

Independent Auditor's Report

To the Board of Trustees
Western Michigan University

We have audited the accompanying balance sheet of Western Michigan University (a component unit of the State of Michigan) (the "University") and its discretely presented component units as of June 30, 2009 and 2008 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. In addition, the basic financial statements were audited in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Michigan University and its discretely presented component units as of June 30, 2009 and 2008 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2009 on our consideration of Western Michigan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis presented on pages 2 through 11 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

September 11, 2009

Western Michigan University

Management's Discussion and Analysis

The following discussion and analysis of Western Michigan University's (the "University") financial statements provides an overview of the University's financial activities for the year ended June 30, 2009. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

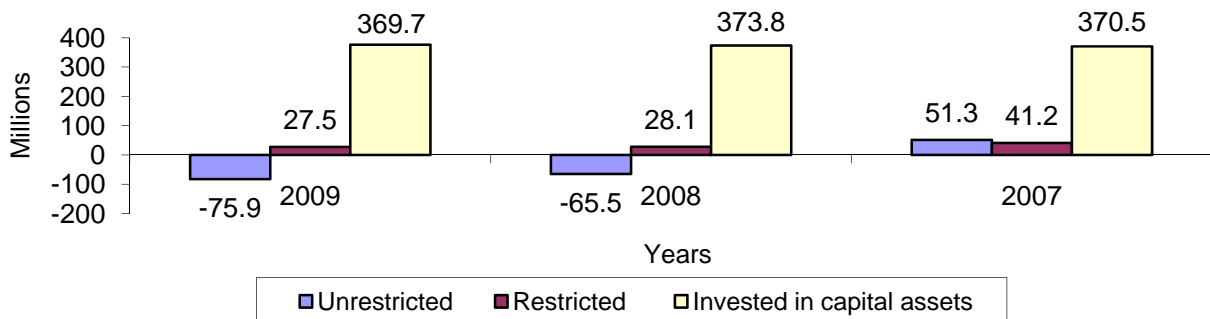
The Carnegie Foundation for the Advancement of Teaching places Western Michigan University among the 76 public institutions in the nation designated as research universities with high research activity. With an enrollment of almost 25,000, the University is recognized as the fourth largest university in the state of Michigan. *U.S. News & World Report's* annual ranking of American colleges and universities includes Western Michigan University as one of the nation's top-100 public universities.

Financial Highlights

The University's financial position remained strong at June 30, 2009, with assets of \$810.6 million and liabilities of \$489.3 million.

The University invests its working capital to maximize total return, with an appropriate level of risk. The University's holdings are invested in short-, intermediate-, and long-term investment pool accounts. The investment strategy governing the endowment assets seeks to maximize total return over the long run.

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2009, 2008, and 2007.



Western Michigan University

Management's Discussion and Analysis (Continued)

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for the fiscal year ended June 30, 2008. The University applied the statement retroactively. Therefore, unrestricted net assets have been restated as of July 1, 2007 in the amount of approximately \$113 million.

The University has committed the unrestricted net assets to provide for identified future needs. These needs include contractual obligations, debt service, student loans, capital outlay, insurance reserves, and academic programming needs.

The University's financial statements were prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 39). These criteria include significant operational or financial relationships. Based on the application of the criteria, the University has three component units. The Western Michigan University Foundation, Paper Technology Foundation, and Western Michigan University Research Foundation's statements are discretely presented as part of the University's reporting entity. The Foundations' statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB).

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

The University's financial report includes three financial statements: the balance sheet, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Western Michigan University

Management's Discussion and Analysis (Continued)

Following is a summary of the major components of the net assets and operating results of the University for the years ended June 30, 2009, 2008, and 2007:

Net Assets as of June 30 (in millions)

	2009	2008	2007
Assets			
Current assets	\$ 87.2	\$ 78.4	\$ 70.4
Noncurrent assets:			
Capital assets - Net of depreciation	660.5	667.2	664.6
Other	<u>62.9</u>	<u>69.8</u>	<u>86.7</u>
Total assets	<u>\$ 810.6</u>	<u>\$ 815.4</u>	<u>\$ 821.7</u>
Liabilities			
Current liabilities	\$ 71.7	\$ 63.7	\$ 64.4
Long-term liabilities	<u>417.6</u>	<u>415.4</u>	<u>294.3</u>
Total liabilities	489.3	479.1	358.7
Net Assets			
Invested in capital assets	369.7	373.7	370.5
Restricted	27.5	28.1	41.2
Unrestricted	<u>(75.9)</u>	<u>(65.5)</u>	<u>51.3</u>
Total net assets	<u>321.3</u>	<u>336.3</u>	<u>463.0</u>
Total liabilities and net assets	<u>\$ 810.6</u>	<u>\$ 815.4</u>	<u>\$ 821.7</u>

Western Michigan University

Management's Discussion and Analysis (Continued)

Operating Results for the Years Ended June 30 (in millions)

	2009	2008	2007
Operating Revenues			
Tuition and fees - Net	\$ 185.8	\$ 170.7	\$ 165.8
Grants and contracts	33.5	34.3	31.0
Auxiliary activities - Net	89.0	84.9	78.9
Other	<u>31.8</u>	<u>27.9</u>	<u>29.2</u>
Total operating revenues	340.1	317.8	304.9
Operating Expenses			
Instruction	155.6	142.2	142.0
Departmental research	26.1	29.9	25.7
Public service	10.2	9.2	8.6
Academic support	40.3	37.2	37.1
Student services	24.2	22.6	20.8
Institutional support	35.9	36.8	36.8
Operations and maintenance of plant	35.5	33.7	32.9
Scholarships and fellowships	28.9	25.0	23.1
Auxiliary activities	81.0	78.4	70.8
Depreciation	29.4	28.7	28.2
Other expenditures	<u>9.5</u>	<u>17.6</u>	<u>5.1</u>
Total operating expenses	<u>476.6</u>	<u>461.3</u>	<u>431.1</u>
Net Operating Loss	(136.5)	(143.5)	(126.2)
Nonoperating Revenues (Expenses)			
State appropriations	113.2	122.4	99.8
Gifts	18.7	13.3	9.5
Other nonoperating revenues (expenses)	<u>(14.0)</u>	<u>(20.9)</u>	<u>9.6</u>
Total nonoperating revenues	117.9	114.8	118.9
Other Revenues			
Capital appropriations	0.9	8.2	0.6
Capital grants and contracts and other	<u>2.7</u>	<u>7.1</u>	<u>8.6</u>
Total other revenues	<u>3.6</u>	<u>15.3</u>	<u>9.2</u>
Increase (Decrease) in Net Assets	(15.0)	(13.4)	1.9
Net Assets - Beginning of year	336.3	463.0	461.1
Adoption of GASB No. 45	-	(113.3)	-
Net Assets - End of year	<u>\$ 321.3</u>	<u>\$ 336.3</u>	<u>\$ 463.0</u>

Western Michigan University

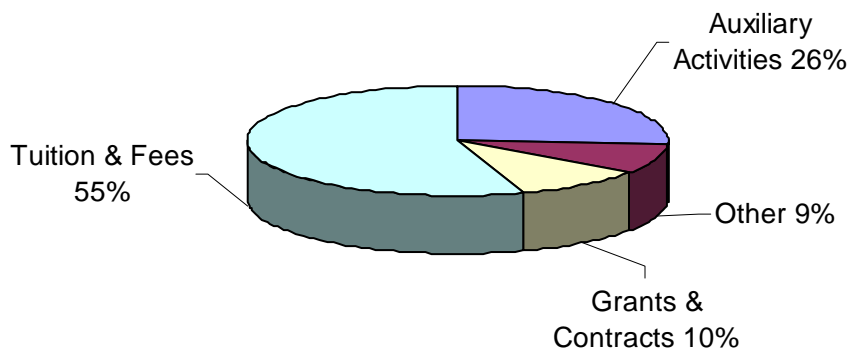
Management's Discussion and Analysis (Continued)

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services. As noted with the nonoperating revenue, during 2008, the Governmental Accounting Standards Board concluded that Pell grant revenue should be recorded as nonoperating revenue.

Student tuition and fees revenue increased as a result of the board of trustees raising the rates by 9.2 percent for resident undergraduate students. For resident undergraduate students enrolled in 32 credit hours during an academic year, this increase equates to an additional \$668 of tuition and fees. Room and meal plan rates increased 4.75 percent. This increase equates to an additional \$335 for the academic year for a 15-meal plan.

The following is a graphic illustration of operating revenues by source:



Operating Expenses

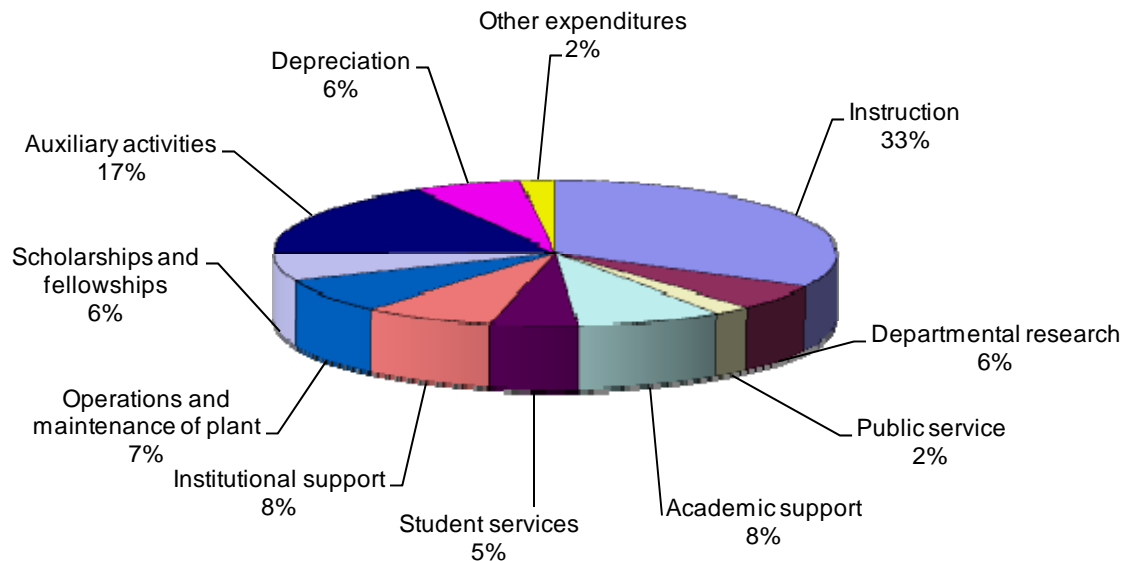
Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. Operating expenses were significantly impacted by increases in the costs of compensation, utilities, student financial aid, library acquisitions, and academic programming.

The University is equally committed to providing financial support to students. In each fiscal year, funds made available for scholarship grow in the same proportion as the rate increase for tuition. The University has long sponsored its prestigious Medallion Scholarship program which attracts some of the brightest and most promising students.

Western Michigan University

Management's Discussion and Analysis (Continued)

The following is a graphic illustration of operating expenses by source:



Nonoperating Revenues and Expenses

Nonoperating revenues and expenses are primarily nonexchange in nature. They would consist primarily of state appropriations and investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Nonoperating revenue and expenses were significantly impacted by the following factors:

- The state appropriation revenue decreased approximately 7.5 percent from the prior year, or \$9.1 million. The state appropriation for fiscal year 2008 had increased 22.6 percent, or \$22.6 million from the prior year, and for fiscal year 2007, it had decreased \$10.8 million, or 9.7 percent. The State had delayed payment during fiscal year 2007. The delayed payment was received and recognized as revenue during fiscal year 2008. If the State had not delayed the 2007 payment, the state appropriation revenue would have increased 1 percent from 2008 to 2009.
- Investment loss increased from the prior year by approximately \$5 million. This is a result of a decrease in interest income from the prior year in the amount of \$1.4 million, and a decrease in realized gain from the prior year in the amount of \$2.8 million. The losses reflect the general disconnect that occurred in the market versus any specific investment decisions made by the University. The investment performance for the last six months of the year ended June 30, 2009 has shown a six-month year-to-date return of 4.4 percent. As of June 30, 2008, the University outperformed similar-sized institutions for the last five and 10 years.

Western Michigan University

Management's Discussion and Analysis (Continued)

- During the year, the University issued \$47,760,000 fixed interest rate General Revenue Bonds to refinance existing variable rate debt, and to pay part of the related swap termination fees. The total swap termination fees amounted to \$6.8 million. As of June 30, 2009, all of the University's debt is fixed rate.
- During 2008, the Governmental Accounting Standards Board concluded that Pell grant revenue should be recorded as nonoperating revenue. Prior to 2008, the University had recorded Pell grant revenue as operating revenue. Pell grant revenue increased 20.4 percent, or \$2.5 million, from the prior year.

Other Revenues

Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the University. An example would be capital appropriations from the state or federal government and transfers from related entities.

Other revenues were significantly impacted by the following:

Capital grants, contracts, and other revenue amounted to \$2.7 million in 2009, \$7.1 million in 2008, and \$8.6 million in 2007. There were no major state projects funded during the fiscal year ended June 30, 2009.

Statement of Cash Flows

Another way to assess the financial health of the University is to look at the 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 statement of cash flows also helps users assess:

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

Western Michigan University

Management's Discussion and Analysis (Continued)

Cash Flows for the Years Ended June 30 (in millions)

	2009	2008	2007
Cash Provided by (Used in)			
Operating activities	\$ (104.6)	\$ (106.1)	\$ (105.8)
Noncapital financing activities	146.0	137.2	130.8
Capital and related financing activities	(34.6)	(42.0)	(32.9)
Investing activities	<u>2.3</u>	<u>16.4</u>	<u>27.7</u>
Net Increase in Cash	9.1	5.5	19.8
Cash - Beginning of year	<u>31.3</u>	<u>25.8</u>	<u>6.0</u>
Cash - End of year	<u><u>\$ 40.4</u></u>	<u><u>\$ 31.3</u></u>	<u><u>\$ 25.8</u></u>

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities was \$104.6 million. To offset this, the net cash provided from noncapital financing activities, which consisted primarily of state appropriations, was \$146.0 million. This is compared to net cash used in operating activities in the amount of \$106.1 million and \$105.8 million for the years ended June 30, 2008 and 2007, respectively. Net cash provided by noncapital financing activities was \$137.2 million and \$130.8 million for the years ended June 30, 2008 and 2007, respectively. Cash used in capital and related financing activities amounted to \$34.6 million, primarily the result of capital additions during the year in the amount of \$17.8 million and interest paid on capital debt in the amount of \$15.0 million.

Western Michigan University

Management's Discussion and Analysis (Continued)

Capital Assets

At June 30, 2009, the University had \$1.1 billion invested in capital assets, and accumulated depreciation of \$391 million. Depreciation charges totaled \$29.4 million for the current fiscal year compared to \$28.7 million last year.

	2009	2008	2007
Land, land improvements, and infrastructure	\$ 71,965,904	\$ 69,357,216	\$ 65,704,608
Buildings and improvements	778,886,303	772,097,793	733,258,003
Buildings under capital lease	10,578,574	10,578,574	10,578,574
Furniture, fixtures, and equipment	68,127,433	69,630,313	71,931,905
Library collections	109,025,601	102,256,599	95,868,343
Construction in progress	12,902,833	10,294,493	34,018,115
Total	<u>\$1,051,486,648</u>	<u>\$1,034,214,988</u>	<u>\$ 1,011,359,548</u>

Debt

At June 30, 2009, the University had \$282.0 million in bonded debt obligations outstanding versus \$284.2 million the previous year, a decrease of 0.8 percent. At June 30, 2008, the bonded debt obligations had increased 1.4 percent, from a balance of \$280.2 million at June 30, 2007. As a result of auction rate securities being negatively impacted by market conditions, the University issued \$47.8 million and \$123.8 million fixed rate bonds to refund variable rate bonds during fiscal years 2009 and 2008, respectively. The University also issued \$45.8 million of general revenue refunding bonds to advance refund prior bonds during fiscal year 2008 and converted \$45.8 million variable rate bonds to variable rate demand bonds during fiscal year 2008.

During the 2008 fiscal year, the University repaid a net amount of \$6.8 million on a line of credit. The University closed the line of credit as of June 30, 2009 and did not have a balance on the line as of June 30, 2008. The University had a balance due on the line of credit in the amount of \$6.8 million as of June 30, 2007.

Western Michigan University

Management's Discussion and Analysis (Continued)

Economic Factors That Will Affect the Future

Acting in its July meeting, the Western Michigan University Board of Trustees adopted a \$323.9 million General Fund operating budget for the 2009-2010 year as well as a tuition and fees rate increase.

For 2009-2010, the State was going to reduce each state university's appropriation by 3.0 percent. However, the State noted its intent to restore the same percentage on a one-time basis and fund it through federal stimulus dollars. Due to a prorated reduction in federal stimulus funds, the State was required to reduce the federal dollars allocated to each university. As a result of this activity, Western Michigan University is expecting to receive 0.4 percent less in the 2010 state appropriation from the fiscal year 2009 appropriation.

The new budget reflects that the University's state appropriation for the 2009-2010 year is expected to be \$109.6 million. Tuition and fees for resident undergraduate students will increase 5.7 percent. Additional revenue from this rate increase, as well as enrollment changes, will result in a projected net revenue increase of \$8.1 million for the 2009-2010 year. Budgeted expenses have increased for compensation, utilities, financial aid, debt service, and library acquisitions.

Western Michigan University's tuition cost will rank only eleventh among the State's 15 public universities, even though it is one of Michigan's four largest, most complex, and highly regarded research institutions. The University continues to offer exceptional value to our students.

Western Michigan University

Balance Sheet

	June 30	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 40,412,902	\$ 31,353,081
Short-term investments (Note 3)	1,138,394	3,414,453
Accounts receivable - Net (Note 4)	37,033,929	36,214,549
Inventories	6,526,259	5,126,373
Deposits, prepaid expenses, and other assets	2,098,707	2,277,429
Total current assets	87,210,191	78,385,885
Long-term Investments (Note 3)	51,425,721	57,594,954
Student Loans Receivable (Note 4)	9,580,012	10,010,276
Other Receivables (Note 4)	1,782,594	2,087,840
Other Assets	108,559	51,503
Capital Assets - Net (Note 5)	660,532,162	667,234,719
Total assets	\$ 810,639,239	\$ 815,365,177
Liabilities and Net Assets		
Current Liabilities		
Current portion of debt obligations (Note 7)	\$ 16,118,628	\$ 12,371,653
Accounts payable	10,322,341	10,557,318
Due to depositors	1,279,789	772,226
Accrued payroll and withholdings	16,912,377	15,499,074
Employee retirement	3,524,074	4,064,823
Insurance and other claims payable (Note 8)	7,324,102	6,968,362
Tuition and fees received in advance	5,668,984	4,920,261
Other liabilities	10,559,803	8,452,319
Total current liabilities	71,710,098	63,606,036
Long-term Obligations - Net of current portion (Note 7)	417,600,254	415,414,607
Total liabilities	489,310,352	479,020,643
Net Assets		
Unrestricted	(75,843,694)	(65,515,578)
Restricted for:		
Expendable	1,585,406	432,540
Loans	9,317,254	9,121,876
Other	16,553,870	18,551,402
Invested in capital assets - Net of related debt	369,716,051	373,754,294
Total net assets	321,328,887	336,344,534
Total liabilities and net assets	\$ 810,639,239	\$ 815,365,177

Western Michigan University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2009	2008
Operating Revenues		
Tuition and fees	\$ 217,527,842	\$ 195,444,259
Scholarship allowance	(31,738,177)	(24,712,551)
Net tuition and fees	185,789,665	170,731,708
Governmental grants and contracts	23,297,427	25,165,329
Other grants and contracts	10,183,234	9,092,283
Departmental and other educational activities	28,014,596	23,939,481
Auxiliary activities	95,988,382	89,983,370
Scholarship allowance	(6,966,917)	(5,061,607)
Net auxiliary activities	150,516,722	143,118,856
Other revenues	3,748,476	3,938,292
Total operating revenues	340,054,863	317,788,856
Operating Expenses		
Instruction	155,585,243	142,255,214
Departmental research	26,071,022	29,867,103
Public service	10,149,221	9,218,849
Academic support	40,267,400	37,166,662
Student services	24,224,338	22,546,954
Institutional support	35,949,230	36,767,042
Operations and maintenance of plant	35,547,686	33,664,003
Scholarships and fellowships	28,906,202	25,028,660
Auxiliary activities	81,010,882	78,380,342
Depreciation	29,443,036	28,723,806
Other expenditures	9,440,746	17,628,425
Total operating expenses	476,595,006	461,247,060
Operating Loss	(136,540,143)	(143,458,204)
Nonoperating Revenues (Expenses)		
State appropriations	113,243,200	122,383,400
Gifts	18,713,678	13,341,222
Pell grant revenue	14,831,820	12,317,727
Loss on swap termination	(6,824,750)	(15,705,000)
Investment loss and other interest	(6,937,083)	(1,917,377)
Interest on capital asset-related debt	(15,072,900)	(15,642,856)
Net nonoperating revenues	117,953,965	114,777,116
Loss - Before other revenues	(18,586,178)	(28,681,088)
Other Revenues		
State capital appropriations	846,220	8,226,337
Other revenues and capital gifts and grants	2,724,311	7,077,615
Total other revenues	3,570,531	15,303,952
Decrease in Net Assets	(15,015,647)	(13,377,136)
Net Assets		
Beginning of year (Note 2)	336,344,534	349,721,670
End of year	<u>\$ 321,328,887</u>	<u>\$ 336,344,534</u>

Statement of Cash Flows

	Year Ended June 30	
	2009	2008
Cash Flows from Operating Activities		
Tuition and fees	\$ 218,754,900	\$ 196,146,557
Grants and contracts	31,989,290	34,177,159
Payments to suppliers	(193,130,908)	(177,977,791)
Payments to employees	(287,489,623)	(272,126,484)
Loans issued to students	(1,001,545)	(2,455,816)
Collection of loans from students	1,527,621	1,475,301
Student loan interest	104,700	85,147
Auxiliary enterprise charges	96,091,435	89,327,698
Departmental and other	28,541,385	25,237,565
Net cash used in operating activities	(104,612,745)	(106,110,664)
Cash Flows from Noncapital Financing Activities		
Private gifts for endowment purposes	257,099	449,182
Gifts and contributions for other than capital purposes	17,917,299	11,715,596
William D. Ford direct lending receipts	116,406,799	88,986,806
William D. Ford direct lending disbursements	(116,406,799)	(88,986,806)
PLUS loan receipts	19,196,793	25,888,575
PLUS loan disbursements	(19,196,793)	(25,888,575)
Pell grant revenue	14,831,820	12,317,727
Agency transactions	(115,014)	2,845,152
State appropriations	113,039,346	109,911,913
Net cash provided by noncapital financing activities	145,930,550	137,239,570
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(17,813,948)	(33,403,997)
Proceeds net of deposits from disposal of assets	218,718	51,523
Principal paid on capital debt	(6,240,000)	(8,095,000)
Net repayments on line of credit	-	(6,807,978)
Capital grant, gift, and other proceeds	2,569,786	6,974,615
Capital appropriations	596,219	8,468,211
Withdrawals from trustee to purchase capital assets	2,383,630	9,487,808
Proceeds from issuance of debt	47,760,000	169,615,000
Deposit with trustee for refunding	(47,189,783)	(168,139,647)
Swap termination and bond closing costs	(1,841,575)	(4,830,457)
Interest paid on capital debt	(15,026,043)	(15,353,183)
Net cash used in capital and related financing activities	(34,582,996)	(42,033,105)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	14,734,021	18,883,410
Interest on investments	1,590,991	5,703,515
Purchase of investments	(14,000,000)	(8,143,276)
Net cash provided by investing activities	2,325,012	16,443,649
Net Increase in Cash and Cash Equivalents	9,059,821	5,539,450
Cash and Cash Equivalents - Beginning of year	31,353,081	25,813,631
Cash and Cash Equivalents - End of year	\$ 40,412,902	\$ 31,353,081

Western Michigan University

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2009	2008
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (136,540,143)	\$ (143,458,204)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	29,443,036	28,723,806
Amortization of bond issuance costs	540,057	3,391,283
Disposal/Adjustments of fixed assets	(5,703,382)	(1,684,379)
(Increase) decrease in assets:		
Federal and state grants receivable	(992,973)	289,604
Accounts receivable - Net	1,066,516	(463,154)
Inventories	(1,399,886)	686,942
Prepaid assets and other current assets	(121,666)	(671,070)
Loans to students	630,776	(1,052,552)
Increase (decrease) in liabilities:		
Accounts payable	(219,031)	(424,169)
Accrued payroll and other compensation	872,554	507,259
Other liabilities	7,631,072	6,342,001
Unearned tuition and fees	180,325	1,701,969
Net cash used in operating activities	<u>\$ (104,612,745)</u>	<u>\$ (106,110,664)</u>

Western Michigan University

Discretely Presented Component Unit Foundations Balance Sheet and Statement of Activities and Changes in Net Assets

Balance Sheet	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Research Foundation	
	June 30		June 30		June 30	
	2009	2008	2009	2008	2009	2008
Assets						
Cash and short-term investments	\$ 9,020,034	\$ 9,344,631	\$ 255,611	\$ 672,105	\$ -	\$ -
Investments (Note 3)	127,896,685	178,187,896	4,141,913	5,272,159	1,961,549	1,960,489
Pledges receivable (Note 4)	15,200,765	15,030,899	33,592	38,191	-	-
Cash surrender value of life insurance policies	1,231,642	1,215,810	-	-	-	-
Land, land contracts, and other property	6,607,516	1,119,496	-	-	-	-
Total Assets	\$ 159,956,642	\$ 204,898,732	\$ 4,431,116	\$ 5,982,455	\$ 1,961,549	\$ 1,960,489
Liabilities - Accounts payable	\$ 54,510	\$ 913,232	\$ -	\$ 2,761	\$ 2,097,070	\$ 1,935,022
Net Assets						
Unrestricted:						
Undesignated	81,169,917	126,555,859	234,157	239,800	(135,521)	-
Designated	-	-	1,908,495	3,046,655	-	25,467
Temporarily restricted	13,086,186	14,932,995	359,912	799,382	-	-
Permanently restricted	65,646,029	62,496,646	1,928,552	1,893,857	-	-
Total Net Assets	159,902,132	203,985,500	4,431,116	5,979,694	(135,521)	25,467
Total Liabilities and Net Assets	\$ 159,956,642	\$ 204,898,732	\$ 4,431,116	\$ 5,982,455	\$ 1,961,549	\$ 1,960,489
Statement of Activities and Changes in Net Assets						
	Year Ended June 30		Year Ended June 30		Year Ended June 30	
	2009	2008	2009	2008	2009	2008
Revenue (Loss), Gains, and Other Support						
Gifts, contributions, and other	\$ 13,531,179	\$ 18,378,555	\$ 177,027	\$ 364,153	\$ -	\$ -
Investment income	1,428,688	5,386,518	44,154	157,821	(206,386)	-
Net loss from security and other investment transactions	(41,747,943)	(19,480,749)	(1,320,891)	(655,372)	-	-
Increase in cash surrender value of life insurance policies	15,832	31,858	-	-	-	-
Net transfers from Western Michigan University	12,975,354	6,581,641	4,719	12,386	98,937	33,660
Total revenue (loss), gains, and other support	(13,796,890)	10,897,823	(1,094,991)	(121,012)	(107,449)	33,660
Expenditures and Distributions						
Program services	109,115	112,792	41,373	28,566	-	-
Management and general	1,445,253	700,658	60,654	63,457	53,539	86,681
Fund-raising	2,383,290	2,189,661	101,110	74,748	-	-
Total expenditures paid	3,937,658	3,003,111	203,137	166,771	53,539	86,681
Distributions	26,348,820	19,845,281	250,450	411,916	-	-
Total expenditures and distributions	30,286,478	22,848,392	453,587	578,687	53,539	86,681
Change in Net Assets	(44,083,368)	(11,950,569)	(1,548,578)	(699,699)	(160,988)	(53,021)
Net Assets - Beginning of year	203,985,500	215,936,069	5,979,694	6,679,393	25,467	78,488
Net Assets - End of year	\$ 159,902,132	\$ 203,985,500	\$ 4,431,116	\$ 5,979,694	\$ (135,521)	\$ 25,467

Note I - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The financial statements of Western Michigan University (the "University") have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the "business-type" activities reporting requirements of GASB Statement No. 34.

GASB 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following categories:

- **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 in those assets
- **Restricted** - Net assets subject to externally imposed constraints that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time
- **Unrestricted** - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of management or the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

The University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

These statements have also been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 39). These criteria include significant operational or financial relationships with the University. Based on application of the criteria, the University has three component units.

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

Summary of Significant Accounting Policies

Component Unit - Western Michigan University is an institution of higher education located in Kalamazoo, Michigan, and is considered to be a component unit of the State of Michigan (the "State") because its board of trustees 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, and payments to state retirement programs for the benefit of University employees.

Component Units of the University - The Western Michigan University Foundation, Paper Technology Foundation, Inc., and Western Michigan University Research Foundation's statements are discretely presented as part of the University's reporting entity. These statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB). The officers of Western Michigan University Foundation and Paper Technology Foundation include certain University administrative officials, but the University does not have controlling interest in those Foundations' boards. The University does have controlling interest in the Western Michigan University Research Foundation. The Internal Revenue Service has determined that the Foundations are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Western Michigan University Foundation exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of Western Michigan University.

Paper Technology Foundation, Inc. was established to aid and promote, by financial assistance and guidance, education and research in paper technology and related areas at Western Michigan University. The University has paid certain expenses of Paper Technology Foundation, Inc.

A complete copy of the audited financial statements of Western Michigan University Foundation and Paper Technology Foundation, Inc. is available at the Foundation offices located on the campus of the University.

Western Michigan University Research Foundation operates for the benefit of Western Michigan University to promote, encourage, and aid scientific investigation and research as well as commercialization endeavors. The University has paid certain expenses of Western Michigan Research Foundation.

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

Cash and Investments - The University's cash, comprised of working capital and permanent-core assets, is principally invested in investment-grade securities that are readily convertible to cash. The cash is allocated to securities that meet short-, intermediate-, and long-term investment objectives. Investments are reported at fair value, based on quoted market prices, with changes in fair value reported as investment income in the statement of revenue, expenses, and changes in net assets.

Inventories - Inventories consist primarily of supplies, food, pharmaceuticals, and bookstore items, and are stated at the lower of cost or market, with cost determined by the retail method.

Operating and Nonoperating Revenues - Operating activities as reported on the statements of revenues, expenses, and changes in net assets are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, gifts, and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

Capital Assets - Capital assets are stated at cost if purchased or at appraised value at the date of the gift for donated property. Certain net assets have been designated to provide for significant repair and maintenance costs to residence facilities. Physical properties, with the exception of land, are depreciated on the straight-line method over the estimated useful service lives of the respective assets. Estimated service lives are as follows:

Land improvements	20 years
Buildings	50 years
Equipment	3-15 years
Library holdings	10 years

Bond Issuance Costs - Bond issuance costs are amortized over the life of the related bonds using the straight-line method.

Reclassification - Certain reclassifications have been made to the 2008 amounts to conform to the 2009 presentation.

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Change in Accounting for Other Postemployment Benefits

During the year ended June 30, 2008, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. That standard requires that governmental entities recognize the cost of providing retiree healthcare coverage over the working life of the employees rather than at the time the health insurance premiums are paid. The University implemented the statement retroactively and beginning net assets at July 1, 2007 were restated to accrue a liability of approximately \$113,000,000 in the statement of revenue, expenses, and changes in net assets for the year ended June 30, 2008.

The adoption of the new accounting standard increased expenditures by approximately \$8,000,000 for the year ended June 30, 2009.

Note 3 - Cash and Investments

The University uses the “pooled cash” method of accounting for substantially all of its cash and investments. In order to maximize earnings, the cash and investments of Western Michigan University Foundation, Western Michigan University Research Foundation, and Paper Technology Foundation, Inc. are pooled with those of the University. External investment managers are provided with an investment policy statement, as set forth by the board of trustees.

As of June 30, 2009, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 years	6-10 years	More Than 10 years
Money market funds	\$ 41,551,296	\$ 41,551,296	\$ -	\$ -	\$ -
Intermediate-term mutual funds	22,336,234	-	22,336,234	-	-
Equity index mutual funds	3,612,454	-	-	-	3,612,454
Equity funds	20,944,372	-	-	-	20,944,372
Bond funds	2,555,750	-	426,663	2,129,087	-
Land and land contracts	93,500	-	-	-	93,500
Venture capital	1,552,500	-	-	-	1,552,500
Real Estate Investment Trust Fund	330,911	-	-	-	330,911
Total	<u>\$ 92,977,017</u>	<u>\$ 41,551,296</u>	<u>\$ 22,762,897</u>	<u>\$ 2,129,087</u>	<u>\$ 26,533,737</u>

Note 3 - Cash and Investments (Continued)

As of June 30, 2008, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 years	6-10 years	More Than 10 years
Money market funds	\$ 34,767,534	\$ 34,767,534	\$ -	\$ -	\$ -
Intermediate-term mutual funds	19,730,248	-	19,730,248	-	-
Equity index mutual funds	4,765,548	-	-	-	4,765,548
Equity funds	28,618,236	-	-	-	28,618,236
Bond funds	2,930,256	-	-	2,930,256	-
Land and land contracts	93,500	-	-	-	93,500
Venture capital	1,050,000	-	-	-	1,050,000
Real Estate Investment Trust Fund	407,166	-	-	-	407,166
Total	<u>\$ 92,362,488</u>	<u>\$ 34,767,534</u>	<u>\$ 19,730,248</u>	<u>\$ 2,930,256</u>	<u>\$ 34,934,450</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's operating investment policy provides for a diversified portfolio comprised of short-, intermediate-, and long-term investments. The investment policy does not specifically limit or restrict asset allocation except for the long-term investment pool. The asset allocation, as a percentage of the total market value of the long-term investment pool, is targeted as follows:

<u>Asset Category</u>	<u>Target</u>	<u>Range</u>
U.S. equities	80%	70-90%
International equities	20%	10-30%

The University is also exposed to risk indirectly since its mutual fund investees hold investments such as futures, options, and collateralized mortgage obligations (generally referred to as "derivatives").

The annuity and life income funds are invested on the policy that they are held to maturity; therefore, the interest rate risk is not considered in its decisions.

Credit Risk - For investments in non-mutual and non-pooled funds, no more than 10 percent of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. government securities. The weighted average credit quality is to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool accounts and "AA" for the intermediate-term investment pool accounts. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be "AA" for the short-term pool accounts and "BBB" for the intermediate-term investment pool accounts.

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Cash and Investments (Continued)

At June 30, 2009 and 2008, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2009		2008	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Bond mutual funds:				
Western Asset Intermediate Bond Portfolio	\$ 13,008,456	AA	\$ 15,437,633	AA
Commonfund Intermediate Term Fund	3,469,412	AA	4,292,616	AA+
PIMCO Moderate Duration Fund	5,858,366	AA	-	
SSGA Bond Market Fund	371,729	AA	540,093	AA2
SSGA High Yield Bond Fund	75,311	B	75,874	B-
Vanguard Total Bond Fund	1,682,047	AA	2,314,289	AAA
Corporate bonds	426,663	AA	-	
Total	<u>\$ 24,891,984</u>		<u>\$ 22,660,505</u>	

The nationally recognized statistical rating organization (NRSRO) utilized was primarily Moody's Investors Services. The corporate bonds NRSRO rating is based on a weighted average of the individual investment ratings.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the University will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The University's cash investment policy does not limit the value of deposits or investments that may be held by an outside party. Investments in external investment pools and in open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2009 and 2008, the carrying amount of the University's deposits was \$13,967,209 and \$15,928,355, respectively. Of that amount, \$849,781 and \$390,105 was insured as of June 30, 2009 and 2008, respectively. The remaining \$13,117,428 and \$15,538,250 at June 30, 2009 and 2008, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's cash investment policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10 percent of its assets can be in any particular issue. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University did not have investments in any single issuer that equaled 5 percent or more in 2009 or 2008.

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Cash and Investments (Continued)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2009 and 2008, the University had approximately \$5,600,000 and \$6,900,000, respectively, invested in mutual funds that have funds invested in various countries throughout the world and therefore, exposes the University to foreign currency risk indirectly. The University did not have any direct investments or deposits denominated in foreign currencies at June 30, 2009 and 2008.

Investments at Western Michigan University Foundation, Paper Technology Foundation, Inc., and Western Michigan University Research Foundation are as follows:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Research Foundation	
	2009	2008	2009	2008	2009	2008
Corporate stocks	\$ 584,739	\$ 281,763	\$ 18,937	\$ 8,337	\$ -	\$ -
Alternative investments	36,863,339	46,756,560	1,193,853	1,514,254	1,961,549	1,960,489
Real estate	2,034,125	2,068,621	65,875	61,206	-	-
Mutual funds:						
Equity	75,375,804	110,631,949	2,440,993	3,142,846	-	-
Fixed income	13,038,678	18,449,003	422,255	545,516	-	-
Total	<u>\$ 127,896,685</u>	<u>\$ 178,187,896</u>	<u>\$ 4,141,913</u>	<u>\$ 5,272,159</u>	<u>\$ 1,961,549</u>	<u>\$ 1,960,489</u>

Net gains (losses) from security transactions for the years ended June 30, 2009 and 2008 are as follows for each foundation:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.	
	2009	2008	2009	2008
Unrealized depreciation	\$ (29,637,255)	\$ (30,938,635)	\$ (949,625)	\$ (965,252)
Realized gains (losses)	<u>(12,110,688)</u>	<u>11,457,886</u>	<u>(371,266)</u>	<u>309,880</u>
Total	<u>\$ (41,747,943)</u>	<u>\$ (19,480,749)</u>	<u>\$ (1,320,891)</u>	<u>\$ (655,372)</u>

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$1,228,409 and \$1,424,356 and \$37,992 and \$44,052 for the years ended June 30, 2009 and 2008 for Western Michigan University Foundation and Paper Technology Foundation, respectively. For recording purposes, these fees have been netted with investment income.

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Receivables

As of June 30, 2009 and 2008, accounts receivable consisted of the following:

	2009	2008
Appropriations from the State of Michigan for operations	\$ 20,589,672	\$ 20,385,818
Sponsored research grants receivable	3,733,728	2,810,755
Student accounts receivable	8,097,192	8,622,062
Other	<u>10,661,945</u>	<u>10,681,546</u>
Total	43,082,537	42,500,181
Less allowances for doubtful accounts	<u>(4,266,014)</u>	<u>(4,197,792)</u>
Net accounts receivable	<u>\$ 38,816,523</u>	<u>\$ 38,302,389</u>

As of June 30, 2009 and 2008, student loans receivable consisted of the following:

	2009	2008
Student loans receivable	\$ 9,632,759	\$ 10,158,835
Less allowance for doubtful accounts	<u>(52,747)</u>	<u>(148,559)</u>
Net student loans receivable	<u>\$ 9,580,012</u>	<u>\$ 10,010,276</u>

As of June 30, 2009 and 2008, pledges receivable at the Foundations consisted of the following:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.	
	2009	2008	2009	2008
Pledges expected to be collected within 1 year	\$ 3,515,289	\$ 3,443,414	\$ 10,705	\$ 13,000
Pledges expected to be collected in 1-5 years	<u>12,377,431</u>	<u>12,835,303</u>	<u>25,700</u>	<u>30,400</u>
	15,892,720	16,278,717	36,405	43,400
Less:				
Allowance for uncollectible contributions	(388,290)	(444,529)	(1,456)	(1,736)
Present value discount	<u>(303,665)</u>	<u>(803,289)</u>	<u>(1,357)</u>	<u>(3,473)</u>
Net pledges receivable	<u>\$ 15,200,765</u>	<u>\$ 15,030,899</u>	<u>\$ 33,592</u>	<u>\$ 38,191</u>

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Receivables (Continued)

Pledges receivable are presented net of a discount for the value of future cash flows and an allowance for uncollectible contributions. The discount to present value was calculated using the yield on a three-year Treasury bill, equal to 1.64 percent and 3.08 percent as of June 30, 2009 and 2008, respectively. The allowance for uncollectible contributions is a general valuation allowance of 4 percent established based on historical contribution collection history. Estate gifts receivable at Western Michigan University Foundation of \$5,216,300 and \$4,117,300 at June 30, 2009 and 2008, respectively, included in the total pledges receivable, have no allowance for uncollectible contributions. Pledges deemed uncollectible are charged against the allowance for uncollectible contributions in the period in which the determination is made.

Note 5 - Capital Assets

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2009:

2009	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets:				
Land	\$ 13,132,123	\$ -	\$ -	\$ 13,132,123
Construction in progress	10,294,493	17,660,105	15,051,765	12,902,833
Total nondepreciable property	23,426,616	17,660,105	15,051,765	26,034,956
Land improvements	56,225,093	2,608,688	-	58,833,781
Buildings	772,097,793	6,949,820	161,310	778,886,303
Buildings under capitalized lease	10,578,574	-	-	10,578,574
Equipment	69,630,313	4,174,455	5,677,335	68,127,433
Library holdings	102,256,599	6,769,002	-	109,025,601
Total depreciable property	1,010,788,372	20,501,965	5,838,645	1,025,451,692
Total capital assets	1,034,214,988	38,162,070	20,890,410	1,051,486,648
Less accumulated depreciation:				
Land improvements	19,698,122	2,534,708	-	22,232,830
Buildings	223,999,274	15,194,572	98,130	239,095,716
Buildings under capitalized lease	1,506,623	211,385	-	1,718,008
Equipment	51,889,966	5,934,229	5,370,689	52,453,506
Library holdings	69,886,284	5,568,142	-	75,454,426
Total accumulated depreciation	366,980,269	\$ 29,443,036	\$ 5,468,819	390,954,486
Capital assets - Net	\$ 667,234,719			\$ 660,532,162

Note 5 - Capital Assets (Continued)

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2008:

2008	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets:				
Land	\$ 13,132,123	\$ -	\$ -	\$ 13,132,123
Construction in progress	34,018,115	27,224,781	50,948,403	10,294,493
Total nondepreciable property	47,150,238	27,224,781	50,948,403	23,426,616
Land improvements	52,572,485	3,652,608	-	56,225,093
Buildings	733,258,003	39,030,527	190,737	772,097,793
Buildings under capitalized lease	10,578,574	-	-	10,578,574
Equipment	71,931,905	6,723,471	9,025,063	69,630,313
Library holdings	95,868,343	6,388,256	-	102,256,599
Total depreciable property	964,209,310	55,794,862	9,215,800	1,010,788,372
Total capital assets	1,011,359,548	83,019,643	60,164,203	1,034,214,988
Less accumulated depreciation:				
Land improvements	17,337,459	2,360,663	-	19,698,122
Buildings	209,744,509	14,362,994	108,229	223,999,274
Buildings under capitalized lease	1,295,237	211,386	-	1,506,623
Equipment	53,818,853	6,459,316	8,388,203	51,889,966
Library holdings	64,556,837	5,329,447	-	69,886,284
Total accumulated depreciation	346,752,895	\$ 28,723,806	\$ 8,496,432	366,980,269
Capital assets - Net	\$ 664,606,653			\$ 667,234,719

The estimated cost to complete major construction projects in progress and scheduled to begin is approximately \$10 million as of June 30, 2009. These projects are scheduled to be completed through the year ending June 30, 2011. These projects will be funded from internally designated sources and state-provided funds.

Note 6 - Line of Credit

The University used its revolving line of credit to finance a new student information system. The University did not renew the line of credit as of June 30, 2009. The University repaid a net amount of approximately \$6.8 million on the line of credit during fiscal year 2008.

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 7 - Long-term Obligations

Long-term obligation activity for the year ended June 30, 2009 is as follows:

2009	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue Refunding Bonds, Series 2009, with interest ranging from 3.00% to 5.25%, maturing November 15, 2022	\$ -	\$ 47,760,000	\$ -	\$ 47,760,000	\$ 1,890,000
General Revenue Bonds, Series 2008, with interest ranging from 3.00% to 5.00%, maturing November 15, 2032	123,765,000	-	-	123,765,000	3,085,000
General Revenue Refunding Bonds, Series 2007, with interest at variable rates (4.64% at June 30, 2008), maturing November 15, 2022	45,850,000	-	45,850,000	-	-
General Revenue Bonds, Series 2005, with interest ranging from 3.00% to 5.00%, maturing November 15, 2035	36,240,000	-	710,000	35,530,000	735,000
General Revenue and Refunding Bonds, Series 2003, with interest ranging from 3.00% to 5.00%, maturing November 15, 2023	40,575,000	-	2,050,000	38,525,000	2,105,000
General Revenue Variable Rate Demand Bonds, Series 2002B, with interest ranging from 4.41% to 5.42%, maturing November 15, 2032	17,730,000	-	365,000	17,365,000	385,000
General Revenue Bonds, Series 2001, with interest at 5.00%, maturing July 15, 2021	20,035,000	-	1,015,000	19,020,000	1,065,000
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59%, monthly payments ranging from \$77,754 to \$96,677 for 15 years with two five-year renewal options and a buy-out purchase option	7,062,768	-	711,657	6,351,111	765,073
Total bonds, notes, and leases payable	291,257,768	47,760,000	50,701,657	288,316,111	10,030,073
Other Long-term Obligations					
Annuities payable	1,241,958	12,901	39,300	1,215,559	-
Other postemployment benefits (Note 9)	120,986,315	8,024,284	-	129,010,599	6,088,555
Accrued compensated absences	14,300,219	886,294	9,900	15,176,613	-
Total long-term obligations	\$ 427,786,260	\$ 56,683,479	\$ 50,750,857	\$ 433,718,882	\$ 16,118,628

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 7 - Long-term Obligations (Continued)

Long-term obligation activity for the year ended June 30, 2008 is as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue Bonds, Series 2008, with interest ranging from 3.25% to 5.00%, maturing November 15, 2032	\$ -	\$ 123,765,000	\$ -	\$ 123,765,000	\$ -
General Revenue Refunding Bonds, Series 2007, with interest at variable rates (4.64% at June 30, 2008), maturing November 15, 2022	-	45,850,000	-	45,850,000	2,100,000
General Revenue Bonds, Series 2005, with interest ranging from 3.00% to 5.00%, maturing November 15, 2035	36,930,000	-	690,000	36,240,000	710,000
General Revenue and Refunding Bonds, Series 2003, with interest ranging from 2.25% to 5.00%, maturing November 15, 2023	42,565,000	-	1,990,000	40,575,000	2,050,000
General Revenue Variable Rate Demand Bonds, Series 2002B, with interest ranging from 4.41% to 5.42%, maturing November 15, 2032	18,075,000	-	345,000	17,730,000	365,000
General Revenue Bonds, Series 2002A, with interest at variable rates (4.27% at June 30, 2008), maturing November 15, 2032	45,350,000	-	45,350,000	-	-
General Revenue Bonds, Series 2001, with interest ranging from 4.00% to 5.00%, maturing July 15, 2021	21,035,000	-	1,000,000	20,035,000	1,015,000
General Revenue Bonds, Series 2000, with interest at variable rates (5.08% at June 30, 2008), maturing November 15, 2030	69,000,000	-	69,000,000	-	-
General Revenue and Refunding Bonds, Series 1997, with interest ranging from 4.65% to 5.13%, maturing November 15, 2022	47,220,000	-	47,220,000	-	-
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59%, monthly payments ranging from \$77,754 to \$96,677 for 15 years with two five-year renewal options and a buy-out purchase option	7,723,744	-	660,976	7,062,768	711,657
Total bonds, notes, and leases payable	287,898,744	169,615,000	166,255,976	291,257,768	6,951,657
Other Long-term Obligations					
Annuities payable	1,290,314	46,983	95,339	1,241,958	-
Other postemployment benefits (Note 9)	-	120,986,315	-	120,986,315	5,419,996
Accrued compensated absences	13,832,781	606,497	139,059	14,300,219	-
Total long-term obligations	<u>\$ 303,021,839</u>	<u>\$ 291,254,795</u>	<u>\$ 166,490,374</u>	<u>\$ 427,786,260</u>	<u>\$ 12,371,653</u>

Western Michigan University

Notes to Financial Statements June 30, 2009 and 2008

Note 7 - Long-term Obligations (Continued)

During prior years, the University in-substance defeased (extinguished) \$36,270,000 of principal related to the 1991A General Revenue bonds, \$18,450,000 of principal related to the 1991B General Revenue bonds, \$49,500,000 of principal related to the 1992A General Revenue bonds, \$37,240,000 of principal related to the 1993A General Revenue bonds, \$45,250,000 of principal related to the 1997 General Revenue and Refunding bonds, \$68,000,000 of principal related to the 2000 General Revenue bonds, and \$44,250,000 of principal related to the 2002A General Revenue bonds.

Since a portion of the General Revenue bonds Series 1991A, 1991B, 1992A, 1993A, 1997, 2000, 2002A, and 2007 was in-substance defeased, neither the assets of the irrevocable trust nor the bonds are reflected in the University's balance sheet. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust and the interest earned on these funds. Of the various bonds in-substance defeased, \$0 remains outstanding at June 30, 2009.

The bonds and notes payable are generally callable by the University. The principal and interest amounts are payable as follows:

	Bonds and Notes Payable			Obligations Under Capital Lease
	Principal	Interest	Total	
2010	\$ 9,265,000	\$ 13,291,806	\$ 22,556,806	\$ 1,035,308
2011	10,590,000	12,841,653	23,431,653	1,056,014
2012	11,330,000	12,345,954	23,675,954	1,077,134
2013	11,170,000	11,874,924	23,044,924	1,098,677
2014	12,210,000	11,372,517	23,582,517	1,120,650
2015-2019	68,770,000	47,808,501	116,578,501	2,013,157
2020-2024	71,745,000	29,429,320	101,174,320	-
2025-2029	46,865,000	15,961,194	62,826,194	-
2030-2034	35,665,000	4,366,902	40,031,902	-
2035-2036	4,355,000	220,373	4,575,373	-
Total	<u>\$ 281,965,000</u>	<u>\$ 159,513,144</u>	<u>\$ 441,478,144</u>	7,400,940
Less amount representing interest				<u>(1,049,829)</u>
Present value of net minimum lease payments				<u>\$ 6,351,111</u>

Interest expense paid by the University on all indebtedness was \$15,072,900 and \$15,642,856 for the years ended June 30, 2009 and 2008, respectively. This includes construction period interest which is capitalized as part of the cost of the assets constructed of \$1,205,382 and \$1,104,228 for the years ended June 30, 2009 and 2008, respectively.

Note 7 - Long-term Obligations (Continued)

Bond Defeasance

In February 2009, the University issued \$47,760,000 of General Revenue Refunding Bonds, Series 2009 with an average interest rate of 4.87 percent, which, in conjunction with an equity contribution, was used to advance refund \$43,750,000 outstanding General Revenue Refunding Bonds, Series 2007 with an average interest rate of 4.64 percent. The total available funds of \$51,319,512, plus an additional \$1,306,407 equity contribution, were used to pay \$794,762 in issuance and insurance costs and \$8,081,157 in swap termination fees and other amounts due on the swap agreement associated with the Series 2007 bonds. The remaining \$43,750,000 was deposited with the trustee and used to pay off the Series 2007 bonds when called for redemption in April 2009.

The advance refunding increased total debt service payments by \$6,960,030, which represents an economic loss of \$4,328,069.

Interest Rate Swap Agreements

During the year ended June 30, 2008, the University entered into a fixed interest rate swap expiring in 2022 to hedge against the outstanding par value of the Series 2007 bonds. Under the swap, the University paid the counterparty a fixed payment of 4.64 percent and received a variable payment of 67 percent of the one-month LIBOR. This swap agreement was terminated with issuance of the \$47,760,000 General Revenue Refunding Bonds Series 2009 and the payment of a \$6,824,750 swap termination penalty.

Note 8 - Insurance

The University is a participant in the Michigan Universities Self-Insurance Corporation (MUSIC). This organization provides insurance coverage for errors and omissions liability, comprehensive general liability, and all risk property insurance. In fiscal year 2009, there are 11 universities that participate in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability errors and omissions and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

Note 8 - Insurance (Continued)

The maximum possible assessment for the University for the year ended June 30, 2009 is \$1.5 million. The University has not been subjected to additional assessments since the formation of MUSIC in 1987. Historically, the obligations and expenses (claims) have been less than the combined periodic payments and accumulated operational reserves for any given year.

The University is essentially self-insured for hospital/medical, life, long-term disability, and workers' compensation coverage. Stop-loss coverage has been purchased by the University for hospital/medical, workers' compensation, and life insurance claims. Liabilities associated with expected unpaid claims have also been determined and are accrued on the balance sheet.

Note 9 - Retirement Plans

The University provides noncontributory retirement plans for all qualified employees through plans offered by the Michigan Public School Employees' Retirement System (MPSERS) or the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF).

Defined Benefit Pension Plan

Plan Description - The MPSERS plan is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers some employees of the University. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - State statute requires the University to contribute the full actuarially determined amount to fund pension benefits. The pension benefit rate totaled 6.38 percent for the period from October 1, 2006 through September 30, 2007, 5.84 percent for the period from October 1, 2007 through September 30, 2008, and 5.66 percent from October 1, 2008 through June 30, 2009 of the covered payroll to the plan. The University's contribution to the MPSERS plan for the year ended June 30, 2009 was approximately \$4,600,000. Contributions were \$4,900,000 and \$4,500,000 for the years ended June 30, 2008 and 2007, respectively.

Note 9 - Retirement Plans (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. The MPSERS Board of Trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. The University's required contributions for postemployment healthcare benefits, which are funded on a cash basis, were approximately \$4,400,000, \$3,800,000, and \$4,100,000 for the years ended June 30, 2009, 2008, and 2007, respectively.

Defined Contribution Plan

As an alternative pension option, the University offers all employees eligible for benefits the opportunity to participate in the TIAA-CREF plan. Funding for the plan consists of an employer contribution of 11 percent of covered compensation and has no liability beyond its contribution. Benefits vest immediately for eligible salaried employees and vest after a five-year period for eligible hourly non-exempt participants. Contributions for the years ended June 30, 2009, 2008, and 2007 were approximately \$16,000,000, \$15,000,000, and \$14,400,000, respectively.

Other Postemployment Benefits

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented for the fiscal year ended June 30, 2008. As allowed in the statement, the University has elected to apply the requirements of the statement retroactively. Therefore, net assets as of July 1, 2007 have been restated.

Plan Description - The University provides retiree life insurance, health, and dental care benefits, including prescription drug coverage, to retired employees, their spouses, and dependent children. Benefits are provided to all retired faculty, academic, and support staff that retired at the age of 55 or older and had provided 10 years or more of service to the University. Currently, the plan has 2,612 active members, of which 2,191 are eligible to receive life insurance upon retirement.

This is a single employer defined benefit plan administered by the University. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions (or by the employer if not funded through the plan).

Note 9 - Retirement Plans (Continued)

Funding Policy - Retirees or their surviving spouses are required to make annual contributions of between \$430 to \$6,952 depending on their age and if their spouse or dependents are covered. The University has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The costs of administering the plan are borne by the University.

Funding Progress - For the years ended June 30, 2009 and 2008, the University has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2008. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation’s computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,847,354
Interest on the prior year's net OPEB obligation	8,770,553
Less adjustment to the annual required contribution	<u>-</u>
Annual OPEB cost	12,617,907
Amounts contributed:	
Payments of current premiums	(4,946,233)
Advance funding	<u>-</u>
Increase in net OPEB obligation	7,671,674
OPEB obligation - Beginning of year	<u>113,314,641</u>
OPEB obligation - End of year	<u>\$ 120,986,315</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB costs	\$ 13,509,479	\$ 12,617,907	-
Percentage contributed	39%	39%	-
Net OPEB obligation	\$ 129,010,599	\$ 120,986,315	-

Note 9 - Retirement Plans (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

	2009	2008	2007
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	\$ (129,010,599)	\$ (121,096,249)	\$ -
Unfunded AAL (UAAL)	\$ (129,010,599)	\$ (121,096,249)	\$ -
Funded ratio	0.00%	0.00%	
Annual covered payroll	\$ 150,000,000	\$ 150,000,000	
Ratio of UAAL to covered payroll	86.0%	80.7%	

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the unit credit method was used. The actuarial assumptions included a 7.74 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after five years. Both rates included a 3.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period.

For the year ended June 30, 2009, the University continued to use the 7.74 percent investment rate of return, which was consistent with the investment's actual return, to determine the interest on prior year's net obligation.

Note 9 - Retirement Plans (Continued)

Window Severance Incentive Plan

The University offered a severance plan to bargaining unit faculty employees who had met certain requirements during the fiscal year ended June 30, 2004. The application period was only available during a specific period of time in fiscal year 2004. Installments will be paid annually over a five-year period with few exceptions, starting with fiscal year 2005. The University's liability for the years ended June 30, 2009 and 2008 was \$228,000 and \$759,000, respectively.

The University offered a companion policy to the above agreement for eligible academic administrators with faculty rank. Academic administrators have the choice of designating one of two designated dates: June 30, 2007 or June 30, 2008. Installments will be paid annually over a five-year period, starting with fiscal year 2008. The University's liability for the years ended June 30, 2009 and 2008 was \$1,749,572 and \$2,255,657, respectively.

Note 10 - Commitments and Contingencies

In the normal course of its activities, the University is a party in various legal and regulatory actions. The University believes that the outcome of these actions will not have a material effect on the financial statements.