MichiganTech

Michigan Technological University
Financial Report
Year Ended June 30, 2006

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As of June 30, 2006

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LETTER FROM THE PRESIDENT

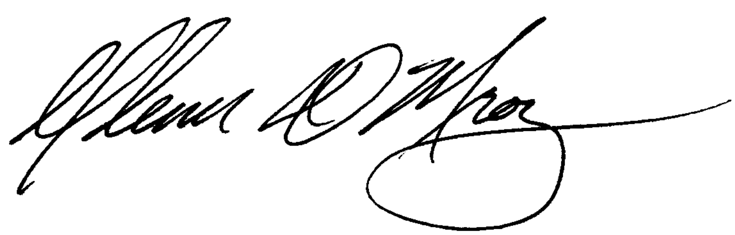
Our mission at Michigan Tech is to "prepare students to create the future." We will do this by growing as a premier research university of international stature, delivering education, new knowledge and innovation for the needs of our world. Three simple goals define the path forward. These revolve around people, distinctive programs, and the creativity, scholarship, innovation and research that are the essential ingredients of a vibrant university community.

The first and most important is having the right people; we have to continue to attract and support a world-class and diverse faculty, staff and student population. We are currently doing this through an outstanding work and learning environment that promotes diversity which is enhanced by exceptional physical facilities.

The second area to contribute to success in our vision is programming which must provide a distinctive educational experience. The delivery of a rigorous discovery-based learning experience, grounded in science, engineering, technology, sustainability, and providing innovation opportunities for both graduate and undergraduate students enriches our student's educational experience. It enhances the teaching environment for our faculty and helps to recruit and retain top-notch faculty.

Our third area of emphasis is a combination of research, scholarship and creativity. We are currently increasing our research outreach by about 25% per year and we are already ranked among the top 400 research universities in the world! We'll continue this progress and go still further; by establishment of world-class interdisciplinary research, scholarship and innovations in science, engineering and technology that promotes sustainable economic development not only in Michigan, but globally as well.

Sincerely,



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

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UNIVERSITY MISSION

We prepare students to create the future.

UNIVERSITY VISION

Michigan Tech will be a national university of choice.

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

UNIVERSITY GUIDING PRINCIPLES

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

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

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

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

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

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

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

University Statistics

Introduction

In the April 2006 U.S. News & World Report's "America's Best Graduate Schools 2007" has ranked five Michigan Tech graduate programs among the best in the country. The programs include Earth Sciences, Environmental Engineering, Mechanical Engineering, Civil Engineering and Materials Science and Engineering. Michigan Tech is also ranked among the top half of all 249 national universities in U.S. News & World Reports Americas Best Colleges, and is ranked a "tech powerhouse" by the Princeton Review's "Best 361 Colleges." Michigan Tech is also ranked among the top 500 universities in the world by Shanghai Jiaotong University. Michigan Tech's 6,500 students explore engineering, the sciences, computing, environmental studies, business, technology, and arts and human sciences. Together, faculty and students explore the boundaries of knowledge.

Students come to Michigan Tech from every state and more than 80 countries around the world. There are more than 150 student groups to choose from, including academic, ethnic, cultural, social fraternities/sororities, student government, honor society, media, religious, service, special interest, sports organizations and traditional events. Each year, Winter Carnival features huge snow statues, special events, and NCAA Division I men's ice hockey for our Husky fans. We also celebrate autumn's beauty with Keweenaw-Day, Homecoming with our traditional hobo theme, diversity with the Parade of Nations, and sunshine with Spring Fling.

Students have access to virtually endless forests, rivers, streams, bike trails, cross-country ski trails, and other outlets for skiing, swimming, kayaking, hunting, fishing, biking, snowmobiling, snowboarding, camping, and pretty much anything else in terms of outdoor recreation. Away from campus, you'll find students hiking the Porcupine Mountains and Lake of the Clouds, camping on the beach of Lake Superior, going on mine tours, checking out the Northern Lights, or taking in the SCCA Road Rally in which cars race through back roads in the Lake Superior Pro Rally. Michigan Tech also provides students access to the University's own 18-hole golf course and our own ski hill, Mont Ripley. Both facilities are located just minutes from campus and offer students discounted season passes.

Enrollment

The national average American College Testing (ACT) scores for entering University freshmen for 2005 was 20.9. The University's entering freshmen had average ACT scores of 25.10 as indicated on the Average ACT table shown below. Admission is open to all students on a competitive basis. The following tables show that 1,792 (41%) of the 4,340 accepted students enrolled during the summer and fall of 2005. During the fall 2005 semester, Michigan residents accounted for approximately 66% of the University's enrollment.

Accepted Students*

Summer and Fall Terms

	2005	2004	2003	2002	2001
Freshman	3,326	2,856	2,861	2,716	2,785
Transfer Students	337	299	322	372	387
Graduate Students	677	632	802	738	625
Total	**4,340**	**3,787**	**3,985**	**3,826**	**3,797**

Average ACT Scores

Incoming Freshmen, Fall

2005	25.10
2004	25.35
2003	25.36
2002	25.46
2001	25.31

Enrolled Students*

Summer and Fall Terms

	2005	2004	2003	2002	2001
New Freshmen	1,327	1,227	1,187	1,190	1,200
New Transfer Students	213	198	181	215	234
Graduate Students	252	223	223	206	185
Total	**1,792**	**1,648**	**1,591**	**1,611**	**1,619**

The enrollment of full time equivalent students at the University has increased over the last five years. Over that same period, the University has seen an increase in enrolled freshman and graduate students. This has been a priority of the University and is a part of our Strategic Plan.

Enrollment by Residency*

Fall 2001 to Fall 2005

	2005	2004	2003	2002	2001
Resident	4,241	4,487	4,531	4,704	4,766
Non-Resident	1,551	1,445	1,341	1,253	1,187
International	596	608	693	668	657
Total	**6,388**	**6,540**	**6,565**	**6,625**	**6,610**

Full-Time Equivalent Students by Residency*

Fall 2001 to Fall 2005

	2005	2004	2003	2002	2001
Resident	3,964	3,877	3,853	3,872	3,890
Non-Resident	1,484	1,375	1,276	1,202	1,101
International	572	547	613	598	592
Total	**6,020**	**5,799**	**5,742**	**5,672**	**5,583**

*Does not include Distance Learning

Degrees Awarded

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

	2005	2004	2003	2002	2001
Associate	28	24	38	35	50
Bachelor	1,048	1,042	975	996	1,074
Masters	185	181	163	182	145
Doctorate	44	42	38	42	21
Total	**1,305**	**1,289**	**1,214**	**1,255**	**1,290**

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, 2006, 2005 and 2004. 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 recent GASB pronouncement, the Fund is a component unit of the University.

Financial Highlights

For the Fall of 2005, enrolled freshmen increased by 8.1%, and enrolled transfer students increased by 7.6%.

There were $43.6 million dollars of research awards in fiscal year 2006. The University has the fastest growing research program among the state's four research universities, according to the latest figures compiled by the National Science Foundation.

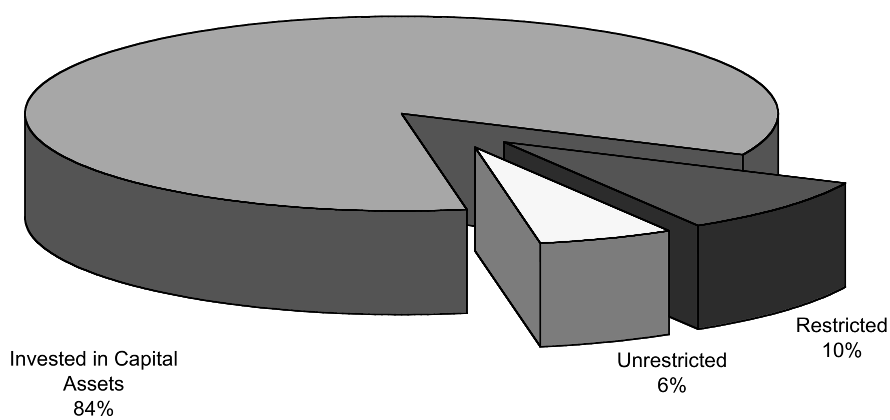
The University strengthened its unrestricted net assets by $653 thousand during the fiscal year ended June 30, 2006.

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. These changes, to net assets, also need to be considered with non-financial facts such as enrollment levels and condition of the facilities.

The University's current assets of $33.0 million covered the current liabilities of $21.7 million. The current ratio decreased to 1.52 in fiscal year 2006 from 2.04 in fiscal year 2005. The 2005 ratio of 2.04 decreased from 2.92 in fiscal year 2004. These ratios decreased because we used our cash for capital improvement projects.

2006 Net Assets



Condensed Statements of Net Assets
As of June 30

	2006	2005	2004
Assets			
Current assets	$ 32,959,599	$ 40,146,690	$ 61,424,536
Noncurrent assets:			
Other	18,914,702	16,936,413	11,554,231
Capital assets, net	221,537,171	218,847,998	191,697,619
Total assets	**$ 273,411,472**	**$ 275,931,101**	**$ 264,676,386**
Liabilities			
Current liabilities	$ 21,714,286	$ 19,706,525	$ 21,068,609
Noncurrent liabilities	50,361,869	51,951,511	52,618,820
Total liabilities	**$ 72,076,155**	**$ 71,658,036**	**$ 73,687,429**
Net assets			
Invested in capital assets, net of related debt	$ 170,342,409	$ 173,479,328	$ 168,769,965
Restricted for expendable purposes	19,263,621	19,717,949	13,290,951
Unrestricted	11,729,287	11,075,788	8,928,041
Total net assets	**$ 201,335,317**	**$ 204,273,065**	**$ 190,988,957**

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. 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. At June 30, 2004, construction in progress consisted of work being done on two major projects, the Wadsworth Hall renovation and the Integrated Learning Center (ILC) building.

Capital and Debt Activities
As of June 30

Project	2006	2005	2004
Wadsworth Hall renovation	$ -	$ 1,530,614	$ 11,160,634
ILC (Phase I)	-	-	17,543,265
General campus renovation project	3,800,389	-	-
A. E. Seaman Museum project	225,003	-	-
Other projects			
Small projects	21,161	256,791	272,453
Total	$ 4,046,553	$ 1,787,405	$ 28,976,352

	Campus renovation	Seaman Mineral Museum	Other	Total
Estimated cost of construction	$ 9,900,000	$ 1,516,327	$ 2,543,348	$ 13,959,675
Less: costs incurred through June 30, 2006	(3,800,389)	(225,003)	(21,161)	(4,046,553)
Estimated cost to complete	**$ 6,099,611**	**$ 1,291,324**	**$ 2,522,187**	**$ 9,913,122**
Expected sources of financing:				
State Building Authority funds	$ 6,099,611	$ -	$ 1,048,459	$ 7,148,070
Federal funds	-	1,291,324	-	1,291,324
University funds and other sources	-	-	1,473,728	1,473,728
Estimated financing	**$ 6,099,611**	**$ 1,291,324**	**$ 2,522,187**	**$ 9,913,122**

University liabilities increased by $418 thousand to $72.1 million at June 30, 2006. Long-term debt of $48.3 million, consisting of bonds payable and capitalized lease obligations, is the largest liability at June 30, 2006. The Wadsworth Hall renovation bonds are rated "AAA" by Standard and Poor's and "A1" by Moody's. The University's previously issued bonds have been rated "AAA" by both Fitch IBCA and Standard & Poor's rating agencies. This is the highest achievable rating based on the scale used in university bond ratings. The University's capacity to meet its financial commitment on its obligations is looked upon as extremely strong based upon this bond rating. For the year 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.

The University provides certain medical benefits for retirees. The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which will require the University to fund this benefit expense in fiscal year ending June 30, 2008. While the University is not currently required to record this liability for future benefits, an actuarial study estimates this liability at $42.0 million, presuming a continuation of the current level of benefits.

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

Net Assets

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

Net assets invested in capital assets represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The $3.1 million decrease is primarily due to depreciation expense being greater than the annual construction. In fiscal year 2005 the $4.7 million increase reflected the receipt of gifts and capital appropriations in excess of the annual depreciation expense.

Net Assets Summary
As of June 30

	2006	2005	2004
Invested in capital assets	$ 170,342,409	$ 173,479,328	$ 168,769,965
Restricted - expendable			
Gifts and sponsored programs	1,801,945	1,855,003	1,386,929
Capital projects	(6,626,107)	(6,897,438)	(12,700,954)
Debt service	10,574,379	11,294,296	11,398,161
Student loans	13,513,404	13,466,088	13,206,815
Total restricted net	19,263,621	19,717,949	13,290,951
Unrestricted			
Capital projects and repairs	(1,025,048)	(466,052)	212,974
Auxiliary activities	9,361,936	7,479,190	7,773,500
Designated funds	11,711,149	12,000,768	11,605,798
Uncommitted	(8,318,750)	(7,938,118)	(10,664,231)
Total unrestricted net assets	11,729,287	11,075,788	8,928,041
Total net assets	**$ 201,335,317**	**$ 204,273,065**	**$ 190,988,957**

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

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes 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:

	2006	2005
Invested in capital assets	$ 206,321	$ 245,891
Temporarily restricted net assets		
Capital projects and equipment	3,754,826	3,944,689
Departmental support	17,073,986	17,441,753
Remainder interests in split-interest agreements	1,924,788	2,539,344
Net appreciation on donor-restricted endowment funds	24,634,312	19,742,094
	47,387,912	43,667,880
Permanently restricted net assets	43,038,050	42,012,501
Unrestricted		
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	(497,605)	(511,053)
Undesignated	3,573,240	2,452,782
	$ 3,075,635	$ 1,941,729

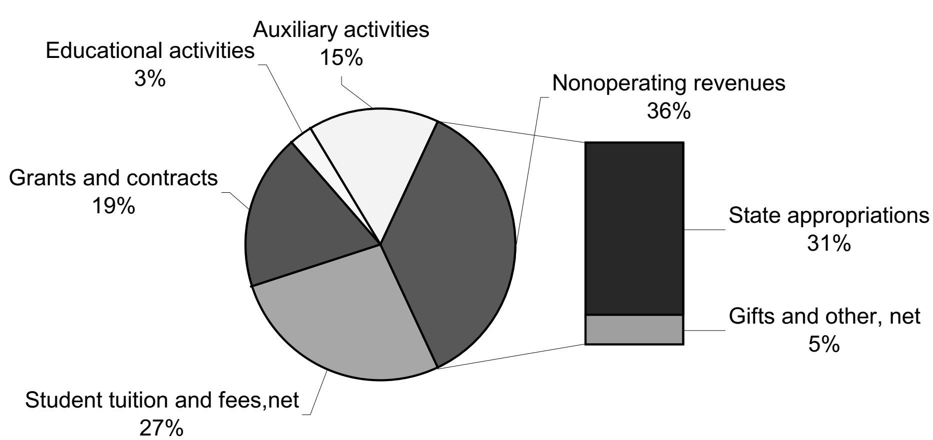
Condensed Statements of Revenues, Expenses, and Changes in Net Assets

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

The University's fiscal year 2006 ($2.9 million decrease in net assets) is $16.2 million less than the fiscal year 2005 net increase of $13.3 million. The comparative net change is 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. It also prudently manages the financial resources realized from these efforts to fund its operating activities.

2006 Revenues



Summary of Revenues, Expeneses, and Changes in Net Assets
Year ended June 30

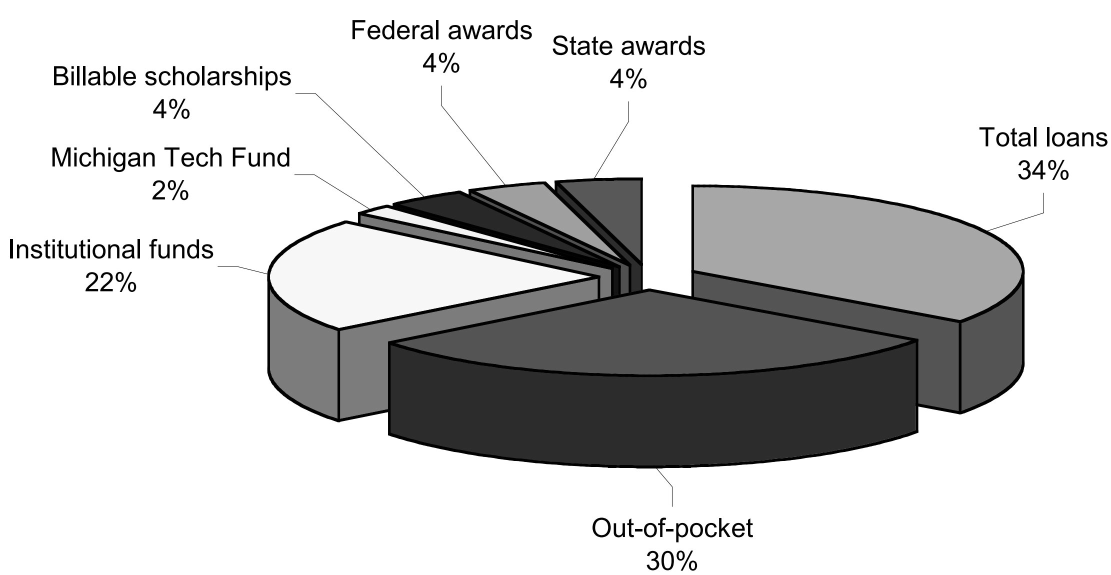
	2006	2005	2004
Operating revenues			
Tuition and fees, net	$ 43,716,315	$ 38,899,981	$ 39,292,624
Grants and contracts	31,346,694	31,990,144	30,456,602
Educational activities	4,297,671	4,008,619	5,256,932
Auxiliary activities	24,899,269	23,283,655	21,024,223
Total operating revenues	104,259,949	98,182,399	96,030,381
Operating expenses	165,366,467	156,397,815	152,315,238
Operating loss	(61,106,518)	(58,215,416)	(56,284,857)
Nonoperating revenues and expenses			
State appropriations	48,403,799	49,829,503	47,591,150
State appropriations, capital	2,541,284	13,374,007	8,033,155
Gifts	8,108,554	9,138,649	10,637,834
Other nonoperating revenues and expenses, net	(884,867)	(842,635)	(572,287)
Net nonoperating revenues	58,168,770	71,499,524	65,689,852
Net increase (decrease) in net assets	(2,937,748)	13,284,108	9,404,995
Net assets			
Beginning of year	204,273,065	190,988,957	181,583,962
End of year	**$ 201,335,317**	**$ 204,273,065**	**$ 190,988,957**

Tuition and Fees Revenue

The University strives to provide students with the opportunity to obtain a quality education at an affordable cost. Tuition, housing and fees revenue are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarship and fellowship expense. In fiscal year 2006, the tuition and fees increase was generated by a tuition rate increase of 7.7% and a full time equivalent student enrollment increase of 3.8%. The fiscal year 2005 decrease in net tuition and fees reflects the modest 2.3% tuition increase being offset by additional financial aid to our students. The University's 2.3% tuition increase was the lowest increase among other Michigan public universities.

The following graph identifies the source of funds used to pay our students bills.

Graduate and Undergraduate Student Financial Aid Report



Grants and Contracts Revenue

The University receives revenues for sponsored programs from government and private sources, which normally provide for the direct and indirect costs of performing these sponsored activities. For the third year in a row, our total grants and contracts revenue has exceeded $30 million. There were $43.6 million dollars of research awards in fiscal year 2006. MTU currently has 18 interdisciplinary research institutes and centers that have enabled the University to continue to increase its awards.

Grants and Contracts Revenue
Year ended June 30

	2006	2005	2004
Federal sources			
Department of Agriculture	$ 1,755,687	$ 1,717,822	$ 1,470,207
Department of Commerce	174,972	309,674	304,911
Department of Defense	3,591,028	2,563,066	2,506,294
Department of Education	3,375,448	3,812,627	3,907,411
Department of Energy	3,467,096	4,752,249	3,998,950
Department of Interior	192,068	217,736	421,016
Department of Transportation	495,522	685,247	642,085
Environmental Protection Agency	86,741	58,278	17,932
National Aeronautics Space Administration	469,332	577,260	460,102
National Science Foundation	4,851,252	4,623,576	4,046,795
Health & Human Servies	602,400	305,480	158,834
Other federal sources	161,225	270,055	268,574
Total Federal Sources	19,222,771	19,893,070	18,203,111
Non-federal sources			
State and local	2,675,488	3,695,352	1,497,773
Private	9,448,435	8,401,722	10,755,718
Total non-federal sources	12,123,923	12,097,074	12,253,491
Total all sources	**$ 31,346,694**	**$ 31,990,144**	**$ 30,456,602**

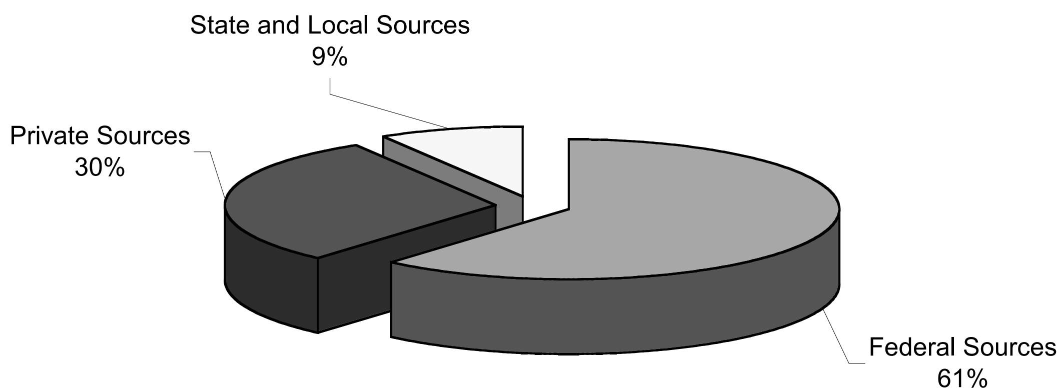
Nonoperating Revenues

Appropriations

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

The State's fiscal year begins on October 1, 2005 and ends on September 30, 2006. The appropriations to the University from the state 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%.

Grants and Contracts Revenue



Operating and Nonoperating Expenses

Functional classifications are the traditional categories that universities have used for reporting purposes. They represent the types of programs and services that the University provides. A comparative summary of the University's expenses by functional classification follows for the years ended June 30, 2006, 2005 and 2004:

Operating and Nonoperating Expenses
Year ended June 30

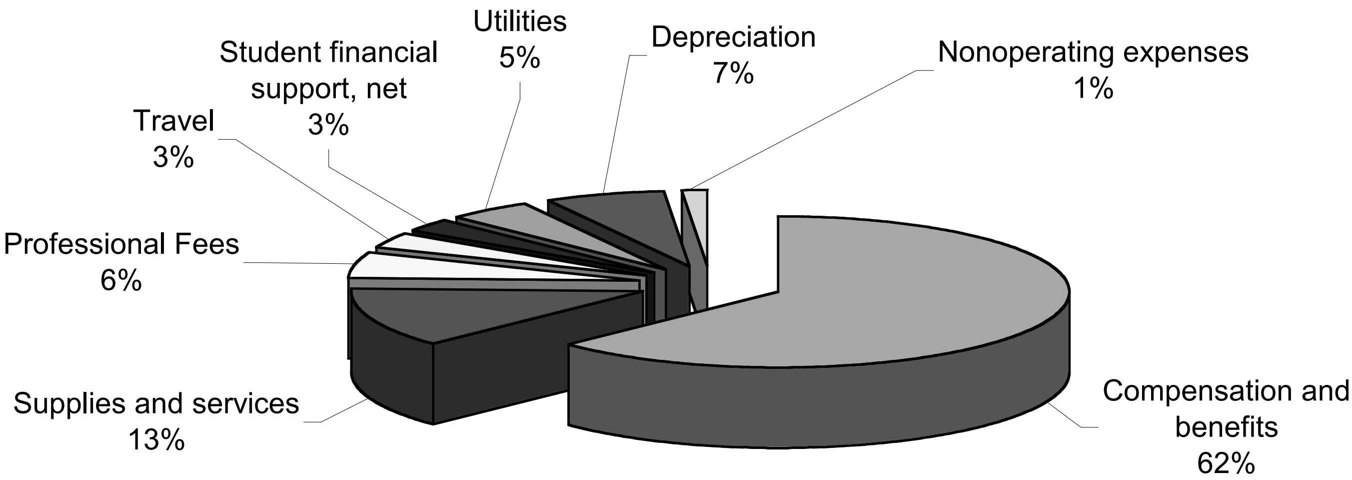
	2006	2005	2004
Operating expenses			
Instruction	$ 47,004,934	$ 46,490,818	$ 50,157,065
Research	33,764,792	31,408,035	27,701,938
Public service	4,849,284	5,117,844	4,510,461
Academic support	10,761,553	10,158,445	10,611,101
Student services	6,974,564	5,780,625	5,894,513
Institutional support	18,027,340	15,338,918	16,520,089
Student financial support	1,218,569	1,516,258	1,877,858
Operations and maintenance of plant	10,384,148	10,178,316	4,037,292
Depreciation	11,040,264	9,783,037	10,519,708
Sales and services of departmental activities	13,069,259	11,117,090	11,820,211
Student residents	8,271,760	9,508,429	8,665,002
Total operating expenses	165,366,467	156,397,815	152,315,238
Nonoperating expenses			
Interest	1,991,139	847,480	506,272
Other	348,404	645,500	405,705
Total nonoperating expenses	2,339,543	1,492,980	911,977
Total expenses	**$ 167,706,010**	**$ 157,890,795**	**$ 153,227,215**

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

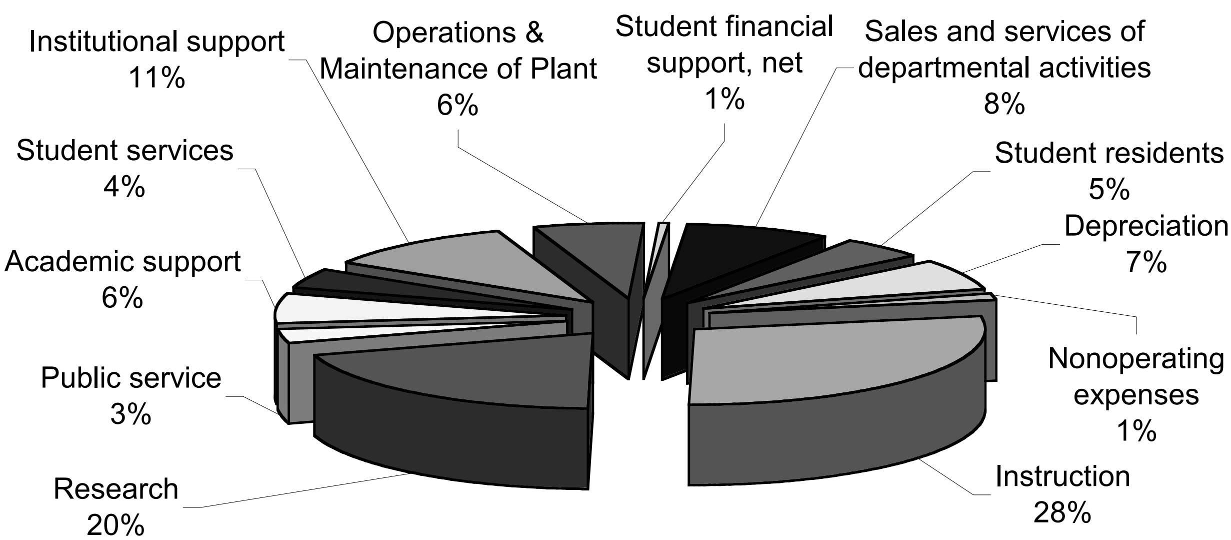
	2006		2005	
	Primary institution	**Component unit**	**Primary institution**	**Component unit**
Salaries				
Faculty	$ 30,715,119	$ -	$ 29,298,162	$ -
Staff	35,743,987	992,448	33,547,252	1,028,520
Students	10,245,574	-	10,318,828	-
Total salaries	76,704,680	992,448	73,164,242	1,028,520
Benefits	28,496,712	406,686	25,551,199	356,832
Compensation & benefits	105,201,392	1,399,134	98,715,441	1,385,352
Supplies and other services	21,312,507	494,953	19,716,769	577,384
Professional fees	9,726,659	274,857	10,289,879	120,726
Travel	5,420,786	277,343	4,675,540	131,232
Scholarships and fellowships	4,663,552	-	5,164,650	-
Utilities	8,001,307	-	8,052,499	-
Depreciation	11,040,264	27,831	9,783,037	30,344
Total operating expenses	**$ 165,366,467**	**$ 2,474,118**	**$ 156,397,815**	**$ 2,245,038**

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 2006, the University provided a 3.7% increase for market place and equity salary adjustments.

The following is a graphic illustration of the fiscal year 2006 operating and nonoperating expenses by natural classification:



The following is a graphic illustration of the fiscal year 2006 operating and nonoperating expenses by functional 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.

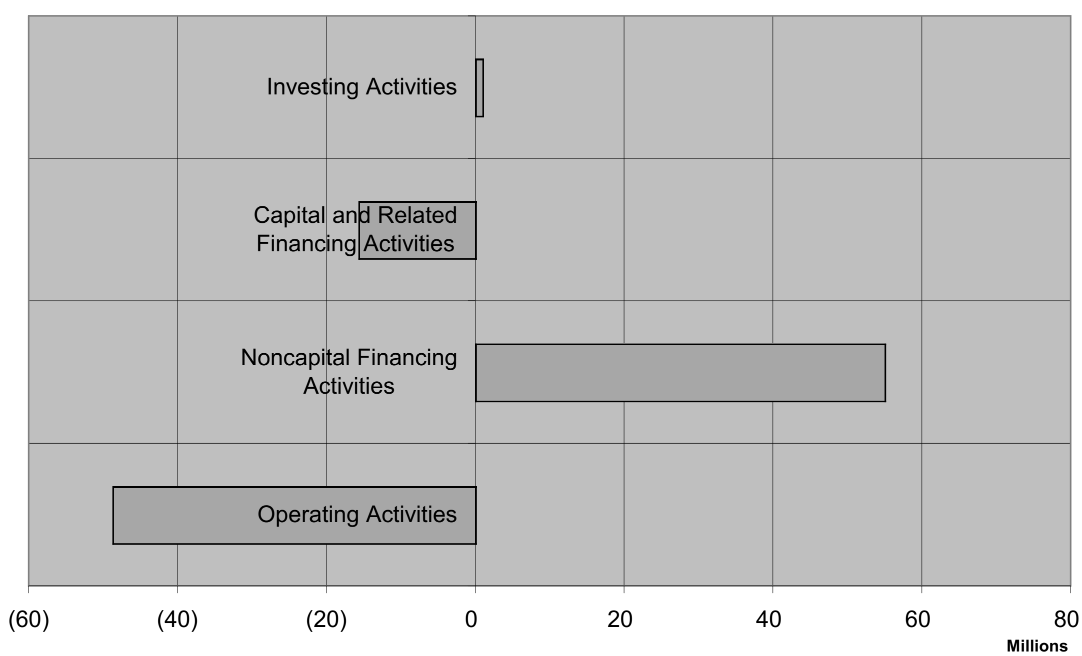
Condensed Statements of Cash Flows
As of June 30

	2006	2005	2004
Cash (used in) provided by			
Operating activities	$ (48,744,127)	$ (49,687,454)	$ (46,596,149)
Noncapital financing activities	54,984,176	56,127,656	54,689,980
Capital and related financing activities	(15,685,241)	(23,135,064)	12,383,341
Investing activities	968,853	(3,629,682)	352,210
Net (decrease) increase in cash	(8,476,339)	(20,324,544)	20,829,382
Cash - beginning of the year	23,158,716	43,483,260	22,653,878
Cash - end of the year	**$ 14,682,377**	**$ 23,158,716**	**$ 43,483,260**

Cash received from operating activities consists primarily of student tuition and fees, sponsored program grants and contracts, and auxiliary revenues. Significant sources of cash provided by non capital 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. Cash and cash equivalents decreased $8.5 million in 2006 and $20.3 million in 2005. The net cash outflows were primarily due to our construction projects (capital financing activities).

Major sources of funds included in operating activities are student tuition and fees and grants and contracts. The largest payments in operating activities were compensation to employees and to suppliers.

2006 Net Cash Flows



New Accounting Pronouncements

The University will be required to implement the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective with the fiscal year ending June 30, 2008. The University will be required to address the accounting and reporting for costs and obligations related to postemployment healthcare and other non-pension benefits. Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the value of those benefits is estimated to total $40.8 million at June 30, 2006.

In the current year, the University was required to implement the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. However, the University had no impaired capital assets, net of insurance recoveries.

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.

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

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

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

The Board of Control adopted a balanced budget for fiscal year 2007. The $120.8 million general fund budget is up about 7.6% from this year's estimated $112.3 million and projects a state appropriation of $49.0 million, about 1.7% greater than the current year's $48.2 million. The budget reflects an 8.75% increase in annual tuition and mandatory fees for resident undergraduate students. The increase for nonresident undergraduates and graduate students will be 7.0%. Financial aid funding increased 14.2%, from $12.9 million to $14.5 million. Graduate students will see a 3% hike in their minimum stipend, and the university will increase its contribution to the cost of their health care premiums. Room and board rates are slated to rise 7.3%. Overall enrollment is expected to rise by 50, 20 more undergraduates than last year and 30 more graduate students. The budget includes a $1.9 million increase in overall funding for salaries. The Michigan Tech Fund is gearing up for a fundraising campaign, set to kick off officially on July 1, 2007.

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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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
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INDEPENDENT AUDITOR'S REPORT

September 19, 2006

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, 2006 and 2005 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.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of ***Michigan Technological University*** as of June 30, 2006 and 2005, 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.

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In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2006 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 3 through 12 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, 2006
(in dollars)

	Primary Institution	Component Unit
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	-
Other assets	-	7,028,812
Investments	6,159,751	39,625,450
Capital assets, net of accumulated depreciation	221,537,171	206,321
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 Net Assets

June 30, 2005
(in dollars)

	Primary Institution	Component Unit
Assets		
Current assets		
Cash and cash equivalents	$ 23,158,716	$ 10,854,936
Short term investments	-	27,810,888
Accounts receivable, net	15,241,340	6,439,496
Other assets	1,746,634	41,475
Total current assets	40,146,690	45,146,795
Noncurrent assets		
Student loans receivable, net of allowance	12,618,279	-
Other assets	-	6,496,454
Investments	4,318,134	38,892,620
Capital assets, net of accumulated depreciation	218,847,998	245,891
Total noncurrent assets	235,784,411	45,634,965
Total assets	**$ 275,931,101**	**$ 90,781,760**
Liabilities		
Current liabilities		
Accounts payable	$ 7,451,396	$ 251,059
Other accrued liabilities	7,097,513	-
Deferred revenue	2,284,726	-
Current portion of long-term debt	640,235	-
Current portion of noncurrent liabilities	2,232,655	276,428
Total current liabilities	19,706,525	527,487
Noncurrent liabilities		
Funds held for others	634,050	-
Insurance and benefit reserves	1,682,994	-
Other liabilities	-	2,386,272
Long-term debt, net of current portion	49,634,467	-
Total noncurrent liabilities	51,951,511	2,386,272
Total liabilities	71,658,036	2,913,759
Net assets		
Invested in capital assets, net of related debt	173,479,328	245,891
Restricted for		
Nonexpendable purposes	-	42,012,501
Expendable purposes	19,717,949	43,667,880
Unrestricted	11,075,788	1,941,729
Total net assets	204,273,065	87,868,001
Total liabilities and net assets	**$ 275,931,101**	**$ 90,781,760**

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

Statements of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2006
(in dollars)

	Primary Institution	Component Unit
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 Revenues, Expenses, and Changes in Net Assets

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

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

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

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005
(in dollars)

	2006	2005
Cash flows from operating activities		
Student tuition and fees	$ 43,662,746	$ 39,195,499
Grants and contracts	30,987,468	31,495,651
Payments to employees	(76,444,733)	(72,898,691)
Payments for benefits	(27,885,556)	(25,895,502)
Payments to suppliers	(35,840,350)	(35,038,114)
Payments for utilities	(7,850,456)	(7,698,758)
Payments for financial aid	(4,663,552)	(5,164,650)
Loans issued to students	(3,081,339)	(3,467,709)
Collection of loans to students	2,944,666	2,403,626
Sales and services of departmental activities	9,254,097	9,463,725
Sales and services of educational activities	4,325,413	3,986,828
Student resident fees	15,735,551	13,777,746
Other receipts	111,918	152,895
Net cash used in operating activities	(48,744,127)	(49,687,454)
Cash flows from noncapital financing activities		
State appropriations	48,137,379	49,773,828
Gifts and grants for other than capital purposes	6,963,708	5,732,807
William D. Ford direct lending cash received	17,829,949	16,887,602
William D. Ford direct lending cash disbursed	(17,946,860)	(16,266,581)
Net cash provided by noncapital financing activities	54,984,176	56,127,656
Cash flows from capital and related financing activities		
Capital appropriations	2,701,359	14,177,282
Capital grants and gifts received	1,239,229	3,463,915
Proceeds from sale of capital assets	63,391	132,240
Purchases of capital assets	(16,974,688)	(39,670,481)
Principal paid on capital debt and leases	(722,893)	(714,730)
Interest paid on capital debt and leases	(1,991,639)	(523,290)
Net cash used in capital and related financing activities	(15,685,241)	(23,135,064)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,317,000	-
Purchase of investments	(1,317,000)	(4,080,000)
Income on investments	968,853	450,318
Net cash used in investing activities	968,853	(3,629,682)
Net decrease in cash and cash equivalents	(8,476,339)	(20,324,544)
Cash and cash equivalents - beginning of year	23,158,716	43,483,260
Cash and cash equivalents - end of year	**$ 14,682,377**	**$ 23,158,716**

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

Statements of Cash Flows

(Continued)

	2006	2005
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	$ (61,106,518)	$ (58,215,416)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	11,040,264	9,783,037
Changes in operating assets and liabilities:		
Accounts receivable, net	(895,633)	(105,585)
Other assets	(381,653)	(69,135)
Student loans receivable	(136,672)	(1,064,048)
Accounts payable	1,330,820	89,666
Other accrued liabilities	841,381	194,365
Deferred revenue	489,146	(180,800)
Current portion of long-term liabilities	307,579	(165,789)
Funds held for others	73,000	47,600
Long-term liabilities	(305,841)	(1,349)
Net cash used in operating activities	**$ (48,744,127)**	**$ (49,687,454)**

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 fund-raising organization to supplement the resources that are available to the University in support of its programs. The Fund's Board of Directors includes members of the University's Board of Control, certain officers of the University and other community representatives elected by the Fund Board. Although the University does not necessarily control the timing or amount of receipts from the Fund, the majority of resources, or income earned thereon, 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 statement 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

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

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

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 assets to departmental funds based on an average of each fund's beginning and ending monthly balances.

Split-Interest Agreements of the Fund

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

Capital Assets

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

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

The capital assets of the Fund consist of office equipment, computers, software, and furniture. Capital assets are recorded at cost at the date of acquisition and are depreciated on a straight-line basis over estimated useful lives of three to seven years. At the time of disposal, capital assets are removed from the records and any gain or loss is recognized in the 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 and expenses are recognized when the service is provided or when materials are received. Restricted grant revenue is recognized only to the extent expended. Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. Transactions related to capital and financing activities, non capital financing activities, investing activities and State appropriations are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

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

Classification of Revenues

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

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

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

Classification of Expenses

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

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

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

Scholarship Allowances and Student Financial Aid

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

Income Taxes

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

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

Net Assets

The University's net assets are classified as follows:

- Invested in capital assets, net of related debt—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted for nonexpendable purposes—Net assets from contributions and other inflows of assets that 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 in the 2005 financial statements have been reclassified to conform to the 2006 financial statement presentation.

(2) Cash and Investments

Authorizations

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

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

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

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

Custodial credit risk (deposits) - For deposits, custodial credit risk is present if the University's deposits would not be covered by depository insurance. State law does not require and the University does not have a policy for deposit custodial credit risk. Deposits were reflected in the accounts of the banks at $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.

Investments and Investment Income

The University's investments at June 30, 2006 are 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 equivelent" on the accompanying statement of net assets	(1,477,485)			
Total investments	**$ 6,159,751**			

The University's investments at June 30, 2005 were as follows:

Investment type	Fair value	Interest rate	Maturity date	Rating
Mutual fund cash reserve	$ 2,746,913	2.27%	N/A	N/A
Mutual equity index fund	4,318,134	N/A	N/A	N/A
	7,065,047			
Less investments reported as "Cash and cash equivelent" on the accompanying statement of net assets	(2,746,913)			
Total investments	**$ 4,318,134**			

The University's net investment return is comprised of the following for the years ended June 30, 2006 and 2005:

Investment Income
Year ended June 30

	2006	**2005**
Investment income		
Interest	$ 882,492	$ 379,694
Dividends	143,109	84,305
Net increase in the fair value of investments	429,475	200,026
Subtotal	1,455,076	664,025
Investment expenses	(400)	(13,680)
Net investment income	**$ 1,454,676**	**$ 650,345**

The annualized returns on investments and marketable securities for the University, excluding the base cash pool reserve for the year ended June 30, 2006 and 2005, are as follows:

	2006	**2005**
Intermediate fixed income	2.3%	0.9%
Equity investments	10.5%	11.8%

The fair value of the Fund's investments at June 30, 2006 and 2005 are categorized as follows:

	2006	2005
Marketable Securities		
Equities	$ 828,428	$ 953,920
Mutual funds - equities	39,921,929	33,237,385
Mutual funds - bonds	26,033,201	21,959,943
Corporate bonds and notes	9,702	68,546
US government obligations	1,677,951	1,151,067
Total marketable securities	**$ 68,471,211**	**$ 57,370,861**
Limited partnerships		
Hedge funds	$ 6,113,422	$ 5,448,600
Rease assets	3,046,698	1,374,672
Private equity	3,166,823	2,489,375
Total limited partnerships	**$ 12,326,943**	**$ 9,312,647**
Closely held stock	20,000	20,000
Total investments	**$ 80,818,154**	**$ 66,703,508**

The Fund's net investment return is comprised of the following for the years ended June 30, 2006 and 2005:

	2006	2005
Interest and dividends	$ 2,397,155	$ 1,638,313
Capital gain distributions	1,864,416	1,562,568
Net gain on sale of investments	1,634,940	2,038,574
Net unrealized gain on investments	2,561,478	2,267,271
Asset-based management and administrative fees	(225,512)	(229,570)
Total investment return	$ 8,232,477	$ 7,277,156

(3) Receivables

The University's accounts receivable are summarized as follows as of June 30, 2006 and 2005. State appropriations are based on Senate Bill Number 1105.

	2006	2005
Primary institution		
Student tuition and fees	$ 496,850	$ 374,654
State appropriations		
Operating	8,740,145	8,473,725
Capital	920,291	1,080,366
Grants and contracts	5,293,627	4,586,215
Auxiliary activities	470,420	521,896
Other	292,724	269,606
Less allowance for doubtful accounts	(65,122)	(65,122)
Accounts receivable, net	**$ 16,148,935**	**$ 15,241,340**
Component unit		
Pledges receivable - current portion	4,794,150	6,439,496
Accounts receivable, net	**$ 4,794,150**	**$ 6,439,496**

In addition, the University has student loans receivable in the amount of $12,754,951 and $12,618,279 net of an allowance for uncollectible accounts of $169,461 at June 30, 2006 and 2005.

The Fund's pledges receivable are included in accounts receivable and other noncurrent assets on the accompanying statements of net assets. As of June 30, 2006 and 2005 pledges receivable at the Fund consisted of the following:

	2006	2005
Pledges receivable in less than one year	$ 4,912,247	$ 7,099,738
Pledges receivable in one to five years	3,389,540	2,840,482
Pledges receivable in more than five years	456,644	356,422
Less		
Allowance for uncollectible pledges	(250,548)	(716,797)
Present value discount	(783,962)	(453,508)
Net pledges receivable	**$ 7,723,921**	**$ 9,126,337**

(4) Capital Assets

Capital Assets Activity by Major Class of Asset
as of 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**

Capital Assets Activity by Major Class of Asset
as of June 30, 2005

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

(5) Line of Credit

The University has an unused line of credit arrangement with one bank under which it may borrow up to $10,000,000. This agreement is set at a variable rate of interest, which is 1% below the Wall Street prime rate. There are no restrictive covenants associated with this line of credit. No activity on the line of credit occurred during the 2006 and 2005 fiscal years.

(6) Accounts Payable and other Accrued Liabilities

Accounts Payable and other Accrued Liabilities
As of June 30

	2006	2005
Primary institution		
Accounts payable		
Vendors for supplies and services	$ 3,577,866	$ 2,335,494
Employee benefits	794,724	706,775
Construction payables	2,901,588	4,409,127
Total	**$ 7,274,178**	**$ 7,451,396**
Other accrued liabilities		
Payroll and payroll taxes	$ 4,511,459	$ 4,059,594
Accrued compensated absences	2,706,704	2,506,354
Deposits payable	720,731	531,565
Total	**$ 7,938,894**	**$ 7,097,513**
Component unit		
Accounts payable	**$ 160,077**	**$ 251,059**

(7) Noncurrent Liabilities

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**	

Noncurrent Liabilities
As of June 30, 2005

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Primary institution					
General revenue bonds					
Refunding bonds	$ 1,000,000	$ -	$ 180,000	$ 820,000	$ 190,000
Variable rate demand	10,000,000	-	-	10,000,000	-
General revenue bonds, 2003	4,900,000	-	100,000	4,800,000	100,000
General revenue bonds, 2004A	32,850,000	-	-	32,850,000	-
Total bonds payable	48,750,000	-	280,000	48,470,000	290,000
Bond premium	1,001,502	-	33,854	967,648	-
Capital leases	1,271,784	-	434,730	837,054	350,235
Total debt	51,023,286	-	748,584	50,274,702	640,235
Other liabilities					
Insurance and post employment benefits	4,082,787	964,520	1,131,658	3,915,649	2,232,655
Funds held for others	586,450	47,600	-	634,050	-
Total	**$ 55,692,523**	**$ 1,012,120**	**$ 1,880,242**	54,824,401	**$ 2,872,890**
Due within one year				(2,872,890)	
Total noncurrent liabilities				**$ 51,951,511**	
Component unit					
Note Payable	$ 13,535	$ -	$ 13,535	$ -	$ -
Gift annuities payable	1,650,104	624,722	194,126	2,080,700	276,428
Split-interest agreements	623,153	18,829	59,982	582,000	-
Total	**$ 2,286,792**	**$ 643,551**	**$ 267,643**	2,662,700	**$ 276,428**
Due within one year				(276,428)	
Total noncurrent liabilities				**$ 2,386,272**	

Bonds

Outstanding Balances on University Issued Bonds
As of June 30

		Outstanding	
	Total issued	**2006**	**2005**
General revenue refunding bonds, series 1993, (2.8% - 5.1%) final maturity 2008	$ 3,583,000	$ 630,000	$ 820,000
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	4,700,000	4,800,000
General revenue bond series 2004(A), (2.00% - 4.49%) final maturity 2034	32,850,000	32,850,000	32,850,000
Total bonds payable	62,333,000	48,180,000	48,470,000
Plus: unamortized net premium	1,015,608	933,795	967,648
Bonds payable, net	**$ 63,348,608**	**$ 49,113,795**	**$ 49,437,648**

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.

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

Principal and Interest Amounts Due

For Fiscal Years Ending June 30

Fiscal year	Principal	Interest	Total
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	4,560,000	9,700,974	14,260,974
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	**$ 48,180,000**	**$ 43,310,051**	**$ 91,490,051**

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.

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.

In fiscal year 1994, the University defeased in substance the 1989 issue of General Revenue Bonds with an issue of General Revenue Refunding Bonds valued at $3.585 million. These bonds bear interest at 2.80% to 5.10% and mature at various dates through 2008. As of June 30, 2006 and 2005, the defeased bonds outstanding were $600 thousand and $770 thousand, respectively.

On April 29th, 2005, the Michigan Technological University's Board of Control approved a bond resolution, authorizing the issuance and delivery of $2.5 million in General Revenue Bonds. These bonds provide the match funding to $7.5 million in State of Michigan Capital Appropriation funds to Michigan Technological University for university capital improvements. This resolution was amended on April 28, 2006 and the bonds were issued after June 30, 2006.

Capital and Operating Lease Obligations

The University has entered into capital lease agreements for the purchase of office equipment and telecommunications switching equipment. The capitalized cost of the equipment was $280.6 and $148.9 thousand; the net book value of the equipment was $234.9 and $121.5 thousand at June 30, 2006 and 2005, respectively.

Scheduled Maturities of Capital Leases

For Fiscal Years Ending June 30

Fiscal year	Principal	Interest	Total
2007	$ 285,290	$ 9,289	$ 294,579
2008	118,871	1,016	119,887
Total lease payments	**$ 404,161**	**$ 10,305**	**$ 414,466**

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the years ended June 30, 2006 and 2005 are insignificant.

Split-Interest Agreements of the Fund

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

- **Century II Pooled Income Fund:** All income of the pooled Fund is distributed to its participants on a pro-rata basis.
- **Charitable Remainder Unitrusts:** Donors receive income, generally payable quarterly, at a predetermined percentage rate of their unitrust's annual value at December 31.
- **Charitable Remainder Annuity Trusts:** Donors receive a fixed percentage rate of income based on the initial value of the annuity trust, generally payable quarterly.
- **Charitable Gift Annuities of the Fund:** Donors receive a fixed percentage rate of income based on the initial value of the gift annuity, payable quarterly. Assets received under a gift annuity contract are held as general assets of the Fund, and the annuity liability is a general obligation of the Fund. All assets received under a gift annuity 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 $3.170 million and $3.067 million at June 30, 2006 and 2005, 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, 2006 and 2005, from these types of agreements are as follows:

	2006	2005
Assets - cash and marketable securities	$ 7,364,900	$ 5,534,365
Liabilities to other beneficiaries	4,115,869	2,662,700

Included with contribution revenue on the statements of revenue, expenses, and changes in net assets for the years ended June 30, 2006 and 2005, were $560 thousand and $477 thousand, respectively, in contributions from split-interest agreements and $(331) thousand and $55 thousand from changes in the value of split-interest agreements. The calculations of present value follow the guidelines as set forth in Section 642(c) of the Internal Revenue Code.

(8) Post-Employment Benefits

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

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

During fiscal year 1997, the University implemented the funding policy changes finalized by MPSERS. An actuarial valuation was prepared for MPSERS that separated the plan into two components—university members and all other members. The valuation determined the university members' portion of plan assets and unfunded actuarial accrued liability (UAAL). The new funding policy calls for continued contributions for active members at 6.30% 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 2006 and 2005 rate was 3.65% and 2.24% 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 future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. Additional pension data for MPSERS is contained in MPSERS' comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Systems, 7150 Harris Dr., P.O. Box 30026, Lansing, MI 48901.

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

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

	2006	2005	2004
University contributions to MPSERS	$ 1,116,535	$ 957,521	$ 882,116
MPSERS retiree health insurance	2,530,395	2,404,463	2,318,520
MPSERS unfunded pension costs	219,150	113,603	50,091
Payroll covered under MPSERS	11,753,350	11,464,091	11,930,000
University contributions to TIAA-CREF	6,112,146	5,738,435	5,631,708
Payroll covered under TIAA-CREF	48,432,776	45,610,747	44,690,000

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

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

Retirement Supplemental Voluntary Plan

During 2002, the University adopted the Retirement Supplemental Voluntary Plan (RSVP) to facilitate the voluntary retirement of eligible employees. The RSVP is not an early retirement program. The decision to retire is left to the discretion of the individual employee, and remains entirely voluntary. However, if an employee decides to retire, the RSVP provides several retirement options: a monetary option; a phased retirement option; a combination of the monetary and phased retirement options; and a program for employment after retirement. The University recognizes the related costs in the year the employee decides to retire. The University recognized $108 thousand and $245 thousand for the years ended June 30, 2006 and 2005.

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 $1.373 million and $1.554 million for the years ended June 30, 2006 and 2005.

(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:

	Benefits	Comp	Comp	Total
Claims liability - July 1, 2004	$ 1,118,087	$ 34,400	$ 342,411	$ 1,494,898
Claims incurred, including changes in estimates	10,350,545	131,829	156,482	10,638,856
Less: claims paid	(10,247,236)	(116,229)	(142,993)	(10,506,458)
Claims liability - June 30, 2005	1,221,396	50,000	355,900	1,627,296
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**

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) 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, 2006 and June 30, 2005 the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2006 and June 30, 2005. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's position that the University is not responsible for any shortfall in the Fund as a result of changes in benefits made by MPSERS.

The University has substantially completed construction on the $35 million John and Ruanne Opie Library and the Ann and Kanwal Rekhi Computer Science Hall. The State Building Authority (SBA) has committed to provide up to $25 million and has already provided $23.0 million of this. The University has already provided $10 million. The University has executed a deed to the property to the SBA and a lease of the building from the State and the SBA. During the lease term, the SBA will hold title to the facilities, the State will make all annual lease payments to the SBA from general fund appropriations; and the University will pay all operating and maintenance costs of the facilities. At the expiration of the lease, the SBA has agreed to sell the facility to the University for the sum of one dollar.

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

(11) Functional Classification of Operating Expenses

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

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**

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

(12) 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.