SCHEDULE OF NET ASSETS
JUNE 30, 2006

Schedule of Net Assets

ASSETS

Current Assets:	
Cash	\$ 14,682,377
Amounts due from primary government	9,786,584
Amounts due from federal government	2,767,241
Inventories	1,590,326
Investments	41,192,704
Other current assets	8,992,481
Total current assets	79,011,713
Restricted Assets:	
Cash and equivalents	5,071,167
Investments	39,625,450
Mortgages and loans receivable	12,754,951
Investments	6,159,751
Capital assets (net)	
Land and other non depreciable assets	12,960,739
Buildings, equipment, and other depreciable assets	322,369,599
Less: accumulated depreciation	(117,633,399)
Construction in progress	4,046,553
Total capital assets	221,743,492
Other noncurrent assets	7,028,812
Total assets	\$ 371,395,336

LIABILITIES

Current Liabilities:	
Accounts payable and other liabilities	\$ 14,651,124
Amounts due to primary government	695,117
Bonds and notes payable	955,000
Interest payable	407,000
Deferred revenue	2,340,598
Current portion of other long-term liabilities	3,194,898
Total current liabilities	22,243,737
Bonds and notes payable	47,225,000
Noncurrent portion of other long-term liabilities	6,883,364
Total other long-term liabilities	54,108,364
Total liabilities	76,352,101

NET ASSETS

Invested in capital assets, net of related debt	170,548,730
Restricted for:	
Education	66,651,533
Funds held as permanent investments:	
Nonexpendable	43,038,050
Unrestricted Net Assets	14,804,922
Total net assets	295,043,235
Total liabilities and net assets	\$ 371,395,336

See notes to State of Michigan financial schedules

STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERISTY
SCHEDULE OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Schedule of Activities

Expenses	\$ 170,180,128
Program Revenues	
Charges for Services	72,913,255
Operating Grants and Contributions	45,582,680
Capital Grants and Contributions	2,541,284
Net Expense	<u>(49,142,909)</u>
General Revenues	
Interest and Investment Earnings	3,641,279
Payments from the State of Michigan	48,403,799
Change in Net Assets	<u>2,902,169</u>
Net Assets Beginning of Year	<u>292,141,066</u>
Net Assets End of Year	<u><u>\$ 295,043,235</u></u>

See notes to State of Michigan financial schedules

Notes to State of Michigan Financial Schedules

Summary of Significant Accounting Policies

Reporting Entity

Michigan Technological University (“the University”) is an institution of higher education and is considered to be a discrete component unit of the State of Michigan because its Board of Trustees is appointed by the Governor. Accordingly, the University’s financial statements are included in those of the State. 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 certain University employees.

As required by Governmental Accounting Standards Board Statement No. 39 (see discussion of adoption of this accounting standard below) the University’s basic financial statements include the financial statements of both the University and its component unit, the Michigan Tech Fund (the “Fund”) which is a legally separate tax-exempt component unit of the University. The Fund acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Fund’s Board of Directors includes members of the University’s Board of Control, certain officers of the University and other community representatives elected by the Fund’s Board. Although the University does not necessarily control the timing or amount of receipts from the Fund, the majority of resources, or income earned thereon, the Fund 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.

Basis of Presentation

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

In accordance with Governmental Accounting Standards Board (“GASB”) *Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that Use Proprietary Fund Accounting*, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, 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.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

Governmental Accounting Standards Board Statement No. 39

Effective for the fiscal year ended June 30, 2004, the university adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which resulted in the inclusion of the financial statements of the Michigan Tech Fund as a discretely presented component unit in the financial statements of the University.

The Fund's financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and, accordingly, a reporting model different from that of the University is used.

Affiliated Organization

Not applicable since GASB 39 was adopted at June 30, 2004

Governmental Accounting Standards Board Statement No. 40.

Effective for the fiscal year ended June 30, 2005, the University adopted the provisions of the GASB issued Statement No. 40 — "*Deposit and Investment Risk Disclosures*." This statement is an amendment of the GASB Statement No. 3, which classified deposits and investments into three categories of custodial credit risk.

This Statement addresses the common deposit and investment risks related to credit risk, concentration of credit risk, interest risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

This Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

Cash and Cash Equivalents and Investments

Authorizations

The University utilizes the "pooled cash" method of accounting for substantially all of its cash and cash equivalents.

The University investment policies are governed and authorized by University Bylaws and the Board of Control.

- Interest rate risk -** The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- Credit risk -** Investment policies for cash and cash equivalents, as set forth by the Board of Control, authorize the University to invest, with limitations, in commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services. Investments may also be made in securities of the U.S. Treasury and Federal agencies, and in time savings accounts.
- University policies regarding investments and marketable securities as set forth by the Board of Control, authorize the University to invest in U.S. Treasury Obligations; commercial paper rated within the two highest classifications of prime as established by at least one of the standard rating services; or Federal agency securities certificates of deposit issued by FDIC insured banks; or an NCUA credit union member; or Eurodollar time deposits in Tier 1, 2, or 3 banks.
- Custodial credit risk (deposits) -** For deposits, custodial credit risk is present if the University's deposits would not be covered by depository insurance. State law does not require and the University does not have a policy for deposit custodial credit risk. Deposits were reflected in the accounts of the banks at \$14,641,619 and \$40,105,195 as of June 30, 2006 and 2005, respectively. \$2,808,271 and \$3,901,210 of the banks deposits balances was exposed to custodial credit risk because it was uninsured and uncollateralized, as of June 30, 2006 and 2005, respectively.
- Custodial credit risk (investments) -** For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investments pools and in open end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University therefore has no custodial credit risk in its investment portfolio.
- Concentration of credit risk -** The University investments are in mutual funds, so there is no concentration of credit risk issue.
- Foreign currency risk -** The University has no foreign investments.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

Cash and Cash Equivalents

Cash and cash equivalents, which are held in the University's and the Fund's name, consist of the following amounts at June 30, 2006:

Disbursement accounts (deposits)	\$ 15,726,008
Government money market funds	4,027,536
Total cash and cash equivalents	<u><u>\$ 19,753,544</u></u>

Deposits

The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the University evaluates each financial institution it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

	<u>2006</u>
Insured by FDIC	\$ 502,391
Uninsured but collateralized	16,402,124
Uninsured and uncollateralized	2,808,271
Total bank balances	<u><u>\$ 19,712,786</u></u>

Investments

The disbursement accounts (deposits) and Government Money Market Funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the University's investment policy.

Investments of the component unit carried at fair value, at June 30, 2006, are categorized as follows:

	Fair market value	<u>Investment Maturities (in Years)</u>			
		Less than 1	1-5	6-10	More than 10
Deposits:					
Government money market accounts	\$ 1,477,485	\$ 1,477,485	\$ -	\$ -	\$ -
Investments:					
Government securities	1,677,951	-	1,677,951	-	-
Corporate bonds and notes	9,702	-	9,702	-	-
Equities	828,428	-	-	-	828,428
Mutual funds	72,114,881	72,114,881	-	-	-
Other Investments	12,346,943	-	-	-	12,346,943
Total Investments	<u>\$ 88,455,390</u>	<u>\$ 73,592,366</u>	<u>\$ 1,687,653</u>	<u>\$ -</u>	<u>\$ 13,175,371</u>
Less Investments Reported as "Cash" on Statement of Net Assets	<u>(1,477,485)</u>				
Total Investments	<u><u>\$ 86,977,905</u></u>				

As Reported on the Statement of Net Assets

Current investments	\$ 41,192,704
Noncurrent restricted investments	39,625,450
Noncurrent investments	6,159,751
Total Investments	<u><u>\$ 86,977,905</u></u>

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

Capital Assets

The following table summarizes, by major class of asset, the recorded costs of capital assets as of June 30, 2006:

<u>Classification</u>	<u>Amount</u>
Nondepreciable capital assets	
Land	\$9,066,334
Mineral collections	3,526,011
Timber holdings	368,394
Cost of nondepreciable capital assets	<u>12,960,739</u>
Depreciable capital assets	
Land improvements	1,323,100
Infrastructure	3,233,370
Buildings	280,068,589
Equipment	37,744,540
Cost of depreciable capital assets	<u>322,369,599</u>
Total cost of capital assets	335,330,338
Less: accumulated depreciation	
Land improvements	484,769
Infrastructure	758,959
Buildings	93,446,128
Equipment	22,943,543
Accumulated depreciation	<u>117,633,399</u>
Capital assets being depreciated, net	217,696,939
Construction in progress	4,046,553
Capital assets, net	<u><u>\$ 221,743,492</u></u>

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

Pension Benefits and Other Post-Employment Benefits

The following table summarizes retirement plan information as of June 30, 2006:

Covered Payroll

Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF)	\$ 48,432,776
Michigan Public School Employees' Retirement Fund (MPSERF)	11,753,350

Total covered payroll	<u><u>\$ 60,186,126</u></u>
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Contributions

Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF)	\$ 6,112,146
Michigan Public School Employees' Retirement Fund (MPSERF)	3,866,080

Total contributions	<u><u>\$ 9,978,226</u></u>
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Debt Service Requirements on Notes and Bonds Outstanding

Bonded Debt

Principal and interest on the bonds are payable only from certain general revenues. The obligations are generally callable. The following table summarizes debt service requirements:

Principal and Interest Amounts Due

For Fiscal Years Ending June 30

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 955,000	\$ 1,993,231	\$ 2,948,231
2008	980,000	1,967,331	2,947,331
2009	1,000,000	1,938,521	2,938,521
2010	805,000	1,912,455	2,717,455
2011	820,000	1,889,436	2,709,436
Total 5 Years	<u>4,560,000</u>	<u>9,700,974</u>	<u>14,260,974</u>
2012 to 2016	4,535,000	9,010,636	13,545,636
2017 to 2021	15,415,000	15,901,351	31,316,351
2022 to 2026	5,470,000	4,932,065	10,402,065
2027 to 2031	8,275,000	3,021,482	11,296,482
2032 to 2036	9,925,000	743,543	10,668,543
Total bonds payable	<u><u>\$ 48,180,000</u></u>	<u><u>\$ 43,310,051</u></u>	<u><u>\$ 91,490,051</u></u>

There were no advance refunding or bond defeasances entered into by the University during the year ended June 30, 2006.

There was no interest rate exchange agreements entered into during the year ended June 30, 2006.

NOTES TO STATE OF MICHIGAN FINANCIAL SCHEDULES
MICHIGAN TECHNOLOGICAL UNIVERSITY

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 2006 fiscal year.

Leases

The University has entered into capital lease agreements for the purchase of office equipment and telecommunications switching equipment. The capitalized cost of the equipment was \$280,623 and the net book value of the equipment was \$234,891 at June 30, 2006.

Scheduled Maturities of Capital Leases
For Fiscal Years Ending June 30

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the year ended June 30, 2006 is insignificant.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 285,290	\$ 9,289	\$ 294,579
2008	118,871	1,016	119,887
Total lease payments	\$ 404,161	\$ 10,305	\$ 414,466

Fund Deficits

Primary Institution

The General Fund has a deficit of \$9,417,143. This deficit amount resulted from a \$10,050,624 cumulative deficit from prior years' operations and a fiscal year 2006 net income of \$633,481.

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.

Risk Management

The State university component units participate with the other Michigan public universities in the Michigan Universities Self-Insurance Corporation ("MUSIC"), which provides indemnity to its members against comprehensive general liability, errors and omissions losses, and property damage commonly covered by insurance. Loss coverages for comprehensive general liability and property are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer, and commercial carriers, covering the third layer. For all policy years through June 30, 1993, errors and omissions coverage was structured on a two-layer basis with no excess insurance provided. Effective July 1, 1993, MUSIC obtained excess insurance coverage from commercial carriers covering the third layer. For automobile liability there is no member retention. Comprehensive general liability, property and automobile liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claim made basis.

Subsequent Events

During fiscal year 2006, the Board of Control of Michigan Tech 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 \$2,990,000 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 Board, payable from and secured solely by an irrevocable pledge of General Revenues as provided in the Indenture.