LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012

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LAKE SUPERIOR STATE UNIVERSITY

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Board of Trustees

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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 fiscal years ended June 30, 2013, 2012 and 2011. 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 discretely presented component unit. Transactions with the State of Michigan 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

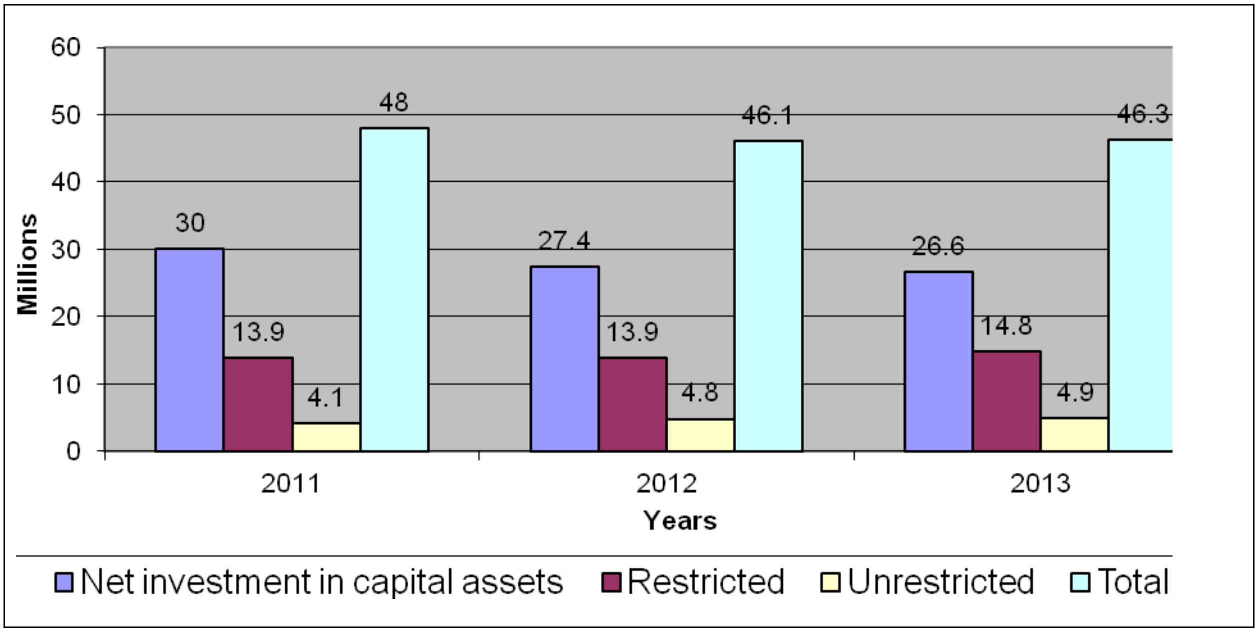
This annual report includes financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB 63. The accompanying financial 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

In June 2013, Standard and Poor's Rating Services reversed its outlook back to stable from positive and reaffirmed its 'BBB+' underlying rating on the University's series 2012 general revenue refunding bonds. The rating agency stated that the revised outlook reflects their view of the University's significant and unexpected declines in student enrollment in fall 2012, as well as weakened operating performance in fiscal 2012.

The University's financial position was fairly stable at June 30, 2013. Net position as of June 30, 2013 of $46.3 million increased by $157,000 from the prior year as compared to a decrease of $1.9 million for the 2011-12 fiscal year. Unrestricted net position of $4.9 million increased by $47,000. The increase in total net position is largely due to an increase in State appropriations.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2013, 2012, and 2011.



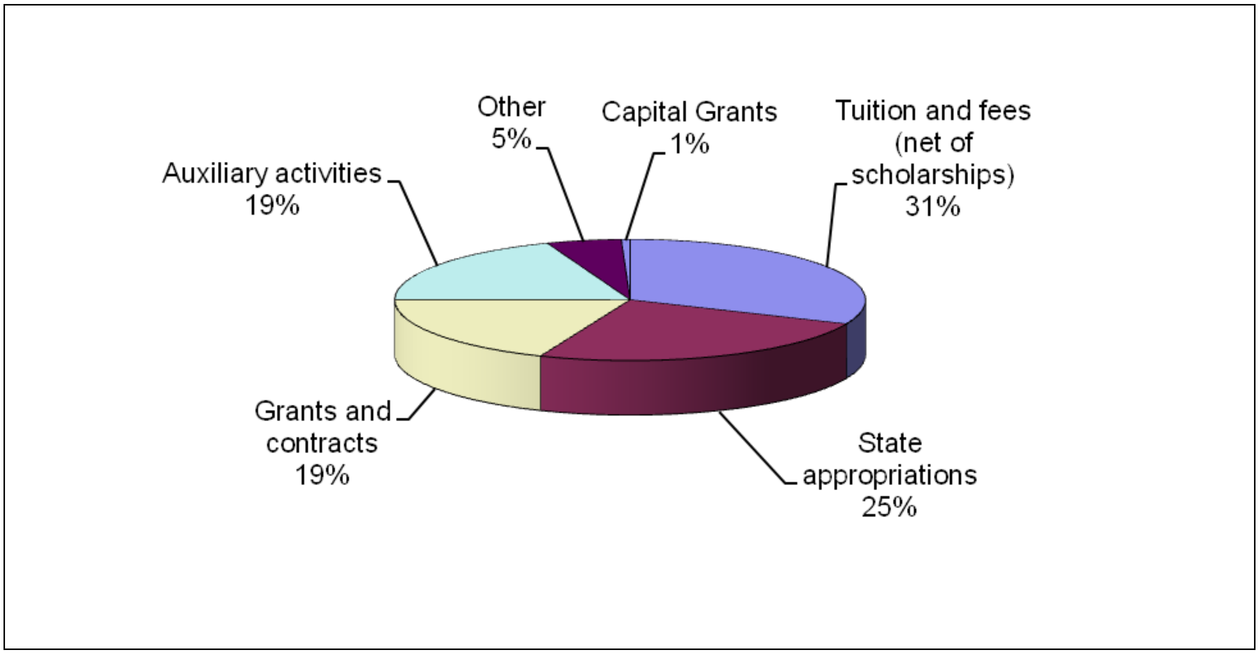
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing and other rental and sales activities. In addition, certain federal, state and private grants and contracts are considered operating if they are not for capital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

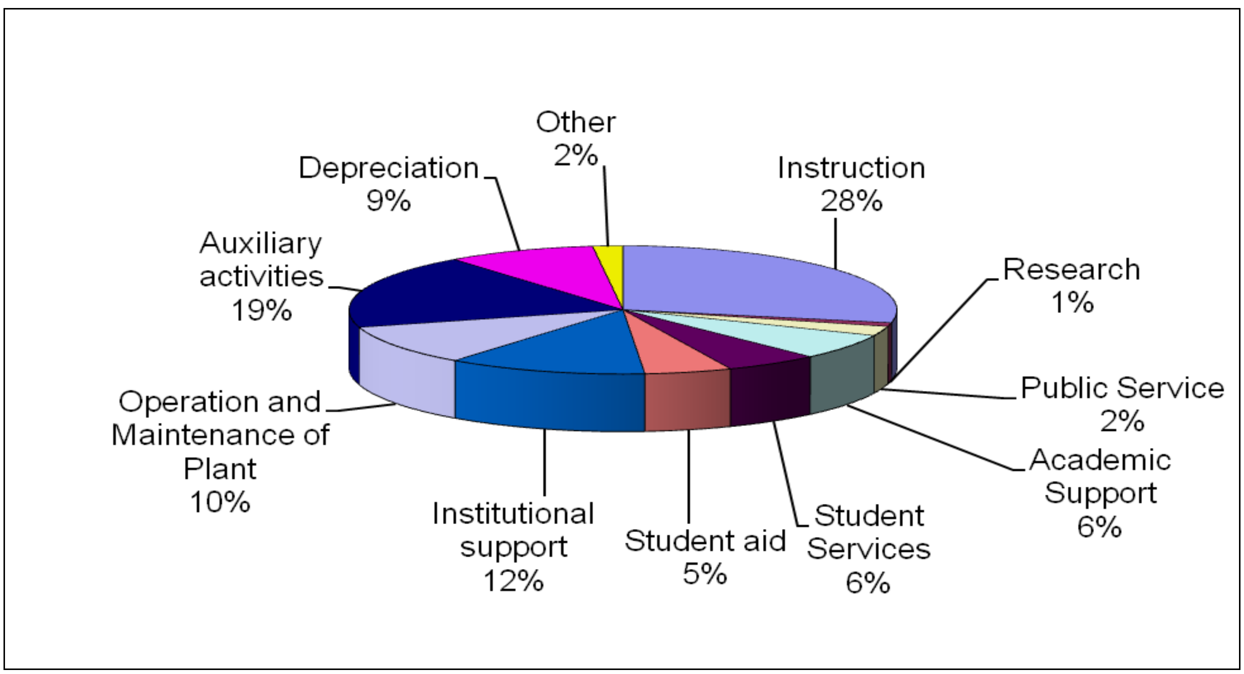
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled $48,690,734 for the 2013 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2013:



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.

Operating expenses for the 2013 fiscal year totaled $47,451,838. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2013:



The Statement of Net Position

The Statements of Net Position include all assets and liabilities. Over time, increases or decreases in net position (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		
	2013	2012	2011
Assets:			
Current assets	$ 14,181,885	$ 14,007,127	$ 13,477,688
Capital assets, net	49,424,886	50,620,780	54,290,041
Other noncurrent assets	11,842,997	11,196,678	12,181,075
Total assets	75,449,768	75,824,585	79,948,804
Liabilities:			
Current liabilities	5,046,511	4,840,972	5,671,343
Noncurrent liabilities	24,142,925	24,880,553	26,319,075
Total liabilities	29,189,436	29,721,525	31,990,418
Net Position:			
Net investment in capital assets	26,620,347	27,340,744	29,980,781
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	14,547,090	13,716,872	13,717,093
Unrestricted	4,887,568	4,840,117	4,055,185
Total net position	**$ 46,260,332**	**$ 46,103,060**	**$ 47,958,386**

Changes from 2012 to 2013:

Cash and cash equivalents and short-term investments, collectively, increased by $134,000 to $10.1 million. Accounts receivable decreased by $131,000 from the previous year. Current Assets increased $175,000. Management attributes the majority of the increase in current assets to an increase in State appropriations, investment income, other nonoperating revenues and controlled spending.

Net capital assets decreased by $1.2 million as a result of the annual depreciation charge of $4.2 million and asset additions of $3.0 million.

Total liabilities decreased by $532,000, mostly due to a reduction of accounts payable of $133,000 and long-term debt in the amount of $781,000 being retired during the current year.

Total net position increased by $157,000. The University's net investment in capital assets, decreased $720,000. This is the result of the depreciation charge being greater than capital asset acquisitions. Restricted, expendable net position increased $830,000 as a result of an upturn in the investment market. Unrestricted reserves increased by $47,000. The June 30, 2013 unrestricted reserves of $4.8 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of $334,000.

Changes from 2011 to 2012:

Cash and cash equivalents and short-term investments, collectively, increased by $.8 million to $10 million. Accounts receivable were unchanged from the previous year. Management attributes the majority of the increase in current assets to an increase in tuition, auxiliary and other revenues and controlled spending.

Capital assets decreased by $3.7 million as a result of the annual depreciation charge of $4.8 million and asset additions of $1.1 million.

Total liabilities decreased by $2.3 million, mostly due to a reduction of current accounts payable of $723,000, long-term debt in the amount of $592,000 being retired during the current year and the pay-off of the swap liability of $839,000.

Total net position decreased by $1.9 million. The University's net investment in capital assets, decreased $2.6 million. This is the result of the depreciation charge being greater than capital asset acquisitions. Restricted, expendable scholarship net position decreased slightly as a result of a minor downturn in the investment market. Unrestricted reserves increased by $785,000. The June 30, 2012 unrestricted reserves of $4.8 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of $379,000.

The Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the revenues earned and expenses incurred each year. Activities are reported as either operating or nonoperating. A public university's dependency on State aid and grants 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		
	2013	**2012**	**2011**
Total operating revenues	$ 30,666,721	$ 31,335,660	$ 29,989,565
Total operating expenses	47,451,838	47,801,178	47,640,518
Operating loss	(16,785,117)	(16,465,518)	(17,650,953)
Net nonoperating revenues	16,650,168	14,296,566	18,450,600
Loss before other revenues	(134,949)	(2,168,952)	(799,647)
Total other revenues	292,221	313,626	224,202
Increase/(decrease) in net position	**157,272**	**(1,855,326)**	**1,023,849**
Net position, beginning of year	46,103,060	47,958,386	46,934,537
Net position, end of year	**$ 46,260,332**	**$ 46,103,060**	**$ 47,958,386**

Changes from 2012 to 2013:

Operating revenues decreased by $669,000. Tuition and fees, net of scholarship allowance, decreased by $967,000 or 6% after a tuition rate increase of 2.98% with a decrease in enrollment of over 8%. Scholarship allowances were almost the same as the prior year. Auxiliary revenues decreased by $385,000 or 4% after a 1.95% room and board rate increase and a slight decline in housing occupancy.

Operating expenses decreased by $349,000. Operation & plant maintenance decreased by $247,000 during the year and there were no notable increases or decreases in any other category of spending. Net nonoperating revenues increased by $2.4 million. State appropriations increased by $1.3 million. Federal Pell grants decreased by $368,000 and investment income increased by $1.0 million.

The net result of operations for the year was an increase in net position of $157,272.

Changes from 2011 to 2012:

Operating revenues increased by $1.3 million. Tuition and fees, net of scholarship allowance, increased by $1.2 million or 8.2% after a tuition rate increase of 6.94% with a slight increase in enrollment. Scholarship allowances were almost the same as the prior year. Auxiliary revenues increased by $239,000 or 2.5% after a 2.9% room and board rate increase and a little less than flat housing occupancy.

Operating expenses increased by $161,000. Salaries and benefits decreased by $316,000 during the year. The University spent $633,000 more on supplies and equipment than the prior year and there were no notable increases or decreases in any other category of spending. Net nonoperating revenues decreased by $4.1 million. State appropriations decreased $1.9 million. Federal Pell grants decreased by $217,000. Investment income decreased by almost $2 million which appears to be a temporary decline of the investment market at year end.

The net result of operations for the year was a decrease in net position of $1.9 million.

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		
	2013	**2012**	**2011**
Cash provided by (used in):			
Operating activities	$ (12,221,219)	$ (12,525,992)	$ (12,850,022)
Noncapital financing activities	16,120,312	15,774,521	17,488,802
Capital and related financing activities	(4,140,362)	(4,191,545)	(3,825,600)
Investing activities	(950,987)	1,440,476	(241,713)
Net change in cash and cash equivalents	(1,192,256)	497,460	571,467
Cash and cash equivalents, beginning of year	2,459,096	1,961,636	1,390,169
Cash and cash equivalents, end of year	**$ 1,266,840**	**$ 2,459,096**	**$ 1,961,636**

Changes from 2012 to 2013:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts. Net cash used in operating activities for the year ended June 30, 2013 was $12.2 million decreasing slightly from the prior year. Uses of cash from operating activities include payments to employees, vendors and students. Payments to vendors, for consumables such as food and utilities, increased slightly compared to prior year.

The net cash received from noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was $16.1 million for the year ended June 30, 2013, up $325,000 from 2012. The University received $700,000 more in State appropriations and $375,000 less from Federal Pell grants than the prior year.

Net cash used in capital and related financing activities decreased by $51,000. While the University spent $1.2 million more on capitalized improvements in 2013 and received $139,000 less in capital gifts, cash used for bond refinancing, including liquidation of the swap agreement, decreased by $981,000 and interest expense decreased by $391,000.

Cash from investing activities decreased by $2.4 million. The decrease is attributable to an increase of $8.6 million in the purchase of investments, offset by $6.2 million in proceeds from the sale of investments.

Overall, cash and cash equivalents decreased by $1.2 million for the year ended June 30, 2013.

Changes from 2011 to 2012:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts. Net cash used in operating activities for the year ended June 30, 2012 was $12.5 million, decreasing slightly from the prior year. The net cash received from noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was $15.8 million for the year ended June 30, 2012, down $1.7 million from 2011. The University received $1.9 less in State appropriations and $200,000 less from Federal Pell grants than the prior year. 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 $366,000. The swap liquidation used $839,000 in cash which was more than offset with the sale of a related investment. The University spent less on capitalized improvements in 2012.

Cash from investing activities increased by $1.7 million, which is mostly attributable to the sale of the investment related to the swap being sold and used to liquidate the swap.

Overall, cash and cash equivalents increased by $497,000 for the year ended June 30, 2012.

Factors that Will Affect the Future

A search for the next President of Lake Superior State University is underway. Dr. Tony McLain, President since June 2009, announced he would stay in his position until December 2013. Since his contract allows for a six month extension and President McLain is committed to assisting with the transitional process, his tenure could continue as far as the end of the fiscal year ending June 30, 2014.

A search committee has been formed and a national executive search firm has been hired by the Board of Trustees to conduct the presidential search. The search firm began the process by hosting several focus groups to solicit feedback from specific campus groups and the community at large in order to develop a priority list of the skills and other characteristics desired in the next president of the University. Conducting this national search is one of the most important events the University will undertake, as it will influence the direction of the University for years to come.

The University recently received approval for the construction phase of a $12 million project to renovate and add new construction to South Hall, a historical Fort Brady barracks-turned-classroom that will be home to the newly renamed Lukenda School of Business. The building will be completely remodeled with some new construction, blending the historic with the new, using $9 million in state funds matched with $3 million in a combination of donated and University funds. Final design work is underway and construction is set to begin in spring 2014, with a completion date set for spring 2015.

The renovation of historic South Hall, set in the academic core of the campus, will provide significant benefits beyond state-of-the-art classrooms. While classrooms will be available to other disciplines, it will be a new permanent home for the Lukenda School of Business, allowing it to grow to its full potential. The offices and classroom space currently used in the Kenneth Shouldice Library by the Lukenda School of Business are expected to be repurposed, allowing other academic departments to be reconfigured and aligned for growth. The infusion of these new assets will increase the net position of the University by about 20%, strengthening its financial position.

Lake Superior State University Foundation had its most successful year ever. In addition to raising about seventy percent, thus far, towards its $3 million goal for the renovation of South Hall, the Foundation received the largest cash gift in its history for the purpose of purchasing expensive manikins for the nursing simulation laboratory also know as the SIM lab. The challenge of undertaking a large capital campaign helped the University connect with friends, new and old, and raise the awareness of the University's mission and vision. Individual University board members and employees jumped on board as never before and gave generously to the cause fostering a culture of giving back.

Last year's successful Higher Learning Commission (HLC) accreditation required the University to submit four interim monitoring reports by February 1, 2013. The required reports dealt with clarifying the tenure process for faculty, reporting on shared governance activities and its sustainability, ensuring movement toward the institutionalization of assessment, and the development of a strategic plan for Information Technology. Those four reports were submitted before the due date and one HLC team member commented as follows:

> "Lake Superior State University submitted an excellent and thorough set of monitoring reports. The reports indicate remarkable progress in all four areas of concern to the 2011 comprehensive visit team. The University is commended for its effectiveness in addressing all of these issues and for setting forth the accomplishments of the University with respect to these issues in well organized and informative monitoring reports."

The exercise of addressing the issues identified by the HLC and writing the reports was necessary and will make the institution and its processes stronger for it. These comments are confirmation that there has been diligent effort and significant progress in each area of concern and the University is on the right track.

Lake Superior State University is the authorizer for 22 charter schools in Michigan, up 8 from the prior year, including two schools of excellence. Of the 22 charter schools, 21 are open and operational. The 22nd school plans to open in 2014. The University will become more visible at the charter schools in order to provide opportunities and awareness of what Lake Superior State University has to offer to students. The University has expanded the number of students it brings to campus for summer camps and those summer campers often return to the University as full time students.

The University campus has never looked better. The grounds are beautiful and deferred maintenance is still a challenge but many projects have been addressed. Some of the projects that were completed in this fiscal year include: a complete renovation of the Quarterdeck dining hall, a complete renovation of East Hall which is now home to the Little Lakers Kinder College, renovation of Brown Hall for Graphics and Public Relations, renovation of an office suite in the Cisler Center for the School of Education, remodeling of a former print shop for a new flexible classroom, replacement of significant sections of sidewalk, and renovation of common student areas to name a few. In addition, progress has been made on roof and soffit replacements and infrastructure that isn't as noticeable but addresses structural and safety issues. Keeping up with deferred maintenance as much as possible will help avoid unaffordable repairs in the future and it attracts students and other visitors to the University.

Technology is also important to an educational institution. Management has taken steps to strengthen that area. The IT department was reorganized and has become more efficient and effective. Several new software programs have been installed, including but not limited to an assessment program and budgeting program and student advising and retention software. The introduction of these types of programs change the way management does business and make management more accountable going forward.

With limited resources, universities have been encouraged to collaborate with others on certain initiatives. Collaborations are a good way to share resources and become good partners with others. A few of the new collaborations include partnering with the Sault Convention and Visitors Bureau by opening a shared marketing and promotion center, partnering with the local War Memorial Hospital in operating a new SIM lab, and joining forces with the City of Sault Ste. Marie and the local EDC to form a Smart Zone and build a new state-of-the-art "breeder building", as well as a partnership called Sault United, whose vision is to transform Sault Ste Marie from a town with a college into a college centered town.

The Michigan State Public Universities often collaborate together. The newest initiative involves the formation of a task force made up of representatives from the seven public universities that are part of the Michigan Public Schools Retirement System. This group has been working collaboratively together on common goals for a fair solution to make the system sustainable and more affordable. This initiative requires the assistance of the Michigan Legislature and has the potential for significant cost savings for the seven universities.

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INDEPENDENT AUDITORS' REPORT

October 4, 2013

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

Report on the Financial Statements

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 and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued, under separate cover, our report dated October 4, 2013, 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 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Rehmann Robson LLC

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

	June 30	
Assets	**2013**	**2012**
Current assets		
Cash and cash equivalents	$ 1,266,840	$ 2,459,096
Short-term investments	8,844,276	7,517,614
Accounts receivable, net	1,402,427	1,533,120
State appropriations receivable	2,190,204	1,961,729
Inventories	405,919	227,103
Other	72,219	308,465
Total current assets	**14,181,885**	**14,007,127**
Noncurrent assets		
Student loans receivable, net	2,534,605	2,592,713
Investments	-	4,229
Endowment investments	9,028,330	8,019,962
Unamortized bond costs	280,062	579,774
Land and art collection	2,716,860	2,512,525
Depreciable capital assets, net	46,708,026	48,108,255
Total noncurrent assets	**61,267,883**	**61,817,458**
Total assets	**75,449,768**	**75,824,585**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	2,063,608	2,196,493
Unearned revenue	990,113	968,010
Deposits	183,798	177,115
Current portion of long-term debt	1,572,992	1,293,354
Current portion of employee benefit programs	236,000	206,000
Total current liabilities	**5,046,511**	**4,840,972**
Long-term debt, net of current portion	22,715,178	23,496,153
Employee benefit programs, net of current portion	1,427,747	1,384,400
Total liabilities	**29,189,436**	**29,721,525**
Net position		
Net investment in capital assets	26,620,347	27,340,744
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	10,093,769	8,965,550
Loans	3,046,189	3,047,456
Capital projects and debt service	1,407,132	1,703,866
Unrestricted	4,887,568	4,840,117
Total net position	**$ 46,260,332**	**$ 46,103,060**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2013	**2012**
Operating revenues		
Tuition and fees (net of scholarship allowances of $7,922,303 and $7,832,429 in 2013 and 2012, respectively)	$ 15,342,873	$ 16,309,655
Federal grants and contracts	1,199,745	1,111,037
State grants and contracts	77,713	97,286
Nongovernmental grants and contracts	3,616,035	2,871,253
Auxiliary activities	9,364,034	9,749,205
Other	1,066,321	1,197,224
Total operating revenues	**30,666,721**	**31,335,660**
Operating expenses		
Instruction	13,413,200	13,385,670
Research	443,045	396,020
Public service	1,137,991	1,053,557
Academic support	3,065,992	2,968,127
Student services	2,625,422	2,719,361
Student aid	2,437,485	2,514,045
Institutional support	5,574,264	5,424,953
Operation and maintenance of plant	4,789,312	5,035,842
Auxiliary activities	8,938,425	8,840,275
Depreciation	4,182,975	4,792,374
Other	843,727	670,954
Total operating expenses	**47,451,838**	**47,801,178**
Operating loss	**(16,785,117)**	**(16,465,518)**
Nonoperating revenues (expenses)		
State appropriations	12,015,169	10,740,629
Federal Pell grants	4,282,891	4,651,340
Interest on capital debt and leases	(780,662)	(1,459,161)
Bond issue cost	(286,222)	-
Amortize prepaid bond insurance	(14,740)	-
Investment income, net of investment expenses	1,379,812	341,395
Gifts for expendable endowments	54,622	33,736
Loss on assets sold or retired	(702)	(11,373)
Net nonoperating revenues	**16,650,168**	**14,296,566**
Loss before other revenues	**(134,949)**	**(2,168,952)**
Other revenues		
Capital grants and gifts	**292,221**	**313,626**
Increase (decrease) in net position	**157,272**	**(1,855,326)**
Net position, beginning of year	46,103,060	47,958,386
Net position, end of year	**$ 46,260,332**	**$ 46,103,060**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30 2013	Year Ended June 30 2012
Cash flows from operating activities		
Tuition and fees	$ 15,529,780	$ 16,070,829
Grants and contracts	4,898,666	4,298,256
Payments to employees	(27,321,566)	(28,080,032)
Payments to vendors	(13,349,169)	(13,286,451)
Payments for financial aid	(2,437,485)	(2,514,045)
Loans issued to students	(405,968)	(325,491)
Collections of interest and principal on loans to students	464,076	495,524
Auxiliary activities	9,339,166	9,703,611
Other receipts	1,061,281	1,111,807
Net cash used in operating activities	**(12,221,219)**	**(12,525,992)**
Cash flows from noncapital financing activities		
State appropriations	11,786,694	11,086,936
Federal Pell grants	4,278,996	4,653,849
Gifts for expendable endowments	54,622	33,736
Federal Direct Lending receipts	13,579,171	14,740,890
Federal Direct Lending disbursements	(13,579,171)	(14,740,890)
Net cash provided by noncapital financing activities	**16,120,312**	**15,774,521**
Cash flows from capital and related financing activities		
Capital grants and gifts received	138,435	277,362
Proceeds from disposal of capital assets	15,617	7,946
Payment of bond issuance costs	(1,250)	(579,774)
Purchases and construction of capital assets	(1,958,637)	(759,733)
Principal paid on debt and capital leases	(1,365,272)	(1,374,528)
Interest paid on debt and capital leases	(969,255)	(1,360,645)
Payment of interest rate swap liability	-	(839,000)
Proceeds from bond issuance	-	23,871,827
Refunded bonds	-	(23,435,000)
Net cash used in capital and related financing activities	**(4,140,362)**	**(4,191,545)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	8,678,570	2,478,610
Purchases of investments	(10,094,747)	(1,442,103)
Investment income, net	465,190	403,969
Net cash (used in) provided by investing activities	**(950,987)**	**1,440,476**
Net (decrease) increase in cash and cash equivalents	(1,192,256)	497,460
Cash and cash equivalents, beginning of year	2,459,096	1,961,636
Cash and cash equivalents, end of year	**$ 1,266,840**	**$ 2,459,096**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
(Concluded)

	Year Ended June 30	
	2013	**2012**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (16,785,117)	$ (16,465,518)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	4,182,975	4,792,374
Provision for uncollectible accounts and student loans receivables	209,289	64,239
Change in assets and liabilities:		
Accounts receivable	(54,897)	(86,733)
Student loans receivable	37,102	158,751
Inventories	(178,816)	12,465
Other	236,246	(65,559)
Accounts payable and accrued expenses	29,866	(821,086)
Unearned revenue	22,103	(105,436)
Deposits	6,683	(11,945)
Employee benefit programs	73,347	2,456
Net cash used in operating activities	**$ (12,221,219)**	**$ (12,525,992)**
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	$ 154,988	$ 37,396
Entered into capital lease to purchase capital equipment	$ 889,777	$ 345,304

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF NET ASSETS

	June 30	
	2013	**2012**
Assets		
Current assets		
Cash and cash equivalents	$ 160,073	$ 865,257
Short-term investments	2,500,000	1,200,000
Other current assets	28,597	28,597
Current portion of unconditional promises to give, net	148,604	70,042
Total current assets	**2,837,274**	**2,163,896**
Noncurrent assets		
Investments	7,320,786	6,037,815
Unconditional promises to give, net of current portion	190,275	78,036
Beneficial interest in charitable remainder trust	344,810	330,335
Total noncurrent assets	**7,855,871**	**6,446,186**
Total assets	**10,693,145**	**8,610,082**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	4,379	19,113
Employee benefit programs	19,257	22,919
Total current liabilities	**23,636**	**42,032**
Annuity obligations	49,553	52,097
Total liabilities	**73,189**	**94,129**
Net assets		
Restricted		
Nonexpendable	5,608,738	5,063,140
Expendable	4,316,643	2,830,945
Unrestricted	694,575	621,868
Total net assets	**$ 10,619,956**	**$ 8,515,953**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2013	**2012**
Revenues and support		
Contributions	$ 2,538,625	$ 1,454,356
Change in value of split interest agreements	18,157	(8,562)
Investment income, net	582,523	203,219
Net unrealized gains (losses) on investments	409,406	(112,889)
Total revenues and support	**3,548,711**	**1,536,124**
Expenses		
Operating expenses	463,344	447,271
Distributions to Lake Superior State University	981,364	628,465
Total expenses	**1,444,708**	**1,075,736**
Increase in net assets	**2,104,003**	**460,388**
Net assets, beginning of year	8,515,953	8,055,565
Net assets, end of year	**$ 10,619,956**	**$ 8,515,953**

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

1. BASIS OF PRESENTATION AND 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 legally separate tax-exempt component unit, the ***Lake Superior State University Foundation*** (the "Foundation"). As a result of a) the Foundation's Board of Trustees is drawn primarily from community representatives, independent from the governance of the University's Board of Trustees and b) 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 Internal Revenue Service, Department of the Treasury, of the United States determined on August 9, 1985 that the Foundation was a tax-exempt organization under section 501(c)3 of the tax code. The Foundation exclusively benefits the University however its Board of Directors is not substantively the same as that of the University. The Foundation is discretely presented in the University's financial statements in accordance with the provisions of GASB 61. See pages 17 & 18 of this report for the statements of net assets and statements of activities of the Foundation.

Contributions to the University by the Foundation have been made in the amount of $981,364 and $628,465 during 2013 and 2012, respectively. Support from the University provided to the Foundation amounted to $454,452 and $432,227 during 2013 and 2012, 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.

Change in Accounting Principle - University

Effective with the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and rename that measure as net position, rather than net assets. In accordance with these standards, the University has modified the presentation of the Statement of Net Position. At June 30, 2013 and 2012, the University has no deferred outflows nor deferred inflows to present.

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 and insurance reserves.

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 and liquid bond/fixed income funds.

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 position. 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, 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 2013 and 2012, the University received $44,270,465 and $32,371,759 (net of a 3% administrative fee retained by the University), respectively, of State appropriations which were forwarded to 14 and 10 charter schools, respectively. The University also received $100,000 in State appropriations for Bay Mills Community College during fiscal 2013 and 2012, 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 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 2013 or 2012.

The Foundation is also exempt from federal income taxes under Section 501(c) (3) and qualifies as an organization operated for the benefit of a college or University owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. 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 2013 or 2012.

ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, 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 analyzes its filing positions in the state jurisdictions where it is required to file income tax returns, including tax years 2009 through 2013 in these jurisdictions. The Foundation also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of operating expenses. The continued application of ASC Topic 740 has 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 discount rate 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.

Foundation Net Assets

The net assets and revenues, gains, and losses of the Foundation 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.

Expendable 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. Expendable restricted assets are released from restrictions by the passage of time or by actions of the Foundation, pursuant to the donors' stipulations.

Nonexpendable 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.

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, 2013, the most recent statement of net assets presented herein, through October 4, 2013, 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:

	2013	2012
Disbursement accounts	$ 147,685	$ 1,689,017
Money market funds	1,119,155	770,079
Total cash and cash equivalents	**$ 1,266,840**	**$ 2,459,096**

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

	2013	2012
University short-term investments		
Certificates of deposit	$ 1,014,448	$ 1,269,194
Mutual funds		
Bond/fixed income funds	7,829,828	6,248,450
Total University short-term investments	**$ 8,844,276**	**$ 7,517,614**
University endowment investments		
Mutual funds		
Equity funds	$ 5,729,300	$ 5,382,488
Bond/fixed income funds	2,162,042	2,040,839
Exchange traded funds	1,136,988	596,635
Total University endowment investments	**9,028,330**	**8,019,962**

University investments		
Money market funds	-	4,229
Total University investments	**-**	**4,229**
Total investments	**$ 9,028,330**	**$ 8,024,191**

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, 2013, the University had the following investments with related maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Money market funds	$ 1,119,115	$ 1,119,115	$ -	$ -
Bond/fixed income funds	9,991,870	7,829,828	-	2,162,042
Total investments	**$11,110,985**	**$ 8,948,943**	**$ -**	**$ 2,162,042**

As of June 30, 2012, the University had the following investments with related maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Money market funds	$ 774,308	$ 774,308	$ -	$ -
Bond/fixed income funds	8,289,289	6,248,450	-	2,040,839
Total investments	**$ 9,063,597**	**$ 7,022,758**	**$ -**	**$ 2,040,839**

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 June 30, 2013, $807,422 of the University's bank balance of $1,647,354 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, 2013 and 2012, the University held 41,980 and 31,414 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of $1,755,200 and $1,156,975, 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 position 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 University investments of donor-restricted endowments approximated $1,892,000 and $1,338,000 at June 30, 2013 and 2012, respectively. Net appreciation is a component of restricted, expendable net position.

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

	2013	2012
Interest and dividends	2.7%	2.1%
Net realized and unrealized gains (losses)	13.1	(1.3)
Total investment gain	**15.8%**	**0.8%**

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 consist of the following amounts at June 30:

	2013	2012
Mutual funds		
Index funds	$ 1,477,930	$ 1,871,272
Growth funds	2,347,220	1,613,381
Bond/fixed income funds	4,683,223	2,962,232
Exchange traded funds	918,854	467,863
Value funds	378,343	306,544
Money market	1,146	1,165
Subtotal	9,806,716	7,222,457
Marketable securities	14,070	15,358
Total Foundation investments	**$ 9,820,786**	**$ 7,237,815**

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

	2013	2012
Mutual funds		
Index funds	$ 54,216	$ 48,328
Growth funds	269,144	(170,067)
Bond/fixed income funds	(89,694)	41,222
Exchange traded funds	96,830	(12,910)
Value funds	71,074	(20,805)
Subtotal	401,570	(114,232)
Marketable securities	7,836	1,343
Total Foundation unrealized gains (losses)	**$ 409,406**	**$ (112,889)**

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, 2013:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 1,477,930	$ -	$ -	$ 1,477,930
Growth funds	2,347,220	-	-	2,347,220
Bond/fixed income fund	4,288,610	-	394,613	4,683,223
Exchange traded funds	918,854	-	-	918,854
Value funds	378,343	-	-	378,343
Money market	1,146	-	-	1,146
Marketable securities	14,070	-	-	14,070
Total investments at fair value	**$ 9,426,173**	**$ -**	**$ 394,613**	**$ 9,820,786**
Beneficial Interest in Charitable Remainder Trust	**$ -**	**$ -**	**$ 344,810**	**$ 344,810**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 1,871,272	$ -	$ -	$ 1,871,272
Growth funds	1,613,381	-	-	1,613,381
Bond/fixed income fund	2,685,501	-	276,731	2,962,232
Exchange traded funds	467,863	-	-	467,863
Value funds	306,544	-	-	306,544
Money market	1,165	-	-	1,165
Marketable securities	15,358	-	-	15,358
Total investments at fair value	**$ 6,961,084**	**$ -**	**$ 276,731**	**$ 7,237,815**
Beneficial Interest in Charitable Remainder Trust	**$ -**	**$ -**	**$ 330,335**	**$ 330,335**

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2013:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance at beginning of year	$ 276,731	$ 330,335
Unrealized gains relating to investments held at year end	16,882	-
Purchases	101,000	-
Change in value	-	14,475
Balance, end of year	**$ 394,613**	**$ 344,810**

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2012:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance at beginning of year	$ 265,270	$ 341,819
Unrealized gains relating to investments held at year end	11,461	-
Change in value	-	(11,484)
Balance, end of year	**$ 276,731**	**$ 330,335**

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 $455,451 and $323,524 at June 30, 2013 and 2012, respectively.

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

	2013	2012
Tuition and fees	$ 585,218	$ 671,190
Governmental grants and contracts	339,982	352,302
Auxiliary activities	236,406	228,514
Other	195,888	234,802
Private grants and contracts	44,933	46,312
Accounts receivable, net	**$ 1,402,427**	**$ 1,533,120**

In addition, the University has student loans receivable, in the amount of $2,534,605 and $2,592,713, which are recorded net of an allowance for uncollectible loans of $472,199 and $451,509 as of June 30, 2013 and 2012, 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:

	2013	2012
Unconditional promises due in less than one year	$ 156,115	$ 74,555
Unconditional promises due in one to five years, net of discount to net present value at 1% of $5,896 and $1,725	160,849	63,610
Unconditional promises due in more than five years, net of discount to net present value at 8% of $27,574	29,426	14,426
Present value of promises to give	346,390	152,591
Less allowance for uncollectible amounts	7,511	4,513
Net unconditional promises to give	**338,879**	**148,078**
Less current portion	148,604	70,042
Unconditional promises to give, net of current portion	**$ 190,275**	**$ 78,036**

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, 2013 and 2012, 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 $344,810 and $330,335, respectively.

8. CAPITAL ASSETS

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

	2013			
	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ -	$ -	$ 838,684
Land	1,096,844	204,335	-	1,301,179
Art collection	576,997	-	-	576,997
Total capital assets not being depreciated	2,512,525	204,335	-	2,716,860
Capital assets being depreciated				
Land improvements	5,484,730	123,294	-	5,608,024
Infrastructure	3,244,705	9,577	-	3,254,282
Building and building improvements	116,034,823	1,085,488	461,885	116,658,426
Equipment and other	19,459,906	1,580,708	1,020,700	20,019,914
Total capital assets being depreciated	144,224,164	2,799,067	1,482,585	145,540,646
Accumulated depreciation	(96,115,909)	(4,182,975)	1,466,264	(98,832,620)
Total capital assets being depreciated, net	48,108,255	(1,383,908)	16,321	46,708,026
Total capital assets, net	**$ 50,620,780**	**$ (1,179,573)**	**$ 16,321**	**$ 49,424,886**

	2012			
	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ -	$ -	$ 838,684
Land	1,096,844	-	-	1,096,844
Art collection	586,575	-	9,578	576,997
Total capital assets not being depreciated	2,522,103	-	9,578	2,512,525
Capital assets being depreciated				
Land improvements	5,395,733	88,997	-	5,484,730
Infrastructure	3,244,705	-	-	3,244,705
Building and building improvements	115,762,518	272,305	-	116,034,823
Equipment and other	18,994,419	781,131	315,644	19,459,906
Total capital assets being depreciated	143,397,375	1,142,433	315,644	144,224,164
Accumulated depreciation	(91,629,437)	(4,792,374)	(305,902)	(96,115,909)
Total capital assets being depreciated, net	51,767,938	(3,649,941)	9,742	48,108,255
Total capital assets, net	**$ 54,290,041**	**$ (3,649,941)**	**$ 19,320**	**$ 50,620,780**

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2013	2012
Accounts payable to vendors	$ 833,333	$ 839,415
Payroll and payroll taxes	670,749	672,516
Health insurance claims	304,715	267,000
Interest	94,811	257,562
Workers' compensation claims	160,000	160,000
Total accounts payable and accrued expenses	**$ 2,063,608**	**$ 2,196,493**

Worker's Compensation

The University is self-insured for workers' compensation claims up to $550,000 and $500,000 per claim at June 30, 2013 and 2012, respectively. The accrued workers' compensation obligation represents claims made prior to June 30, 2013 and 2012, 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.

10. LONG-TERM DEBT

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

			2013				
			Outstanding Principal				
	Interest Rate	Maturity	July 1 2012	Additions	Reductions	June 30 2013	Current Portion
Bonds payable							
General Revenue Bonds, Series 2012 Series bonds	2.0%-4.0%	2013-2031	$ 23,355,000	$ -	$ 1,035,000	$ 22,320,000	$1,220,000
Net premium on bond issuance			516,827	-	25,842	490,985	-
Total – bonds payable			**23,871,827**	**-**	**1,060,842**	**22,810,985**	**1,220,000**
Capital leases	up to 5.24%	2013- 2024	917,680	889,777	330,272	1,477,185	352,992
Total – long-term debt			**$ 24,789,507**	**$ 889,777**	**$ 1,391,114**	**24,288,170**	**$ 1,572,992**
Less current portion						1,572,992	
Long-term debt, net of current portion						**$ 22,715,178**	

			2012				
			Outstanding Principal				
	Interest Rate	Maturity	July 1 2011	Additions	Reductions	June 30 2012	Current Portion
Bonds payable							
General Revenue Bonds, Series 2012							
Series bonds	2.0%-4.0%	2013-2031	$ -	$ 23,355,000	$ -	$ 23,355 000	$ 1,035,000
General Revenue Bonds, Series 2001							
Series bonds	5.0%	2012-2016	$ 2,555,000	$ -	$ 2,555,000	$ -	$ -
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%	2013-2019	5,455,000	-	5,455,000	-	-
Net premium on bond issuance			-	516,827	-	516,827	-
Total –bonds payable			**24,535,000**	**23,871,827**	**24,535,000**	**23,871,827**	**1,035,000**
Capital leases	up to 7.0%		846,904	345,304	274,528	917,680	258,354
Total – long-term debt			**$ 25,381,904**	**$ 24,217,131**	**$ 24,809,528**	**24,789,507**	**$ 1,293,354**
Less current portion						1,293,354	
Long-term debt, net of current portion						**$ 23,496,153**	

Bonded Debt

General Revenue Bonds, Series 2012

In March, 2012, the University issued fixed rate General Revenue Bonds in the amount of $23,355,000. As of June 30, 2013, serial bonds payable in the amount of $22,320,000 are payable from general revenues, maturing in varying amounts through November 2031, with interest charged at annual rates ranging from 2.0% to 4.0%. All of the bonds are callable after November 15, 2021.

In 2012 the University used the proceeds from above mentioned bond issue to refund $4,670,000 and $18,685,000 in outstanding fixed rate General Revenue Bonds, Series 1997 and 2001, respectively. As of June 30, 2013 and 2012, the certificates are considered defeased and the liability has been removed from the statement of net position. At June 30, 2012, no amounts remain in escrow. The refunding resulted in an interest savings of $3,540,834 and a net present value savings of $2,821,221.

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
2014	$ 1,220,000	$ 746,275	$ 1,966,275
2015	1,245,000	721,625	1,966,625
2016	1,270,000	696,475	1,966,475
2017	890,000	674,875	1,564,875
2018	910,000	655,738	1,565,738
2019-2023	5,045,000	2,757,800	7,802,800
2024-2028	6,015,000	1,749,300	7,764,300
2029-2031	5,725,000	469,700	6,194,700
Total – bonds payable	**$ 22,320,000**	**$ 8,471,788**	**$ 30,791,788**

Obligations Under Capital Leases

The University leases certain equipment with a net book value of $2,068,266 at June 30, 2013, 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, 2013:

Year Ending June 30	Amount
2014	$ 380,086
2015	410,475
2016	167,716
2017	106,771
2018	91,643
2019-24	369,862
Total minimum payments due	1,526,553
Less amounts representing interest, imputed at annual rates ranging up to 5.24%	49,368
Present value of net minimum lease payments	**$ 1,477,185**

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, 2013, and 2012, 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 Michigan Education Association/National Education Association (MEA) 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 MEA employees’ pay. The University contributed approximately $1,610,000 and $1,566,000 to this plan for the years ended June 30, 2013 and 2012, 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 $817,000, $816,000 and $647,000, for the years ended June 30, 2013, 2012 and 2011, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2012 the University is required to contribute 3.21% of MPSERS covered payroll for normal pension costs and 13.41% 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, 2013, 2012 and 2011, were approximately $839,000, $929,000 and $937,000, 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:

	2013				
	July 1 2012	**Additions**	**Payments**	**June 30 2013**	**Current Portion**
Compensated absences	$ 764,164	$ 68,955	$ 46,730	$ 786,389	$ 71,000
Accumulated sick leave benefits	826,236	142,000	90,878	877,358	165,000
Total employee benefit programs	**$ 1,590,400**	**$ 210,955**	**$ 137,608**	**$ 1,663,747**	**$ 236,000**

	2012				
	July 1 2011	**Additions**	**Payments**	**June 30 2012**	**Current Portion**
Compensated absences	$ 720,190	$ 109,163	$ 65,189	$ 764,164	$ 71,000
Accumulated sick leave benefits	867,755	142,000	183,519	826,236	135,000
Total employee benefit programs	**$ 1,587,945**	**$ 251,163**	**$ 248,708**	**$ 1,590,400**	**$ 206,000**

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 approximately 18 retirees participating in this health coverage at June 30, 2013 and 2012. 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 position.

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 $550,000 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 position 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 $3,456,610 and $3,385,581 at June 30, 2013 and 2012, respectively. The workers' compensation claims liability of $160,000 for both of the years ending at June 30, 2013 and 2012, 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 each June 30, 2013 and 2012, were $304,715 and $267,000 respectively, and, accordingly, a related liability has been recorded in the accompanying statements of net position.

13. NET ASSETS CATEGORIES - FOUNDATION

Unrestricted net assets at June 30 consist of the following:

	2013	2012
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ -	$ (179)
Board designated	240,256	198,545
Undesignated	454,319	423,502
	$ 694,575	**$ 621,868**

Expendable restricted net assets at June 30 were restricted for the following:

	2013	2012
University programs	$ 2,285,656	$ 1,510,375
Net appreciation on donor-restricted endowment funds	2,030,987	1,320,570
	$ 4,316,643	**$ 2,830,945**

Nonexpendable restricted net assets at June 30 were restricted for the following:

	2013	2012
Remainder interests in split-interest agreements	$ 344,810	$ 330,335
Corpus of donor-restricted endowment funds	5,263,928	4,732,805
	$ 5,608,738	**$ 5,063,140**

Nonexpendable 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

The Foundation interprets 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:

	2013			
		Restricted		
	Unrestricted	Expendable	Nonexpendable	Total
Investment return:				
Investment income	$ -	$ 179,985	$ -	$ 179,985
Net appreciation (realized and unrealized)	179	759,590	-	759,769
Net investment return	179	939,575	-	939,754
Contributions and other revenue	-	-	527,441	527,441
Change in value	-	-	18,157	18,157
Appropriation of endowment assets for expenditure	-	(229,158)	-	(229,158)
Changes to endowment net assets	**179**	**710,417**	**545,598**	**1,256,194**
Endowment net assets:				
Beginning of year	(179)	1,320,570	5,063,140	6,383,531
End of year	**$ -**	**$ 2,030,987**	**$ 5,608,738**	**$ 7,639,725**

		2012		
		Restricted		
	Unrestricted	Expendable	Nonexpendable	Total
Investment return:				
Investment income	$ -	$ 128,437	$ -	$ 128,437
Net appreciation (depreciation) (realized and unrealized)	186	(73,060)	-	(72,874)
Net investment return	186	55,377	-	55,563
Contributions and other revenue	-	435	319,742	319,742
Change in value	-	(434)	(8,562)	(8,562)
Appropriation of endowment assets for expenditure	-	(215,560)	-	(215,560)
Transfer based on donor specification	-	(25,970)	25,970	-
Changes to endowment net assets	**186**	**(186,153)**	**311,180**	**151,183**
Endowment net assets:				
Beginning of year	(365)	1,506,723	4,725,990	6,232,348
End of year	**$ (179)**	**$ 1,320,570**	**$ 5,063,140**	**$ 6,383,531**

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. OTHER 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 agreement covering the Support Personnel under the United Steelworkers Local 9997 had expired and the Support Personnel reorganized under the Michigan Education Association/National Education Association (MEA). Their new agreement was ratified effective April 27, 2012. 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	Michigan Education Association/ National Education Association	September 30, 2014
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, 2013 and 2012, the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2013 or 2012. 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:

2013

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 12,149,149	$ 1,264,051	$ --	$ --	$ --	$ --	$ 13,413,200
Research	282,403	160,642	--	--	--	--	443,045
Public service	559,531	578,460	--	--	--	--	1,137,991
Academic support	2,206,768	859,224	--	--	--	--	3,065,992
Student services	2,081,497	543,925	--	--	--	--	2,625,422
Student aid	--	--	--	2,437,485	--	--	2,437,485
Institutional support	3,567,001	2,007,263	--	--	--	--	5,574,264
Plant operations	2,580,234	686,741	1,522,337	--	--	--	4,789,312
Auxiliary activities	3,966,563	3,969,294	1,002,568	--	--	--	8,938,425
Depreciation	--	--	--	--	4,182,975	--	4,182,975
Other	--	--	--	--	--	843,727	843,727
Total operating expenses	**$ 27,393,146**	**$ 10,069,600**	**$ 2,524,905**	**$ 2,437,485**	**$ 4,182,975**	**$ 843,727**	**$ 47,451,838**

2012

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 12,167,240	$ 1,218,430	$ --	$ --	$ --	$ --	$ 13,385,670
Research	257,946	138,074	--	--	--	--	396,020
Public service	475,427	578,130	--	--	--	--	1,053,557
Academic support	2,129,273	838,854	--	--	--	--	2,968,127
Student services	2,207,102	512,259	--	--	--	--	2,719,361
Student aid	--	--	--	2,514,045	--	--	2,514,045
Institutional support	3,598,574	1,826,379	--	--	--	--	5,424,953
Plant operations	2,565,636	830,212	1,639,994	--	--	--	5,035,842
Auxiliary activities	3,944,018	3,859,662	1,036,595	--	--	--	8,840,275
Depreciation	--	--	--	--	4,792,374	--	4,792,374
Other	--	--	--	--	--	670,954	670,954
Total operating expenses	**$ 27,345,216**	**$ 9,802,000**	**$ 2,676,589**	**$ 2,514,045**	**$ 4,792,374**	**$ 670,954**	**$ 47,801,178**

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