LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED
JUNE 30, 2011 AND 2010

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LAKE SUPERIOR STATE UNIVERSITY

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Lake Superior State University

Board of Trustees

President and Vice Presidents

Lake Superior State University Foundation

Lake Superior State University
Management's Discussion and Analysis

This discussion and analysis section of the Lake Superior State University (the "University") annual financial report provides an overview of our financial activities during the years ended June 30, 2011, 2010, and 2009. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Lake Superior State University Foundation whenever appropriate. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with University management.

Reporting Entity

Lake Superior State University is an institution of higher education and is considered to be a component unit of the State of Michigan. The Governor of the State of Michigan appoints the University's Board of Trustees. The University is included in the State's financial statements as a discrete component unit. Transactions with the State of Michigan (the "State") primarily relate to appropriations for operations, appropriations for Charter Schools, receipt of grants, payments to State retirement programs on behalf of certain University employees, and reimbursements for capital outlay projects.

The basic financial statements include not only the University itself, but also a legally separate entity, the Lake Superior State University Foundation, for which the University is financially accountable. Financial statement information for this *component unit* is reported separately from the financial information presented for the University.

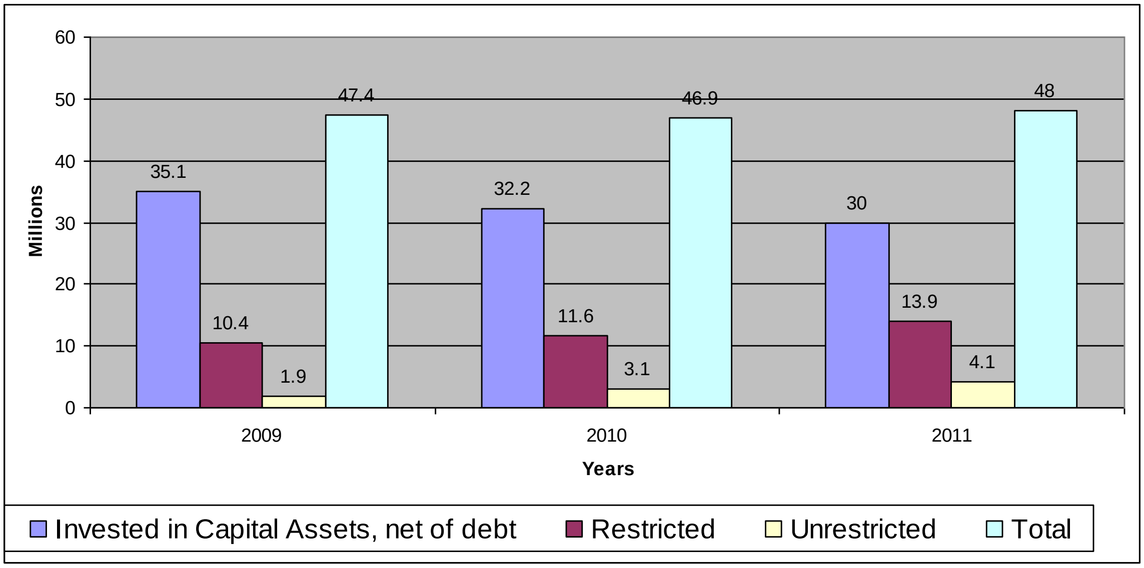
Using the Annual Report

This annual report includes financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The accompanying financial statements, which focus on the financial condition, results of operations and cash flows of the University as a whole, present financial information in a form similar to that used by commercial enterprises. The financial statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Financial Highlights

The University's financial position was stable at June 30, 2011. Net assets for the year ended June 30, 2011 of $48 million increased by $1.1 million from the prior year as compared to a decrease of $454,000 in the previous year. Unrestricted net assets increased by $1 million as the University was able to maintain a balanced budget and benefit from positive market adjustments.

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2011, 2010, and 2009.



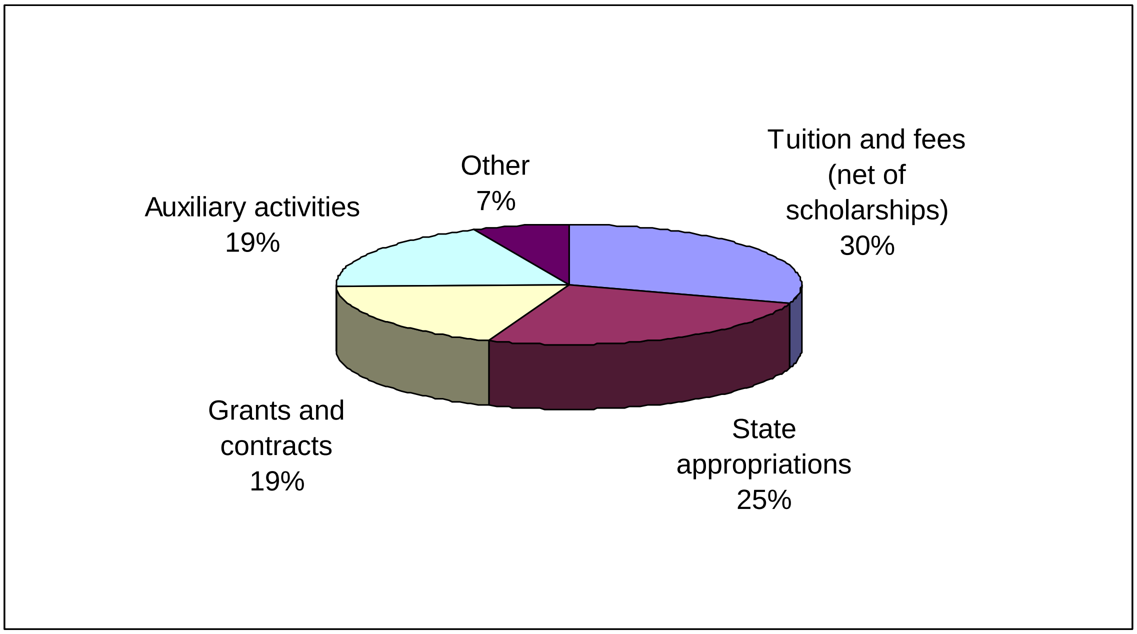
Operating revenues include all transactions that result in the revenue for services and/or receipts from goods and services such as tuition and fees, housing and other rental and sales activities. In addition, certain federal, state and private grants and contracts are considered operating if they are not for capital purposes and are considered a contract for services.

Nonoperating revenues consist primarily of State appropriations, investment income, and grants and contracts that do not require any service to be performed. Annual appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Revenue of the University consists of four main categories: Tuition, State appropriations, auxiliary activities and grants and contracts.

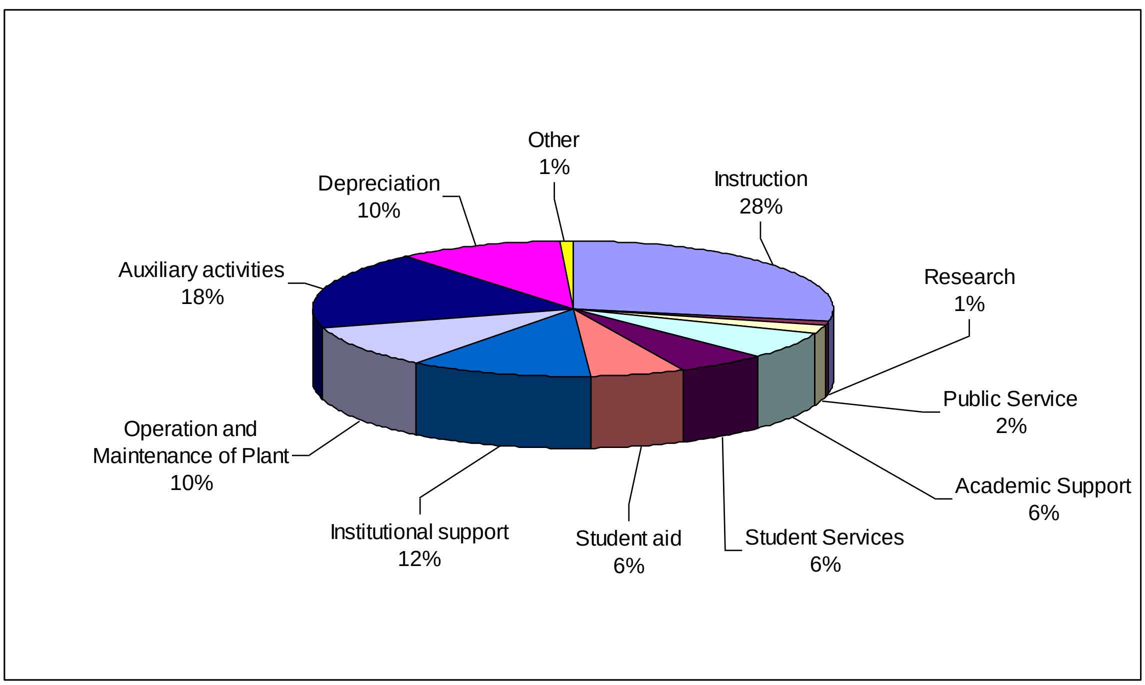
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2011:



Operating expenses are all of the costs necessary to perform and conduct the programs and purposes of the University. Universities traditionally use functional classifications of expenses to represent the types of programs and services they provide.

The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2011:



The Statement of Net Assets

The Statements of Net Assets include all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with operating measures such as enrollment levels and the physical condition of facilities.

	June 30		
	2011	**2010**	**2009**
Assets:			
Current assets	$ 13,477,688	$ 11,722,435	$ 10,039,795
Capital assets, net	54,290,041	57,849,540	61,974,321
Other noncurrent assets	12,181,075	10,581,756	9,527,741
Total Assets	**$ 79,948,804**	**$ 80,153,731**	**$ 81,541,857**
Liabilities:			
Current liabilities	$ 5,671,343	$ 5,744,131	$ 5,256,292
Noncurrent liabilities	26,319,075	27,475,063	28,896,680
Total liabilities	31,990,418	33,219,194	34,152,972
Net Assets:			
Invested in capital assets, net of related debt	29,980,781	32,182,038	35,111,872
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	13,717,093	11,404,290	10,169,842
Unrestricted	4,055,185	3,142,882	1,901,844
Total net assets	47,958,386	46,934,537	47,388,885
Total Liabilities and Net Assets	**$ 79,948,804**	**$ 80,153,731**	**$ 81,541,857**

Changes from 2010 to 2011:

Cash and investments, collectively, increased by $1.6 million to $9.2 million. Accounts receivable increased $360,000 which we attribute to a slightly relaxed tuition payment policy due to a particularly tough economic climate in the State. We attribute the majority of the increase in current assets to an increase in enrollment and corresponding tuition revenues and controlled spending; the result was more cash on hand.

Capital assets decreased by $3.6 million as a result of the annual depreciation charge of $4.9 million and asset additions of $1.3 million.

Total liabilities decreased by $1.2 million, mostly due to long-term debt in the amount of $1.3 million being retired during the current year.

Total net assets increased by $1.0 million. The University's investment in capital assets, net of related debt, decreased by $2.2 million. This is the result of the depreciation charge being greater than capital asset acquisitions. Restricted, expendable scholarship net assets increased by $2.3 million. Unrestricted net assets increased by $1.0 million. The June 30, 2011 unrestricted net assets of $4.1 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of $532,000.

Changes from 2009 to 2010:

Cash and investments, collectively, increased by $1.7 million to $7.6 million which accounted for the entire increase in total current assets. State appropriations receivable and accounts receivable had almost no change from the prior year. We attribute the increase in current assets to continuing stringent enforcement of tuition payment policies and controlled spending; the result was more cash on hand.

Capital assets decreased by $4.1 million as a result of the annual depreciation charge of $5 million and asset additions of $900,000.

Other noncurrent assets increased by $1.1 million due to an increase in the market value of endowment investments. Student loan receivables decreased slightly at $2.7 million.

Total liabilities decreased by $934,000. Long-term debt in the amount of $1.3 million was retired during the current year. Fluctuations of other liabilities include increases in accounts payable of $363,000 and the liability for employee benefits of $94,000.

Total net assets decreased by $454,000. The University's investment in capital assets, net of related debt, decreased by $2.9 million. This is the result of the depreciation charge being greater than capital asset acquisitions. Restricted, expendable scholarship net assets increased by $969,000. Unrestricted net assets increased by $1.2 million. The June 30, 2010 unrestricted net assets of $3.1 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of $1.1 million.

The Statement 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 each year. Activities are reported as either operating or nonoperating. A public University's dependency on State appropriations will result in operating deficits because the financial reporting model classifies State appropriations as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

	Year Ended June 30		
	2011	**2010**	**2009**
Total operating revenues	$ 29,989,565	$ 28,791,501	$ 29,001,379
Total operating expenses	47,640,518	46,935,907	47,056,405
Operating loss	(17,650,953)	(18,144,406)	(18,055,026)
Net nonoperating revenues	18,450,600	17,366,548	13,289,098
Income (loss) before other revenues	799,647	(777,858)	(4,765,928)
Total other revenues	224,202	323,510	422,309
Increase (decrease) in net assets	**1,023,849**	**(454,348)**	**(4,343,619)**
Net assets, beginning of year	46,934,537	47,388,885	51,732,504
Net assets, end of year	**$ 47,958,386**	**$ 46,934,537**	**$ 47,388,885**

Changes from 2010 to 2011:

Operating revenues increased by $1.2 million. Tuition and fees, net of scholarship allowance, increased by $1 million or 7.2% after a tuition rate increase of 5.8% with a 4.3% increase in enrollment and an increase in scholarship allowance of $1.1 million. Auxiliary revenues increased by $816,000 or 9.4% after a 2% room and board rate increase and increased housing occupancy.

Operating expenses increased by $705,000. Of this amount, salary and benefit costs increased slightly. There were no salary increases during the year. Operating supplies increased by $647,000 or 8% and utilities increased by $355,000 or about 15%, which is normal, considering the prior year was an unusual 15% decrease due to the mild winter. University scholarships increased by $115,000 or 4%.

Net nonoperating revenues increased by $1.1 million. State appropriations decreased $339,000 including the loss of the American Recovery and Reinvestment Act ("ARRA") stimulus funds received in the previous year. Federal Pell grants increased by $660,000. Investment income increased by $902,000 which reflected the continued market correction of both stock and bond fund values throughout the year.

The net result of operations for the year was a increase in net assets of $1.0 million.

Changes from 2009 to 2010:

Operating revenues decreased by $210,000. Tuition and fees, net of scholarship allowance, decreased by $540,000 or 3.7% after a tuition rate increase of 4.6% with a 2.3% decline in enrollment and an increase in scholarship allowance of $882,000. Auxiliary revenues decreased by $242,000 or 2.7% after a 4.7% room and board rate increase and decreased housing occupancy.

Operating expenses decreased by $120,000. Of this amount, salary and benefit costs decreased slightly. There were no salary increases during the year. Operating supplies increased by 2.3% and utilities decreased by about 15% due to an unusually mild winter. University scholarships increased by $104,000 or 2.9%. There was no change in other operating expenses.

Net nonoperating revenues increased by $4.1 million. State appropriations decreased $718,000 which was partially filled with $478,000 from the ARRA stimulus funds. Federal Pell grants increased by $1.2 million. Investment income increased by $2.8 million which reflected the market correction of both stock and bond fund values throughout the year.

The net result of operations for the year was a decrease in net assets of $454,000.

The Statement of Cash Flows

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, and help measure the University's ability to meet its financial obligations as they mature.

	Year Ended June 30		
	2011	2010	2009
Cash provided by (used in):			
Operating activities	$ (12,850,022)	$ (12,898,919)	$ (12,441,057)
Noncapital financing activities	17,488,802	17,514,578	16,206,251
Capital and related financing activities	(3,825,600)	(3,148,994)	(3,348,308)
Investing activities	494,286	(785,746)	8,859
Net change in cash and cash equivalents	1,307,466	680,919	425,745
Cash and cash equivalents, beginning of year	6,606,703	5,925,784	5,500,039
Cash and cash equivalents, end of year	**$ 7,914,169**	**$ 6,606,703**	**$ 5,925,784**

Changes from 2010 to 2011:

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 for the year ended June 30, 2011 was almost identical to the year ended June 30, 2010 at $12.9 million. The net cash received from noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was $17.5 million for the year ended June 30, 2011, the same as reported in 2010. Uses of cash from operating activities include payments to employees, vendors and students. Payments to vendors, for consumables such as food and utilities, increased significantly which corresponds to a significant increase in auxiliary revenue.

Net cash used in capital and related financing activities increased by $677,000. This is indicative of the increased spending for capital improvements

Cash used to purchase investments of $534,000 and cash from investment income of $633,000 plus $394,000 from the sales and maturities of investments resulted in net cash inflow from investing activities of $494,000.

Overall, cash and cash equivalents increased by $1.3 million for the year ended June 30, 2011.

Changes from 2009 to 2010:

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 for the year ended June 30, 2010 was $12.9 million as compared to $12.4 million in 2009. The net cash received from noncapital financing activities, which consisted primarily of State appropriations, the ARRA stimulus funds and Federal Pell grants, was $17.5 million for the year ended June 30, 2010 as compared to $16.2 million in 2009. Cash used for operations increased by $533,000 for the year; uses of cash include payments to employees, vendors and students. Most significant was the increase of $453,000 paid to students for financial aid.

Net cash used in capital and related financing activities decreased by $199,000. Cash received for capital grants and gifts decreased by $175,000. Cash used for the purchase and construction of capital assets decreased by $317,000. In addition, the amount paid for debt service was slightly less and the University received a little more on the disposal of capital assets.

Net cash provided by investing activities decreased by $795,000. Investments of $1 million were acquired during the year. Investment income increased by $427,000.

Overall, cash and cash equivalents increased by $681,000 for the year ended June 30, 2010.

Factors that Will Affect the Future

The administrative team has stabilized with no changes in the president or vice presidents' positions occurring during the year. The Board of Trustees renewed Dr. Tony McLain's contract through June 2013.

An academic reorganization was announced by Maurice Walworth, Provost and Vice President for Academic Affairs, effective with the 2011-2012 academic year. Vacancies in various dean and associate dean positions prompted a reevaluation of the academic administrative structure. In creating the new structure, Provost Walworth looked for obvious areas of need, a better balance of faculty, a better balance of students, and possible alignments where collaborations already existed. The resulting logical realignment of the various colleges has gained acceptance from the faculty. One dean and two associate dean positions and an unfilled director position were eliminated and three new positions were created - an Associate Provost for Assessment, Education and Graduate Studies, an Executive Director of Library and Learning Resources, and a Director of Education. The elimination of one administrative position creates a permanent reduction of over $100,000 in salary and benefit costs.

In preparation for its visit from the Higher Learning Commission (HLC) on October 24-26, 2011, the University has been engaged in writing a self-study report. The process of gathering evidence to support that the University has met criterion necessary for re-accreditation began almost three years ago but the process was interrupted with the many changes in upper administration. A one-year extension was requested and granted for the visit originally scheduled for the fall of 2010. Much has been learned in the process of writing the self-study report as it forces a focus on the strengths and weaknesses of the University. We mostly learned that we do not "get the word out" as well as it should about all of the outstanding achievements of its students, faculty and staff and it needs to address some pressing challenges. The identified challenges include the need for stronger strategic planning and budgeting, stronger University-wide assessment plans, and stronger plans for developing a culture of diversity. The University is ready to address these issues and looks forward to the resulting outcomes as well as the visit from the HLC.

The self-study report was written in a spirit that honestly examines the University's mission, programs, processes and facilities. The themed approach to the report reveals that the University is a future-oriented, learning-focused, connected and distinctive organization. The final report is available electronically on the University's HLC web page and contains links to various reports and other evidence compiled in the Self Study Resource Room. The HLC process is changing and the University is also changing accordingly. The University has learned that evaluation, assessment, and gathering supporting evidence is an ongoing process, not something that is done every ten years. The electronic resource room will continue to be maintained and updated going forward.

A new document entitled "Academic Improvement Plan 2011-2012" (AIP) was drafted by the Provost in July 2011, in part, from the realization uncovered in the self-study process that such improvement was necessary. The plan is comprised of three major initiatives: Program Prioritization; Program Assessment and Review; and Opening Pathways. During the 2010-2011 academic year, the Provost, the deans, several chairs, as well as many faculty and administrators read the book "Prioritizing Academic Programs and Services" written by Robert Dickeson. The University also hosted two webinars on this topic in early May 2011. The Dickeson model is to be used with the expected end result being that the University has a systematic basis to identify opportunities to increase revenue, reduce costs, improve program quality, align programs with institutional goals, and strengthen institutional reputation. In recognizing that the University falls short in the area of assessment and subsequently hiring an Associate Provost charged with heading up this initiative is a giant step in the right direction. The goal of the Opening Pathways initiative is to provide clear support for the AIP, deliver consistent messages concerning the importance of the AIP, and ensure open and clear communication exists in all University policies and procedures.

The Shared Governance process is strong, active and maturing. The Oversight Committee meets monthly or more often as needed. This Committee has resolved numerous policy issues and formed two new task committees, the Academic Policies and Procedures Committee and the Sustainability Committee. The Strategic Planning and Budget Committee (SPBC) has made substantial progress in developing the University's Strategic Plan and played an integral part in developing the 2011-2012 budget including recommending various strategic initiatives for funding. The Infrastructure Committee has made recommendations for prioritization of capital projects, major renovations and repairs and is working with a consultant on a space utilization plan. The Assessment Committee now has an appointed chairman and will begin the work of institutionalizing the University's assessment processes. Several forums were held to inform constituents about Shared Governance at the University and to give updates on the activities of the various committees. We expect similar forums will be held annually.

The Strategic Plan is being painstakingly developed with input from students, faculty, staff, alumni, and community members. The SPBC began by evaluating the University's mission and creating a set of core values. Early on, the Board of Trustees brought in consultants who held a two-day planning retreat involving members from all constituents resulting in the development of seven broad-based goals. The SPBC has used those seven goals along with continued input from constituents to fine-tune the mission, create a vision statement, and develop objectives with action plans aligning with the seven goals. The SPBC is using a balance scorecard approach to measure and report on the status and results of those action plans. Strategic Planning is not new to the University but, for the first time, we believe a plan has been developed that results in a living document that can continue to be used to set direction, encourage participation, and measure results which will guide University management to make timely and better informed decisions.

The State has given approval to the University to begin planning for the renovation of historical South Hall for the University's School of Business. The project calls for a complete renovation with some new construction for an estimated project cost of $12 million of which the University will need to fund twenty-five percent or approximately $3 million. The purpose of the building is primarily to house the School of Business and will also offer smart classrooms which can be used by other disciplines in addition to business. An architect and engineering firm has been selected to perform the design work to produce materials necessary to submit to the State for construction approval as well as marketing materials to be used for the Foundation's building capital campaign. Not only will this newly renovated building create state-of-the-art classrooms and much needed faculty offices, the utilization plan revealed that this new building will free up other spaces creating a domino effect for better aligning other spaces more effectively.

The Foundation underwent its own development audit recently and the Foundation staff has developed a timeline for implementing most of the resulting recommendations. One of the first recommendations to be implemented is the hiring of a new Director of Annual Giving & Parent Relations. The new director will be charged with developing a comprehensive annual giving program which will, among other things, encourage unrestricted gifts to a new Sustaining Fund for the University. The hiring of the new director will help free up the Executive Director and the Director of Development as they gear up for the capital campaign for the School of Business and other large initiatives. The Foundation continues to work with the donor for the $5 million Norris Center renovation project which is still on track to break ground in 2012 as well as maintain and grow other donor relations. The Board of Trustees recently accepted a $1 million estate gift which is intended to support two full-time scholarships to the University for many years. The acceptance of this gift, as well as numerous smaller but significant gifts, can be attributed to the Foundation staff's commitment to donor relations and fundraising for the University.

The University Board of Trustees authorized the first two Schools of Excellence under the State's Smart Cap legislation that permitted charter school authorizers to convert public school academies to a new category of charter schools if they met qualifying standards spelled out in the statute. Detroit Service Learning Academy in northwest Detroit and Ridge Park Charter Academy in Grand Rapids are the first and second Schools of Excellence in Michigan, respectively. A third charter school, Concord Academy-Petoskey, subsequently qualified as a School of Excellence. This success opened up the ability for the University to authorize three new charter schools: American International Academy and Regent Park Scholars Academy, both located in Detroit, and the Bay City Academy to each open as K-5 charter schools in the fall of 2011. This increases the charter schools in Michigan authorized by the University from seven to ten.

The City of Sault Ste. Marie and the University are moving forward with plans for the new SmartZone breeder building. Originally, plans were to break ground in the spring of 2011 but, due to approval delays, construction will commence either in the fall of 2011 or spring 2012. The building will provide a "manufacturing laboratory" environment where the University College of Engineering Technology and Economic Development and the the University School of Business can work with businesses to develop the manufacturing techniques and business skills needed to successfully build a new business. The SmartZone can help to move a project from the inception stage to a marketable product.

Management is encouraged by an increase in enrollment for the second consecutive year after a period of decline. Students continue to be interested in the sciences and the University's strong programs in nursing and other health sciences as well as the physical sciences. This is especially important as the State is unable to fund education at the level it once had and the public universities have had to rely on more tuition dollars to offer quality programs. The University will continue to fulfill an important part in Michigan's education system.

Big changes are also in store for University athletics. The University has accepted an invitation to play in the Western Collegiate Hockey Association (WCHA) beginning with the 2013-2014 season. The University is among five Central Collegiate Hockey Association schools to receive the invitation. This change will be a great step for our program, according to Kris Dunbar, Director of Athletics. The WCHA will be a conference with good hockey traditions and schools that are more similar to the University. This change will be appealing to new recruits, alumni and other hockey fans.

The University is moving in the right direction. There is much to do but the progress made is significant. In all areas of concern, there is a plan or direction that has already been identified. There are many exciting projects and initiatives on the horizon. The financial position is in better shape than in recent past and is expected to show continued improvement even in these difficult economic times. We are proud of the year's accomplishments and look forward to continuing to work through the exciting initiatives in the coming year.

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INDEPENDENT AUDITORS' REPORT

September 26, 2011

Board of Trustees
Lake Superior State University
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of ***Lake Superior State University*** ("the University"), a component unit of the State of Michigan, as of June 30, 2011 and 2010 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Lake Superior State University Foundation 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 provide a reasonable basis for our opinions.

In our opinion, 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 ***Lake Superior State University*** as of June 30, 2011 and 2010 and the respective changes in financial position and cash flows of the University 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 under separate cover our report on our consideration of ***Lake Superior State University's*** internal control over financial reporting and 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 on compliance. That report, which is included in the University's single audit 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 (MD&A) presented on pages 2 to 12 is not a required part of the basic financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

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LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET ASSETS

	June 30	
Assets	**2011**	**2010**
Current assets		
Cash and cash equivalents	$ 7,914,169	$ 6,606,703
Short-term investments	1,270,024	1,012,334
Accounts receivable, net	1,502,985	1,142,680
State appropriations receivable	2,308,036	2,287,569
Inventories	239,568	292,995
Other	242,906	380,154
Total current assets	**13,477,688**	**11,722,435**
Noncurrent assets		
Student loans receivable, net	2,762,746	2,702,984
Investments	1,195,974	1,001,725
Endowment investments	8,222,355	6,877,047
Land and art collection	2,522,103	2,522,103
Depreciable capital assets, net	51,767,938	55,327,437
Total noncurrent assets	**66,471,116**	**68,431,296**
Total assets	**$ 79,948,804**	**$ 80,153,731**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,919,063	$ 2,957,807
Unearned revenue	1,073,446	957,960
Deposits	189,060	167,722
Current portion of long-term debt	1,318,774	1,358,242
Current portion of employee benefit programs	171,000	302,400
Total current liabilities	**5,671,343**	**5,744,131**
Interest rate swap liability	839,000	839,000
Long-term debt, net of current portion	24,063,130	25,381,904
Employee benefit programs, net of current portion	1,416,945	1,254,159
Total noncurrent liabilities	**26,319,075**	**27,475,063**
Total liabilities	**31,990,418**	**33,219,194**
Net assets		
Invested in capital assets, net of related debt	29,980,781	32,182,038
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	9,097,891	7,533,270
Loans	3,064,422	3,054,857
Capital projects and debt service	1,554,780	816,163
Unrestricted	4,055,185	3,142,882
Total net assets	**47,958,386**	**46,934,537**
Total liabilities and net assets	**$ 79,948,804**	**$ 80,153,731**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2011	**2010**
Operating revenues		
Tuition and fees (net of scholarship allowances of $7,815,998 and $6,694,941 in 2011 and 2010, respectively)	$ 15,078,886	$ 14,060,741
Federal grants and contracts	1,390,764	1,286,128
State grants and contracts	224,644	204,891
Nongovernmental grants and contracts	2,851,825	2,778,116
Auxiliary activities	9,509,887	8,693,791
Other	933,559	1,767,834
Total operating revenues	**29,989,565**	**28,791,501**
Operating expenses		
Instruction	13,423,513	13,756,478
Research	369,014	351,990
Public service	966,754	999,336
Academic support	3,068,742	2,886,747
Student services	2,736,864	2,641,628
Student aid	2,675,056	2,560,368
Institutional support	5,506,192	5,243,750
Operation and maintenance of plant	4,921,187	4,672,823
Auxiliary activities	8,634,320	8,303,789
Depreciation	4,892,209	4,959,535
Other	446,667	559,463
Total operating expenses	**47,640,518**	**46,935,907**
Operating loss	**(17,650,953)**	**(18,144,406)**
Nonoperating revenues (expenses)		
State appropriations	12,595,896	12,457,279
State appropriations - ARRA	-	477,600
Federal Pell grants	4,868,079	4,208,795
Interest on capital debt and leases	(1,359,797)	(1,422,228)
Investment income, net of investment expenses	2,291,531	1,389,776
Gifts for expendable endowments	50,090	269,964
Gain (loss) on assets sold or retired	4,801	(14,638)
Net nonoperating revenues	**18,450,600**	**17,366,548**
Gain (loss) before other revenues	**799,647**	**(777,858)**
Other revenues		
Capital grants and gifts	**224,202**	**323,510**
Increase (decrease) in net assets	**1,023,849**	**(454,348)**
Net assets, beginning of year	46,934,537	47,388,885
Net assets, end of year	**$ 47,958,386**	**$ 46,934,537**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2011	**2010**
Cash flows from operating activities		
Tuition and fees	$ 14,991,922	$ 14,025,131
Grants and contracts	4,226,718	4,276,339
Payments to employees	(27,784,741)	(28,046,567)
Payments to vendors	(12,098,948)	(11,227,036)
Payments for financial aid	(2,675,056)	(2,560,368)
Loans issued to students	(472,630)	(437,851)
Collections of interest and principal on loans to students	412,868	547,024
Auxiliary activities	9,534,258	8,697,994
Other receipts	1,015,587	1,826,415
Net cash used in operating activities	**(12,850,022)**	**(12,898,919)**
Cash flows from noncapital financing activities		
State appropriations	12,575,429	12,553,652
State appropriations - ARRA	-	477,600
Federal Pell grants	4,863,283	4,213,362
Gifts for expendable endowments	50,090	269,964
Federal Direct Lending receipts	14,800,517	13,541,795
Federal Direct Lending disbursements	(14,800,517)	(13,541,795)
Net cash provided by noncapital financing activities	**17,488,802**	**17,514,578**
Cash flows from capital and related financing activities		
Capital grants and gifts received	193,202	223,526
Purchases and construction of capital assets	(1,301,515)	(663,587)
Proceeds from disposal of capital assets	7,000	39,493
Principal paid on debt and capital leases	(1,358,242)	(1,320,262)
Interest paid on debt and capital leases	(1,366,045)	(1,428,164)
Net cash used in capital and related financing activities	**(3,825,600)**	**(3,148,994)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	395,000	20,000
Purchases of investments	(534,118)	(1,310,027)
Investment income	633,404	504,281
Net cash provided (used) by investing activities	**494,286**	**(785,746)**
Net increase in cash and cash equivalents	1,307,466	680,919
Cash and cash equivalents, beginning of year	6,606,703	5,925,784
Cash and cash equivalents, end of year	**$ 7,914,169**	**$ 6,606,703**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
(Continued)

	Year Ended June 30	
	2011	**2010**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (17,650,953)	$ (18,144,406)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	4,892,209	4,959,535
Provision for uncollectible accounts and student loans receivables	38,494	122,721
Change in assets and liabilities:		
Accounts receivable	(423,073)	(118,906)
Student loans receivable	(33,087)	71,247
Inventories	53,427	(8,530)
Other	137,248	(47,686)
Accounts payable and accrued expenses	(32,496)	369,232
Unearned revenue	115,486	(51,657)
Deposits	21,338	4,146
Employee benefit programs	31,385	(54,615)
Net cash used in operating activities	**$ (12,850,022)**	**$ (12,898,919)**
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	$ 33,394	$ 99,983
Financed purchase of equipment through a capital lease	$ -	$ 125,314

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF NET ASSETS

	June 30			
	2011		2010	
Assets				
Current assets				
Cash and cash equivalents	$	1,802,416	$	1,553,510
Other current assets		28,984		28,597
Current portion of unconditional promises to give, net		12,340		15,265
Total current assets		**1,843,740**		**1,597,372**
Noncurrent assets				
Investments		5,881,404		4,745,377
Unconditional promises to give, net of current portion		77,086		77,857
Beneficial interest in charitable remainder trust		341,819		307,235
Total noncurrent assets		**6,300,309**		**5,130,469**
Total assets	**$**	**8,144,049**	**$**	**6,727,841**
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$	12,140	$	40,964
Employee benefit programs		20,891		16,506
Total current liabilities		**33,031**		**57,470**
Annuity obligations		55,453		57,167
Total liabilities		**88,484**		**114,637**
Net assets				
Restricted				
Nonexpendable		4,725,990		4,368,389
Expendable		2,801,900		1,809,277
Unrestricted		527,675		435,538
Total net assets		**8,055,565**		**6,613,204**
Total liabilities and net assets	**$**	**8,144,049**	**$**	**6,727,841**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2011	**2010**
Operating revenues		
Contributions	$ 1,219,014	$ 1,645,718
Change in value of split interest agreements	45,641	10,800
Total operating revenues	**1,264,655**	**1,656,518**
Operating expenses	402,340	325,305
Operating income	**862,315**	**1,331,213**
Nonoperating revenues (expenses)		
Investment income	215,580	20,941
Net unrealized gains on investments	954,698	565,122
Distributions to Lake Superior State University	(590,232)	(970,263)
Net nonoperating revenues (expenses)	**580,046**	**(384,200)**
Increase in net assets	**1,442,361**	**947,013**
Net assets, beginning of year	6,613,204	5,666,191
Net assets, end of year	**$ 8,055,565**	**$ 6,613,204**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lake Superior State University ("the University") is an institution of higher education and is considered a discrete component unit of the State of Michigan ("State") because its Board of Trustees is appointed by the Governor. Accordingly, the University's financial statements are included in those of the State. Transactions with the State relate primarily to appropriations for operations, appropriations for charter schools, grants from various State agencies, State Building Authority (SBA) revenues and payments to the State retirement program on behalf of certain University employees.

As required by the Governmental Accounting Standards Board ("GASB"), the University's basic financial statements include the financial statements of both the University and its component unit, the ***Lake Superior State University Foundation*** (the "Foundation") which is a legally separate tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization established to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors includes members of the University's Board of Trustees, certain officers of the University and other community representatives elected by the Foundation Board. Although the University does not necessarily control the timing or amount of receipts from the Foundation, the majority of its resources or income earned thereon are restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the University, the Foundation is considered a component unit of the University. The Foundation financial statements are reported on separate pages 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.

Contributions to the University by the Foundation (reported primarily as other revenues-capital gifts and grants) have been made in the amount of $590,232 and $970,263 during 2011 and 2010, respectively. Support from the University provided to the Foundation amounted to $418,000 and $334,433 during 2011 and 2010, respectively.

Basis of Presentation - University

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

In accordance with generally accepted accounting principles, the University follows all applicable GASB pronouncements. In applying these accounting pronouncements, the University follows the guidance for special purpose governments engaged only in "business type" activities rather than issuing financial statements that focus on accountability of individual funds.

Basis of Presentation - Foundation

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including Accounting Standards Codification ("ASC") Topic 958-605-05, *Accounting for Contributions Received and Contributions Made*, and ASC Topic 958-205-05, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowance, workers compensation reserve and health insurance reserve.

Cash and Cash Equivalents

Cash and cash equivalents at the University and the Foundation consist of demand deposits and highly liquid investments, excluding noncurrent investments, with an original maturity when purchased of three months or less.

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of less than one year.

Investments and Endowment Investments

University and Foundation investments and endowment investments consist primarily of mutual funds and are stated at fair value. Realized and unrealized gains and losses are reflected in the statements of revenues, expenses and changes in net assets. The Foundation maintains investment accounts for its expendable and nonexpendable endowments.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories, consisting primarily of supplies and petroleum products, are valued at cost (using the specific identification method) not in excess of market.

Capital Assets

Capital assets, consisting of institutional physical properties used in University operations, are stated at cost when purchased and at estimated fair value at date of receipt for other acquisitions. Building additions and improvements with a cost in excess of $10,000 are capitalized if the life of the building is extended. Equipment with a cost in excess of $2,500 with a useful life of 3 or more years is capitalized. Certain maintenance and replacement reserves have been established to provide for significant repair and maintenance costs to residence halls and certain other facilities.

Depreciation is provided on a straight-line basis over the estimated useful life of the related capital assets as follows:

Classification	Life
Buildings and building improvements	40 to 60 years
Land improvements	20 years
Infrastructure	20 years
Equipment	7 years
Personal computers	3 years
Library books	7 years
Vehicles	7 years

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, and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, State appropriations-ARRA and Federal Pell grant revenue 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.

During 2011 and 2010 the University received $26,407,851 and $23,758,632 (net of a 3% administrative fee retained by the University), respectively, of State appropriations which were forwarded to seven charter schools. The University also received $100,000 in State appropriations for Bay Mills Community College during fiscal 2011 which was forwarded to Bay Mills Community College on a monthly basis when received. Appropriations received and related disbursements passed on to the charter schools and Bay Mills Community College are considered agency transactions and, accordingly, are not reported in the accompanying financial statements.

Contributions, including unconditional promises to give, are recognized by the Foundation as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Foundation records donations of non-cash assets at their appraised or fair value at the date of the gift.

Unearned Revenue

Unearned revenue consists primarily of advance payment for sports camps, room and board, sales for athletic events and summer school tuition not earned during the current year.

Income Taxes

The University is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code section 501 (c) (1), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2011 or 2010.

The Foundation is also exempt from federal income taxes under Section 501(c) (3) and qualifies as a nonprofit foundation under Section 509 (a) (1) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Financial Accounting Standards Board (FASB) issued ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, which seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. The Foundation adopted the provisions of ASC Topic 740 effective January 1, 2009, and, accordingly, analyzed its filing positions in the state jurisdictions where it is required to file income tax returns, including tax years 2007 through 2010 in these jurisdictions. The Foundation has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any charges for such, to the extent they arise, as a component of operating expenses. The adoption of ASC Topic 740 had no significant impact on the Foundation's financial statements.

Split-Interest Agreements

Beneficial Interest in Charitable Remainder Trust

The Foundation is a beneficiary of certain irrevocable charitable remainder trusts. Contribution revenue was recognized at the date the trust was established based on the expected present value of the Foundation’s interest in the trust assets. Changes in the value of the assets and other changes in the estimates of future receipts are reported in the statements of revenues, expenses and changes in net assets of the Foundation.

Annuity Obligations

The Foundation's annuity and life income agreements require payments during the life of the annuitant at various rates up to 7% of the principal amounts. The obligation for annuity obligations payable is reported at the present value of the future payments based on life expectancy tables and an implied rate of discount of 5.8%. Changes in the value of annuity obligations payable are reported in the statements of revenues, expenses and changes in net assets of the Foundation.

Fair Value Measurements

As required by ASC Topic 820, *Fair Value Measurements*, the Foundation has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). For a further discussion of ASC Topic 820, refer to Note 4.

Net Assets

The net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation have been grouped into the following three classes:

Unrestricted net assets: Generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily restricted net assets: Generally result from contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. Temporarily restricted net assets are released from restrictions by the passage of time or by actions of the Foundation, pursuant to the donors' stipulations.

Permanently restricted net assets: Generally result from contributions and other inflows of assets that represent permanent endowments where use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This Update provides amendments to Subtopic 820-10 that require new disclosures as follows: (1) a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). The Update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: (1) fair value measurement disclosures must be disaggregated for each class of assets and liabilities; and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The adoption of this updated standard expanded the disclosures in the footnotes to the financial statements of the University as it relates to the Foundation for the year ended June 30, 2011.

Subsequent Events

In preparing these financial statements, Foundation management has evaluated, for the potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2011, the most recent statement of financial positon presented herein, through September 26, 2011, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNIVERSITY

Cash and short-term investments - The University utilizes the "pooled cash" method of accounting for substantially all of its cash and short-term investments. Investment policies for cash and short-term investments, as set forth by the Board of Trustees, authorize the University to invest, with limitations, in commercial paper of companies with a rating 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. Short-term investments are stated at fair value.

Investments - The Board of Trustees has authorized certain University administrators to invest in short, intermediate and long-term pools of investments, depending on the nature and need of funds. An established Board policy is followed for the investment of University funds. The primary investment objective for the investment pools is as follows:

- *Short-term investment pool* - to provide for the preservation of capital. Funds needed for expenditures in less than one year will be considered short-term.

- *Intermediate investment pool* - to provide for preservation of capital and maximization of income without undue exposure to risk. Funds needed for expenditures within one to five years will be considered intermediate term.

- *Long-term investment pool* - to provide for long-term growth of principal and income without undo exposure to risk. Funds not needed for expenditures within five years will be considered long-term. The University's general policy toward the long-term investment pool shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return. The University invests with selected money managers as part of an institutional mutual fund or in segregated accounts.

Performance objectives for each pool of investments have been established to measure the total return of a manager against a comparable index, as well as the amount of risk the manager is taking. The University uses the service of outside investment counsel in providing performance measurements and asset allocation recommendations.

Reports are submitted to the Board of Trustees on an annual basis to ensure compliance with the prescribed policy.

Investment income and realized gains or losses are allocated using an average balance method on accounts designated to receive investment earnings. Unrealized gains or losses are allocated based on investment balances on June 30.

University cash and cash equivalents consist of the following amounts at June 30:

	2011	2010
Disbursement accounts	$ 1,960,662	$ 1,390,169
Government money market funds	5,953,507	5,216,534
Total cash and cash equivalents	**$ 7,914,169**	**$ 6,606,703**

At June 30, 2011 and 2010, $1,165,416 and $862,154, respectively, held by the University in disbursement accounts were held at Central Savings Bank ("CSB"), whose Chief Executive officer is the Chair of the University's Board of Trustees.

The University utilizes the "pooled" method of accounting for substantially all investments, which consisted of the following amounts at June 30:

	2011	2010
University short-term investments		
Certificates of deposit	$ 1,270,024	$ 1,012,334

	2011	2010
University endowment investments		
Mutual funds		
Equity funds	$ 5,600,928	$ 4,519,351
Bond/fixed income funds	1,994,809	1,847,986
Exchange traded funds	626,618	509,710
Total University endowment investments	8,222,355	6,877,047
University investments		
Mutual funds		
Government money market funds	844	824
Bond/fixed income funds	616,303	571,167
Equity funds	578,827	429,734
Total University investments	1,195,974	1,001,725
Total investments	**$ 9,418,329**	**$ 7,878,772**

Interest Rate Risk – The University's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment type (including investment types classified as cash and cash equivalents) susceptible to interest rate risk are identified below for investments held at year end.

As of June 30, 2011, the University had the following debt investments with related maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Government money market funds	$ 5,954,351	$ 5,954,351	$ -	$ -
Bond/fixed income funds	2,611,112	138,826	-	2,472,286
Total debt investments	**$ 8,565,463**	**$ 6,093,177**	**$ -**	**$2,472,286**

As of June 30, 2010, the University had the following debt investments with related maturities:

	Fair Market Value	Maturities (in Years) Less Than 1	1-5	6-10
Government money market funds	$ 5,217,358	$ 5,217,358	$ -	$ -
Bond/fixed income funds	2,419,153	-	-	2,419,153
Total debt investments	**$ 7,636,511**	**$ 5,217,358**	**$ -**	**$2,419,153**

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased and qualified mutual funds. The University's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of year-end $5,965,447 of the University's bank balance of $8,169,842 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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. State law does not require the University to have a policy for investment custodial credit risk. Custodial credit risk for the University's mutual fund investments cannot be determined as these investments are not evidenced by specifically identifiable securities.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk. The University's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Foreign Currency Risk – The University's exposure to foreign currency risk is derived from its positions in international investments consisting solely of foreign currency denominated mutual fund equity investments. The University's investment policy permits investments in these asset types. At June 30, 2011 and 2010, the University held 30,625 and 31,483 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of $1,317,178 and $1,034,112, respectively. The University holds no other assets which may be subject to the risks of foreign currency.

No foreign currency risk exists with respect to any holdings under the caption "cash and cash equivalents" in the accompanying statements of net assets and all international investments are equity investments held through mutual funds.

Policies regarding marketable securities in the University endowment investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds or other marketable securities. The University endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the original gift principal. The spending policy is reviewed periodically by the finance committee, which recommends changes to the Board of Trustees. The net appreciation on investments of donor-restricted endowments approximated $1,566,000 and $169,000 at June 30, 2011 and 2010, respectively. Net appreciation is a component of restricted, expendable net assets.

The yields of the University endowment investments were as follows for the years ended June 30:

	2011	2010
Interest and dividends	3.0%	2.0%
Net realized and unrealized gains	20.0	12.6
Total investment gain	**23.0%**	**14.6%**

According to the law of the State of Michigan, the Board of Trustees may appropriate for expenditure for the uses and purposes for which an endowment is established an allocation of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

3. INVESTMENTS - FOUNDATION

The Foundation also utilizes the "pooled" method of accounting for substantially all investments, which consisted of the following amounts at June 30:

	2011	2010
Mutual funds		
Index funds	$ 1,826,332	$ 1,356,492
Growth funds	1,687,053	1,233,538
Bond/fixed income funds	1,566,411	1,551,121
Exchange traded funds	465,445	355,873
Value funds	321,228	235,739
Money market	920	581
Subtotal	5,867,389	4,733,344
Marketable securities	14,015	12,033
Total Foundation investments	**$ 5,881,404**	**$ 4,745,377**

The following is a summary of unrealized gains and losses for the Foundation as of June 30:

	2011	2010
Mutual funds		
Growth funds	$ 394,096	$ 144,468
Index funds	392,118	117,760
Exchange traded funds	108,327	21,318
Value funds	92,173	197,501
Bond/fixed income funds	(33,998)	81,010
Subtotal	952,716	562,057
Marketable securities	1,982	3,065
Total Foundation unrealized gains	**$ 954,698**	**$ 565,122**

4. FAIR VALUE

The Foundation utilizes fair value measurements to record fair value adjustments to investments and the beneficial interest in charitable remainder trust and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

Fair Value Hierarchy - Under ASC Topic 820, the Foundation groups its assets at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets recorded at fair value.

Investments: Fair value measurement is based upon quoted prices, if available. Level 1 investments include mutual funds and marketable securities. Level 3 investments include bond/fixed income fund which is based on a value provided by a third party investment manager. The value is quoted on a private market that is not active.

Beneficial interest in Charitable Remainder Trust: Fair value measurement is based upon the fair value of the underlying investments in the trusts, an estimated rate of return, anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 7.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 1,826,332	$ --	$ --	$ 1,826,332
Growth funds	1,687,053	--	--	1,687,053
Bond/fixed income fund	1,301,141	--	265,270	1,566,411
Exchange traded funds	465,445	--	--	465,445
Value funds	321,228	--	--	321,228
Money market	920	--	--	920
Marketable securities	14,015	--	--	14,015
Total investments at fair value	**$ 5,616,134**	**$ --**	**$ 265,270**	**$ 5,881,404**
Beneficial Interest in Charitable Remainder Trust	**$ --**	**$ --**	**$ 341,819**	**$ 341,819**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 1,356,492	$ --	$ --	$ 1,356,492
Bond/fixed income fund	1,323,660	--	227,461	1,551,121
Growth funds	1,233,538	--	--	1,233,538
Exchange traded funds	355,873	--	--	355,873
Value funds	235,739	--	--	235,739
Money market	581	--	--	581
Marketable securities	12,033	--	--	12,033
Total investments at fair value	**$ 4,517,916**	**$ --**	**$ 227,461**	**$ 4,745,377**
Beneficial Interest in Charitable Remainder Trust	**$ --**	**$ --**	**$ 307,235**	**$ 307,235**

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2011:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance at beginning of year	$ 227,461	$ 307,235
Unrealized gains relating to investments held at year end	37,809	--
Change in value	--	34,584
Balance, end of year	**$ 265,270**	**$ 341,819**

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2010:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance at beginning of year	$ 206,415	$ 304,811
Unrealized gains relating to investments held at year end	21,046	--
Change in value	--	2,424
Balance, end of year	**$ 227,461**	**$ 307,235**

5. ACCOUNTS AND STUDENT LOAN RECEIVABLES

Accounts receivable result primarily from student tuition and fee billings and auxiliary enterprise sales, such as food service and student residence. In addition, receivables arise from grant awards and financial aid. These receivables are reported net of an allowance for collection losses in the amount of $304,859 and $272,918 at June 30, 2011 and 2010, respectively.

University accounts receivable consist of the following net amounts at June 30:

	2011	2010
Governmental grants and contracts	$ 580,605	$ 279,332
Tuition and fees	524,838	353,863
Auxiliary activities	196,453	207,336
Other	192,731	236,007
Private grants and contracts	8,358	66,142
Accounts receivable, net	**$ 1,502,985**	**$ 1,142,680**

In addition, the University has student loans receivable, in the amount of $2,762,746 and $2,702,984, which are recorded net of an allowance for uncollectible loans of $441,402 and $471,950 as of June 30, 2011 and 2010, respectively. Approximately 50% of student loans receivable are expected to be collected in periods beyond one year.

6. UNCONDITIONAL PROMISES TO GIVE

The following is a summary of unconditional promises to give for the Foundation as of June 30:

	2011	2010
Unconditional promises due in less than one year	$ 12,340	$ 15,265
Unconditional promises due in one to five years	12,000	20,000
Unconditional promises due in more than five years	188,645	184,556
Less discounts to net present value at 8%	(120,474)	(122,801)
Present value of promises to give	92,511	97,020
Less allowance for uncollectible amounts	3,085	3,898
Net unconditional promises to give	**89,426**	**93,122**
Less current portion	12,340	15,265
Unconditional promises to give, net of current portion	**$ 77,086**	**$ 77,857**

7. CHARITABLE REMAINDER TRUST

A donor having a charitable remainder unitrust managed by a third party named the Foundation as the remainder beneficiary. Under the terms of the split-interest agreement, the third party trustee must pay to the donor in each taxable year of the trust during the donor's life the lesser of the trust income for the taxable year or five percent (5%) of the net fair market value of the assets of the trust valued as of the first day of each taxable year of the trust. At the time of the donor's death, the trust is to terminate, and the remaining trust assets are to be distributed to the Foundation.

At June 30, 2011 and 2010, based on the donor's life expectancy and an assumed 5.8% discount rate, the present value of the future benefits expected to be received by the Foundation were estimated to be $341,819 and $307,235, respectively.

8. CAPITAL ASSETS

Changes in the components of capital assets are as follows for the years ended June 30:

	2011			
	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ --	$ --	$ 838,684
Land	1,096,844	--	--	1,096,844
Art collection	586,575	--	--	586,575
Total capital assets not being depreciated	2,522,103	--	--	2,522,103
Capital assets being depreciated				
Land improvements	5,395,733	--	--	5,395,733
Infrastructure	3,244,705	--	--	3,244,705
Building and building improvements	114,994,842	767,676	--	115,762,518
Equipment and other	18,566,667	567,233	139,481	18,994,419
Total capital assets being depreciated	142,201,947	1,334,909	139,481	143,397,375
Accumulated depreciation	(86,874,510)	(4,892,209)	(137,282)	(91,629,437)
Total capital assets being depreciated, net	55,327,437	(3,557,300)	2,199	51,767,938
Total capital assets, net	**$ 57,849,540**	**$ (3,557,300)**	**$ 2,199**	**$ 54,290,041**

	2010			
	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ --	$ --	$ 838,684
Land	1,128,844	--	32,000	1,096,844
Art collection	581,675	4,900	--	586,575
Total capital assets not being depreciated	2,549,203	4,900	32,000	2,522,103
Capital assets being depreciated				
Land improvements	5,395,733	--	--	5,395,733
Infrastructure	3,244,705	--	--	3,244,705
Building and building improvements	114,840,865	153,977	--	114,994,842
Equipment and other	18,034,395	730,008	197,736	18,566,667
Total capital assets being depreciated	141,515,698	883,985	197,736	142,201,947
Accumulated depreciation	(82,090,580)	(4,959,535)	(175,605)	(86,874,510)
Total capital assets being depreciated, net	59,425,118	(4,075,550)	22,131	55,327,437
Total capital assets, net	**$ 61,974,321**	**$ (4,070,650)**	**$ 54,131**	**$ 57,849,540**

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

University accounts payable and accrued expenses consisted of the following liabilities at June 30:

	2011	2010
Payroll and payroll taxes	$ 1,409,788	$ 1,424,240
Accounts payable to vendors	1,003,229	872,273
Health insurance claims	267,000	116,000
Interest	159,046	165,294
Workers' compensation claims	80,000	380,000
Total accounts payable and accrued expenses	**$ 2,919,063**	**$ 2,957,807**

Worker's Compensation

The University is self-insured for workers' compensation claims up to $500,000 per claim. The accrued workers' compensation obligation represents claims made prior to June 30, 2011 and 2010, which remain unpaid at those dates. The University's third party administrator bases these amounts upon an analysis of workers' compensation claims, which includes historical incident rates and other related factors.

Changes in the workers' compensation claims liability are summarized as follows for the years ended June 30:

	2011	2010
Claims liability at beginning of year	$ 380,000	$ 251,000
Claims and damages incurred	--	258,853
Claims payments	(300,000)	(129,853)
Claims liability at end of year	**$ 80,000**	**$ 380,000**

10. LONG-TERM DEBT

Changes in the components of long-term debt are as follows for the years ended June 30:

2011

	Interest Rate	Maturity	Outstanding Principal July 1 2010	Additions	Reductions	June 30 2011	Current Portion
Bonds payable							
General Revenue Bonds, Series 2001							
Series bonds	5.0%	2011-2016	$ 2,915,000	$ --	$ 360,000	$ 2,555,000	$ 375,000
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--
General Revenue Bonds, Series 1997							
Term bonds	5.0%-5.125%	2012-2019	6,145,000	--	690,000	5,455,000	725,000
Total –bonds payable			**25,585,000**	**--**	**1,050,000**	**24,535,000**	**1,100,000**
Capital leases	up to 7.0%		1,155,146	--	308,242	846,904	218,774
Total – long-term debt			**$ 26,740,146**	**$ --**	**$ 1,358,242**	**25,381,904**	**$ 1,318,774**
Less current portion						1,318,774	
Long-term debt, net of current portion						**$ 24,063,130**	

			2010				
			Outstanding Principal				
	Interest Rate	**Maturity**	**July 1 2009**	**Additions**	**Reductions**	**June 30 2010**	**Current Portion**
Bonds payable							
General Revenue Bonds, Series 2001							
Series bonds	4.2%-5.0%	2010-2016	$ 3,260,000	$ --	$ 345,000	$ 2,915,000	$ 360,000
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--
General Revenue Bonds, Series 1997							
Term bonds	5.0%-5.125%	2012-2019	6,805,000	--	660,000	6,145,000	690,000
Total –bonds payable			**26,590,000**	**--**	**1,005,000**	**25,585,000**	**1,050,000**
Capital leases	up to 7.0%		1,345,094	125,314	315,262	1,155,146	308,242
Total – long-term debt			**$ 27,935,094**	**$ 125,314**	**$ 1,320,262**	**26,740,146**	**$ 1,358,242**
Less current portion						1,358,242	
Long-term debt, net of current portion						**$ 25,381,904**	

Bonded Debt

General Revenue Bonds, Series 2001

As of June 30, 2011, bonds payable in the amount of $19,080,000 are payable from general revenues including $2,555,000 in serial bonds maturing in varying amounts through November 2016, with interest charged at annual rates ranging from 4.2% to 5.0%. Also, four term bonds are outstanding in the amounts of $1,170,000, $2,700,000, $5,535,000 and $7,120,000, respectively. The term bonds mature in November 2018, 2021, 2026 and 2031 and bear interest at 5.125%, 5.5%, 5.125% and 5.25%, respectively. All of the bonds are callable after November 15, 2012. The serial and term bonds were issued under the same official statement dated May 15, 2001.

General Revenue Bonds, Series 1997

As of June 30, 2011, bonds payable in the amount of $5,455,000 are payable from general revenues and consist of two term bonds in the amounts of $1,485,000 and $3,970,000. The term bonds mature in November 2012 and 2019 and bear interest at 5.0% and 5.125%, respectively. All the bonds are callable after November 15, 2008. The term bonds were issued under an official statement dated November 1, 1997.

Debt Service Requirements

Principal and interest on the bonds are payable only from certain general revenues. The following table summarizes debt service requirements by years of scheduled maturity:

Year Ending June 30	Principal	Interest	Total
2012	$ 1,100,000	$1,243,893	$2,343,894
2013	1,155,000	1,187,518	2,342,518
2014	1,215,000	1,127,768	2,342,768
2015	1,275,000	1,064,494	2,339,493
2016	1,335,000	998,169	2,333,169
2017-2021	4,850,000	4,220,645	9,070,645
2022-2026	5,260,000	2,885,788	8,145,788
2027-2031	6,775,000	1,336,017	8,111,017
2032	1,570,000	41,213	1,611,213
Total – bonds payable	**$ 24,535,000**	**$ 14,105,505**	**$ 38,640,505**

Interest Rate Swap

The University has a twenty-six year forward-looking basis interest rate swap agreement for an original amount of $20,115,000 (notional amount of $19,080,000 at June 30, 2011). The intention of the swap was to effectively change the fixed interest rate on the University's bonds to a variable rate. The effective date of the swap agreement is May 15, 2008. The stated maturity date of the swap is November 15, 2031.

Under the terms of the swap agreement, the University will pay interest based on the Bond Market Association ("BMA") rate. In return, the University will receive interest calculated at the outstanding notional amount times 68% of the one-month London Interbank Offered Rate ("LIBOR"). Only the net difference in interest payments will be actually exchanged each month. The University will continue to pay interest to the bondholders at the fixed rate on the outstanding bonds. However, during the term of the swap agreement, the University effectively pays a variable rate on the debt based on the economics of the swap agreement. The swap exposes the University to basis risk should the relationship between LIBOR, BMA and the fixed interest rate on the outstanding bonds diverge changing the effective fixed rate of the bonds. As of June 30, 2011, 68% of the one-month LIBOR was 0.24% whereas the BMA rate was 0.29%.

When the swap transaction was initiated, the University received a payment from the issuer in the amount of $839,000, which is included in the accompanying statements of net assets at June 30, 2011 and 2010 under the caption "Investments". Since the University can terminate the swap agreement at its option, under which circumstance a termination payment would be required, this amount is also included as a liability under the caption "Interest rate swap liability" in the accompanying statements of net assets at June 30, 2011 and 2010. As of June 30, 2011, the fair value of the required termination payment is approximately $1,093,000 which represents the amount that the University would be required to pay if the swap was terminated. In accordance with generally accepted accounting principles, the change in fair value of the interest rate swap should be reported as a deferred inflow or outflow on the statement of net assets. Management believes the fair value adjustment is immaterial, and therefore, an adjustment was not recorded.

Obligations Under Capital Leases

The University leases certain equipment with a net book value of $2,265,299 at June 30, 2011 under lease agreements which meet the capitalization criteria specified by generally accepted accounting principles.

The following is a schedule of annual future minimum lease payments required under capitalized leases obligations as of June 30, 2011:

Year Ending June 30	**Amount**
2012	$ 258,585
2013	222,547
2014	212,370
2015	242,758
Total minimum payments due	936,260
Less amounts representing interest, imputed at annual rates ranging up to 7.0%	89,356
Present value of net minimum lease payments	**$ 846,904**

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, 2011 and 2010 are insignificant.

11. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plans

The University provides noncontributory retirement plans for all qualified employees. In December 1995, the State enacted Public Act 272 of 1995 that precludes University employees hired after January 1, 1996 from participating in the Michigan Public School Employees Retirement System (MPSERS). MPSERS and the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) were the two retirement plans offered by the University to its eligible employees. Employees currently covered under the MPSERS plan will continue to remain in that plan. The University will contribute to MPSERS the percentage mandated by state statute of their eligible wages.

Support personnel represented by the United Steelworkers, Local 9997 hired after January 1, 1996, faculty and administrative employees are eligible for the TIAA-CREF plan. TIAA-CREF is a defined contribution plan where the University contributes an amount equal to 12.0 percent of administrative and faculty group employees' pay, and 10.0 percent of Steelworkers employees' pay. The University contributed approximately $1,558,000 and $1,523,000 to this plan for the years ended June 30, 2011 and 2010, respectively. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested.

Plan provisions and contribution requirements of the TIAA-CREF plan are established and may be amended by the University's Board of Trustees.

MPSERS is a noncontributory cost-sharing multiple-employer defined benefit plan administered by the Michigan State Employees' Retirement System. The cost of the MPSERS plan allocated to the University was approximately $647,000, $577,000 and $594,000, for the years ended June 30, 2011, 2010 and 2009, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2011 the University is required to contribute 3.21% (4.11% during the period of October 1, 2010 through September 30, 2011) of MPSERS covered payroll for normal pension costs and 13.41% (9.73% during the period of October 1, 2010 through September 30, 2011) for unfunded pension liability. In addition, separately computed supplemental contributions will be required for retiree health care benefits. Future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. Additional pension data for MPSERS is contained in MPSERS's 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 University also contributes to the MPSERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPSERS. This plan provides medical benefits to retired employees of participating universities. Participating universities are contractually required to make monthly contributions to the plan at amounts assessed each year by MPSERS. The MPSERS Board of Trustees sets the employer contributions based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting principles. The ARC 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 (or funding excess) of the plan over a period not to exceed thirty years. The University's contributions to the MPSERS healthcare plan for the years ended June 30, 2011, 2010 and 2009 were approximately $937,000, $849,000 and $840,000, respectively, which equaled the required contributions each year.

Benefit provisions and contribution requirements of MPSERS are established and may be amended by state statute.

Compensated Absences

The University pays eligible employees for their unused accumulated vacation under various contracts, up to a maximum of 288 hours, upon termination of employment with the University.

Accumulated Sick Leave Benefits

The University pays eligible employees for their unused accumulated sick leave under various contracts, up to a maximum of 800 hours, at retirement from the University, if the employee has met certain vesting and age requirements at that date. Employees in the Faculty and Administrative and Professional groups hired after June 30, 1987 and employees in the Support Staff group hired after December 31, 1989 are not eligible for participation in the program.

Activity in University employee benefit programs is summarized below for the years ended June 30:

	2011				
	July 1 2010	**Additions**	**Payments**	**June 30 2011**	**Current Portion**
Compensated absences	$ 693,002	$ 118,039	$ 90,851	$ 720,190	$ 71,000
Accumulated sick leave benefits	863,557	142,000	137,802	867,755	100,000
Total employee benefit programs	**$ 1,556,559**	**$ 260,039**	**$ 228,653**	**$ 1,587,945**	**$ 171,000**

	2010				
	July 1 2009	**Additions**	**Payments**	**June 30 2010**	**Current Portion**
Compensated absences	$ 695,899	$ 80,041	$ 82,938	$ 693,002	$ 101,000
Accumulated sick leave benefits	855,233	142,000	133,677	863,557	201,400
Early retirement severance program	60,042	(564)	59,478	--	--
Total employee benefit programs	**$ 1,611,174**	**$ 221,477**	**$ 276,093**	**$ 1,556,559**	**$ 302,400**

Other Post Employment Health Benefits

The University allows retirees who are not covered by the MPSERS healthcare plan to purchase healthcare benefits at cost and has 20 retirees participating in this health coverage at June 30, 2011. The University segregates these retiree payments and health care expenses separately from current employee costs. Premium rates are adjusted on July 1 each year to cover projected health care increases for the next year and any funding deficits. Rates are set by the University from a cost analysis through the University's third party health care administrators. Since retirees are required to pay all monthly premiums, there is no liability to the University, accordingly, no post employment health care liability has been recorded in the accompanying statements of net assets.

12. SELF INSURANCE

Liability and Property

The University participates with 10 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. 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 an occurrence basis; errors and omissions coverage is provided on a claims-made basis.

Premiums are assessed annually for (1) insurance risks retained by MUSIC, (2) costs related to excess coverage and (3) general and administrative expenses. The amount assessed reflects the claims experience of each University.

Insurance Reserves

The University provides coverage for up to a maximum of $500,000 for each workers’ compensation claim and $75,000 for each health insurance claim. The University purchases commercial insurance for workers’ compensation and health insurance claims in excess of coverage provided by the self insurance reserves. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The University reserves an amount within unrestricted net assets for health and maintenance reserves and records a liability for workers’ compensation insurance. These reserves are determined by MUSIC for losses relating to catastrophes and amounted to $3,057,650 and $3,006,283 at June 30, 2011 and 2010, respectively. The workers’ compensation claims liability of $80,000 and $380,000 at June 30, 2011 and 2010, respectively, which is included in accounts payable and accrued expenses, is based on the requirements of generally accepted accounting principles, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Health insurance claims incurred but not reported at June 30, 2011 and 2010, were $267,000 and $116,000, respectively, and, accordingly, a related liability has been recorded in the accompanying statements of net assets.

13. NET ASSET CATEGORIES - FOUNDATION

Unrestricted net assets (deficit) at June 30, consist of the following:

	2011	2010
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ (365)	$ (26,967)
Board designated	169,945	171,077
Undesignated	358,095	291,428
	$ 527,675	$ 435,538

Temporarily restricted net assets at June 30, were restricted for the following:

	2011	2010
University programs	$ 1,295,177	$ 1,233,236
Net appreciation on donor-restricted endowment funds	1,506,723	576,041
	$ 2,801,900	$ 1,809,277

Permanently restricted net assets at June 30, were restricted for the following:

	2011	2010
Remainder interests in split-interest agreements	$ 341,819	$ 307,235
Corpus of donor-restricted endowment funds	4,384,171	4,061,154
	$ 4,725,990	$ 4,368,389

Permanently restricted net assets are held in perpetuity, the income from which supports scholarships and fellowships, faculty chairs, and other University programs.

14. FOUNDATION ENDOWMENT

The Foundation’s endowment consists of individual funds, all of which are donor restricted, that have been established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Beginning in fiscal 2010, the Foundation interpreted the State of Michigan Prudent Management of Institutional Funds Act (SMPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as nonexpendable restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in nonexpendable restricted net assets is classified as expendable restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SMPMIFA. In accordance with SMPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation (depreciation) of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Following is a summary of the changes in the endowment net assets for the years ended June 30:

	2011			
		Restricted		
	Unrestricted	Expendable	Nonexpendable	Total
Investment return:				
Investment income	$ --	$ 175,224	$ --	$ 175,224
Net appreciation (realized and unrealized)	26,602	932,660	--	959,262
Net investment income	26,602	1,107,884	--	1,134,486
Contributions and other revenue	--	10,657	321,303	331,960
Change in value	--	9,343	36,298	45,641
Appropriation of endowment assets for expenditure	--	(197,202)	--	(197,202)
Changes to endowment net assets	**26,602**	**930,682**	**357,601**	**1,314,885**
Endowment net assets:				
Beginning of year	(26,967)	576,041	4,368,389	4,917,463
End of year	**$ (365)**	**$ 1,506,723**	**$ 4,725,990**	**$ 6,232,348**

	2010			
		Restricted		
	Unrestricted	Expendable	Nonexpendable	Total
Investment return:				
Investment income	$ --	$ 109,399	$ --	$ 109,399
Net appreciation (realized and unrealized)	91,617	347,843	--	439,460
Net investment income	91,617	457,242	--	548,859
Contributions and other revenue	--	50,212	451,811	502,023
Change in value	--	3,777	7,023	10,800
Appropriation of endowment assets for expenditure	--	(190,038)	--	(190,038)
Changes to endowment net assets	**91,617**	**321,193**	**458,834**	**871,644**
Endowment net assets:				
Beginning of year	(118,584)	254,848	3,909,555	4,045,819
End of year	**$ (26,967)**	**$ 576,041**	**$ 4,368,389**	**$ 4,917,463**

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 8.0% annually. Actual returns in any given year may vary from this range.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual spending policy of 4.5% of its endowment funds' average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long-term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 3.0% to 3.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

15. CONTINGENCIES AND COMMITMENTS

Union Contracts

The University has three groups of employees, two of which are covered under union collective bargaining agreements. The collective bargaining agreements covering the Support Personnel expired on September 30, 2009. The Support Personnel reorganized under the Michigan Education Association/National Education Association (MEA) and a new agreement is being negotiated, but has not been finalized. The Faculty Association contract was ratified effective November 12, 2010. The employee groups covered and the expiration of the contracts are as follows:

Employee Group	Union Name	Contract Expired/Expires
Support Personnel	United Steelworkers Local 9997	September 30, 2009
Faculty	Michigan Education Association/ National Education Association	August 31, 2013
Administrative and Professional	N/A	N/A

Legal Matters

In the normal course of its activities, the University is a party to various legal and administrative actions. Although some actions have been brought for substantial amounts, the University has not experienced significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, University management is of the opinion that the outcome thereof will not have a material effect on the financial statements.

MPSERS Unfunded Liability

Certain employees of the University are covered under the MPSERS retirement plan. As of June 30, 2011 and 2010, the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2011 or 2010. 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.

16. NATURAL CLASSIFICATION OF EXPENSES

Operating expenses by natural classification for the University are summarized as follows for the years ended June 30:

2011

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 12,283,229	$ 1,140,284	$ --	$ --	$ --	$ --	$ 13,423,513
Research	246,843	122,171	--	--	--	--	369,014
Public service	472,405	494,349	--	--	--	--	966,754
Academic support	2,403,492	665,250	--	--	--	--	3,068,742
Student services	2,243,762	493,102	--	--	--	--	2,736,864
Student aid	--	--	--	2,675,056	--	--	2,675,056
Institutional support	3,757,992	1,748,200	--	--	--	--	5,506,192
Plant operations	2,499,619	772,206	1,649,362	--	--	--	4,921,187
Auxiliary activities	3,893,422	3,733,714	1,007,184	--	--	--	8,634,320
Depreciation	--	--	--	--	4,892,209	--	4,892,209
Other	--	--	--	--	--	446,667	446,667
Total operating expenses	**$ 27,800,764**	**$ 9,169,276**	**$ 2,656,546**	**$ 2,675,056**	**$ 4,892,209**	**$ 446,667**	**$ 47,640,518**

2010

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 12,527,417	$ 1,229,061	$ --	$ --	$ --	$ --	$ 13,756,478
Research	210,624	141,366	--	--	--	--	351,990
Public service	618,462	380,874	--	--	--	--	999,336
Academic support	2,328,637	558,110	--	--	--	--	2,886,747
Student services	2,158,389	483,239	--	--	--	--	2,641,628
Student aid	--	--	--	2,560,368	--	--	2,560,368
Institutional support	3,544,254	1,699,496	--	--	--	--	5,243,750
Plant operations	2,538,492	700,308	1,434,023	--	--	--	4,672,823
Auxiliary activities	4,106,881	3,329,439	867,469	--	--	--	8,303,789
Depreciation	--	--	--	--	4,959,535	--	4,959,535
Other	--	--	--	--	--	559,463	559,463
Total operating expenses	**$ 28,033,156**	**$ 8,521,893**	**$ 2,301,492**	**$ 2,560,368**	**$ 4,959,535**	**$ 559,463**	**$ 46,935,907**

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