

Kettering University

Financial Report
June 30, 2011

Kettering University

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Independent Auditor's Report

To the Board of Trustees
Kettering University

We have audited the accompanying balance sheet of Kettering University as of June 30, 2011 and 2010 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Kettering University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kettering University as of June 30, 2011 and 2010 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 9, 2011 on our consideration of Kettering University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

September 9, 2011

Kettering University

Balance Sheet

	June 30	
	2011	2010
Assets		
Cash and cash equivalents (Note 3)	\$ 12,822,934	\$ 8,844,701
Investments (Note 4)	68,164,785	59,016,067
Cash equivalent - Restricted (Note 10)	1,837,867	1,836,142
Investments held in trust	3,723,448	3,337,668
Accounts receivable - Net	2,535,804	5,364,011
Promises to give - Net (Note 5)	692,370	1,021,892
Contribution receivable - Under split-interest agreement (Note 6)	334,440	283,912
Land, buildings, and equipment - Net of accumulated depreciation (Note 7)	71,238,629	73,081,717
Prepaid expenses and other assets	1,742,455	1,566,250
Total assets	<u>\$ 163,092,732</u>	<u>\$ 154,352,360</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,226,455	\$ 2,890,805
Accrued expenses	498,162	1,323,264
Deferred income	1,401,859	1,510,462
Annuity liability	234,078	295,753
Notes and land contracts payable (Note 11)	437,883	334,671
Bonds payable (Note 10)	23,686,096	24,297,349
Asset retirement obligation (Note 13)	984,664	884,573
Total liabilities	30,469,197	31,536,877
Net Assets		
Unrestricted:		
Undesignated, academic, and other programs	11,029,115	11,445,637
Plant	51,392,586	52,694,277
Designated - Quasi-endowment	7,913,498	5,218,139
Total unrestricted	70,335,199	69,358,053
Temporarily restricted (Note 12)	19,558,216	12,048,655
Permanently restricted (Note 15)	42,730,120	41,408,775
Total net assets	<u>132,623,535</u>	<u>122,815,483</u>
Total liabilities and net assets	<u>\$ 163,092,732</u>	<u>\$ 154,352,360</u>

Kettering University

Statement of Activities and Changes in Net Assets

	Year Ended June 30	
	2011	2010
Changes in Unrestricted Net Assets		
Revenue and gains:		
Tuition and fees	\$ 54,548,209	\$ 58,255,976
Scholarship allowance	(17,822,176)	(17,919,268)
Special programs allowance	(1,125,650)	(1,173,942)
Total tuition and fees - Net of allowances	35,600,383	39,162,766
Contributions	1,195,073	1,316,754
Grants and contracts	2,724,441	3,379,640
Corporate professional development and research	2,845,002	3,204,603
Investment income	267,795	333,812
Net realized gain on investments and cash equivalents	356,072	251,686
Net unrealized gain on investments and cash equivalents	2,692,086	2,315,758
Auxiliary service	2,825,830	3,738,873
Resident advisor allowance	(151,404)	(200,408)
Room scholarship allowance	(3,444)	(8,888)
Other income	1,398,085	1,186,917
Net assets released from restrictions	5,167,642	4,631,341
Total revenue and gains	54,917,561	59,312,854
Expenses:		
Educational and general:		
Instruction	21,584,297	20,612,578
Research	6,843,698	9,485,138
Academic support	3,267,125	3,370,361
Student services	4,759,032	5,182,871
Institutional services	12,524,249	13,354,478
Scholarships	2,205,995	2,192,489
Total educational and general	51,184,396	54,197,915
Auxiliary services	2,756,019	2,955,189
Total expenses	53,940,415	57,153,104
Increase in unrestricted net assets		
before a reclassification of endowment net assets	977,146	2,159,750
Endowment net asset reclassification	-	(6,491,097)
Increase (Decrease) in Unrestricted Net Assets	977,146	(4,331,347)

Kettering University

Statement of Activities and Changes in Net Assets (Continued)

	Year Ended June 30	
	2011	2010
Changes in Temporarily Restricted Net Assets		
Contributions	\$ 2,257,995	\$ 2,203,019
Grants and other	497,527	30,872
Reclassified from permanently restricted net assets to temporarily restricted net assets based on donor direction	-	117,867
Investment Income	781,695	758,006
Net realized gain on investments and cash equivalents	2,061,150	1,428,465
Net unrealized gain on investments and cash equivalents	<u>7,078,836</u>	<u>1,566,902</u>
Total revenue and gains	<u>12,677,203</u>	<u>6,105,131</u>
Net assets released from restrictions	<u>(5,167,642)</u>	<u>(4,631,341)</u>
Increase in Temporarily Restricted Net Assets before a reclassification of endowment net assets	7,509,561	1,473,790
Endowment net asset reclassification	<u>-</u>	<u>6,491,097</u>
Increase in Temporarily Restricted Net Assets	7,509,561	7,964,887
Changes in Permanently Restricted Net Assets		
Contributions	1,321,345	1,815,809
Reclassified from permanently restricted net assets to temporarily restricted net assets based on donor direction	<u>-</u>	<u>(117,867)</u>
Net Increase in Permanently Restricted Net Assets	<u>1,321,345</u>	<u>1,697,942</u>
Increase in Net Assets	9,808,052	5,331,482
Net Assets - Beginning of year	<u>122,815,483</u>	<u>117,484,001</u>
Net Assets - End of year	<u>\$ 132,623,535</u>	<u>\$ 122,815,483</u>

Statement of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Increase in net assets	\$ 9,808,052	\$ 5,331,482
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Restricted investment trust activity	69,654	(2,442)
Depreciation and accretion expense	4,330,883	4,229,887
Loss on disposal of assets	138,146	229,939
Contributions permanently restricted and for purchases of fixed assets	(1,648,019)	(2,006,485)
Gain on sale of investments	(2,417,222)	(1,650,759)
Unrealized gain on investments	(9,770,922)	(3,891,961)
Changes in operating assets and liabilities:		
Accounts receivable	2,828,207	(2,197,452)
Promises to give	329,522	176,824
Contribution receivable	(50,528)	(23,842)
Prepaid expenses and other assets	(176,205)	(63,756)
Accounts payable	335,650	127,952
Accrued expenses	(825,102)	(932,003)
Deferred income	(108,603)	(220,203)
Annuity liability	(61,675)	(7,472)
Net cash provided by (used in) operating activities	2,781,838	(900,291)
Cash Flows from Investing Activities		
Purchases of fixed assets	(2,525,850)	(3,361,107)
Proceeds from sales and maturities of investments - Net	4,663,575	17,709,109
Purchase of investments	(2,136,087)	(24,950,314)
Net cash used in investing activities	1,638	(10,602,312)
Cash Flows from Financing Activities		
Proceeds from contributions permanently restricted and for purchases of fixed assets	1,648,019	2,006,485
Restricted investment trust activity	54,779	125,694
Payments on bonds payable and bond premium	(611,253)	(586,252)
Proceeds on notes and land contract payable	150,000	-
Payments on notes and land contract payable	(46,788)	(93,201)
Net cash provided by financing activities	1,194,757	1,452,726
Net Increase (Decrease) in Cash and Cash Equivalents	3,978,233	(10,049,877)
Cash and Cash Equivalents - Beginning of year	8,844,701	18,894,578
Cash and Cash Equivalents - End of year	<u>\$ 12,822,934</u>	<u>\$ 8,844,701</u>
Supplemental Cash Flow Information - Cash paid for interest	<u>\$ 1,247,944</u>	<u>\$ 1,276,788</u>

Note 1 - Organization

Kettering University (the "University"), formerly GMI Engineering and Management Institute, is a private educational institution located in Flint, Michigan. The University provides education and training in the areas of engineering, science and business. The curriculum includes a cooperative system under which students alternate between periods of study on campus and related work experience at their corporate partner.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies

The University's financial statements have been prepared on an accrual basis of accounting. The University classifies its net financial resources into three net assets categories according to donor-imposed restrictions as follows:

- **Unrestricted Net Assets** - Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets reflect revenue, expenses, gains, and losses that are not charged in temporarily or permanently restricted assets related to education and general, sponsored research and departmental, unexpended plant and debt service, invested in plant, long-term investment, and student loan activities.
- **Temporarily Restricted Net Assets** - Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, gifts and grants for buildings and equipment, annuity and life income gifts, investment returns on endowment funds and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.
- **Permanently Restricted Net Assets** - Permanently restricted net assets include gifts, trusts, and pledges that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Contributions - Contributions received include unconditional promises that are recognized as revenue at the time of the donor's commitment. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Promises made that are designated for future periods are classified as restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Grants and Contracts (Government and Private) - Revenue from government and private grants and contracts is recognized as it is earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Fair Value of Financial Instruments - Financial accounting standards require disclosures about the fair value of financial instruments, whether or not such instruments are recognized in the balance sheet. The carrying value of financial instruments approximates fair market value. Assets and liabilities are stated at their fair market values, which approximate current market values as of June 30, 2011 and 2010. Based on the borrowing rates currently available to the University, the carrying value of the bonds payable approximates fair value.

Cash and Cash Equivalents - Cash includes all checking, savings accounts, and money market funds of the University and excludes any amounts held for investment. Cash equivalents include investments that mature or can be liquidated within a 90-day period. Cash and cash equivalents are recorded at fair market value.

Concentration of Credit Risk Arising from Deposit Accounts - The University maintains cash balances at banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Additionally, the University maintains sweep accounts utilizing nightly repurchase accounts that are uninsured by the Federal Deposit Insurance Corporation. The University evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. The University has not experienced any losses in such accounts and management does not believe the University is exposed to any significant credit risk related to cash.

Accounts Receivable - Accounts receivable consist primarily of student obligations and are reported net of an allowance for doubtful accounts based on management's estimate of collectability. The estimate is calculated using a historical analysis of write-offs compared to June 30 balances. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was \$358,000 and \$425,000 at June 30, 2011 and 2010, respectively.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Promises to Give - Promises to give are reported net of an allowance for uncollectible accounts based on management's estimate of collectability. The estimate is calculated using a historical analysis of write-offs compared to June 30 balances. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Investments - Investments in mutual funds and money market funds are stated at fair market value, as determined by quoted market prices. Investments in commingled fixed income funds are valued at net asset value of the funds, which are based on the fair market value of underlying investments. Realized and unrealized gains and losses on investments are included as net appreciation in the fair market value of investments. Investments held in trust include monies designated by donors to be permanently held in trusts.

Alternative investments are those that do not have a readily determinable fair market value. By nature, these investments have a higher level of risk than typical investments. Alternative investments for the University consist of a hedge fund directed by third-party investment managers.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Land, Buildings, and Equipment - Land, buildings, and equipment additions are stated at cost, less accumulated depreciation. Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed on the straight-line method over the estimated useful lives of 30-50 years for buildings and 5-20 years for equipment. Upon the sale or disposal of depreciable assets, the related cost and accumulated depreciation are removed from the accounts with resulting gains or losses included in the statement of activities and changes in net assets for the year. Repair costs are charged to expense as incurred.

Tuition Revenue - Tuition and fees are recorded as unrestricted revenue in the appropriate fiscal year. Tuition and fees received in advance of the following academic year are recorded as deferred revenue in the year in which the funds are received.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Expenses - The University expenses advertising costs as incurred. The University incurred approximately \$391,000 and \$514,000 of advertising costs during the years ended June 30, 2011 and 2010, respectively.

Fund-raising Expenses - Fund-raising costs consist of salaries, fringe benefits, and other costs incurred by the University's advancement departments. Fund-raising costs are included in the statement of activities and changes in net assets as "institutional services," and such amounts total approximately \$1,412,000 and \$1,576,000 for the years ended June 30, 2011 and 2010, respectively.

Income Taxes - The University is a Michigan nonprofit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2008.

Artwork/Collections - The University has artwork with an approximated value of \$150,000 based on the insured value at year end. The University also holds a historical collection with an approximated value of \$1,200,000 that has not been capitalized, as any proceeds from the sales of items would be reinvested in the collections.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties - The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the University's account balance and the amounts reported in the balance sheet.

Change in accounting policy - During the fiscal year ended June 30, 2010, the University changed its accounting policy to comply with accounting standards for endowments subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which took effect in the State of Michigan in September, 2009. The accounting standards require investment earnings on permanently restricted endowment assets subject to UPMIFA to be classified as temporarily restricted until they are appropriated for expenditure by the organization. Prior to the change, investment earnings on permanently restricted endowment assets were classified as unrestricted at the time it was earned if there was no donor restriction on spending the earnings. As a result of the change, \$6,491,097 was reclassified from unrestricted to temporarily restricted net assets. This reclassification represents the accumulated unspent earnings on the permanently restricted endowment as of July 1, 2009 previously recorded in unrestricted net assets.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 9, 2011, which is the date the financial statements were available to be issued.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents at market value as of June 30 are comprised of the following:

	2011	2010
Cash and cash equivalents:		
Money market funds	\$ 12,668,925	\$ 8,462,267
Deposit accounts	154,009	382,434
Total	<u>\$ 12,822,934</u>	<u>\$ 8,844,701</u>

Note 4 - Investments

Investments at market value as of June 30 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Common stock	\$ 8,063,592	\$ 6,494,703
Money market funds	297,183	301,674
Mutual funds:		
Fixed income	6,250,854	5,385,597
Equity	30,676,541	26,471,909
Commingled fixed income funds	6,255,506	6,160,417
Fixed income - fund-of-bonds	6,267,049	5,295,872
Equity - fund-of-funds	8,004,014	6,478,617
Hedge fund	<u>2,350,046</u>	<u>2,427,278</u>
Total	<u>\$ 68,164,785</u>	<u>\$ 59,016,067</u>

Note 5 - Promises to Give

Unconditional promises of gifts are included in the financial statements as (1) promises to give and (2) revenue of the appropriate net asset category. Promises to give due after one year are recorded after discounting to the present value of the future cash flows. The University estimated the present value of future cash flows using its incremental borrowing rate, the bond buyer's revenue index, at the date of the gift. Rates range from 3.73 percent to 3.94 percent. The composition of unconditional promises to give at June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Unconditional promises due are expected to be realized in the following periods:		
One year or less	\$ 391,000	\$ 391,000
Between one year and five years	<u>366,000</u>	<u>722,000</u>
Total unconditional promises	757,000	1,113,000
Less unamortized discount	(13,855)	(40,333)
Less allowance for doubtful accounts	<u>(50,775)</u>	<u>(50,775)</u>
Total	<u>(64,630)</u>	<u>(91,108)</u>
Net unconditional promises	<u>\$ 692,370</u>	<u>\$ 1,021,892</u>
Promises to give at June 30 have the following categories - Noncurrent:		
Endowment	\$ 698,505	\$ 1,028,027
Other	25,000	25,000
Plant	19,640	19,640
Less allowance for doubtful accounts	<u>(50,775)</u>	<u>(50,775)</u>
Total	<u>\$ 692,370</u>	<u>\$ 1,021,892</u>

Note 6 - Contribution Receivable Under Split-interest Agreement

The University is the beneficiary of an irrevocable charitable remainder unitrust. The assets of the trust are maintained in an investment account in the name of the trustee, the donor. The trust must make annual distributions to the donor equal to 8 percent of trust assets until the death of the donor and the donor's wife. The University has recorded an estimated liability for these distributions. This amount may be distributed out of the earnings of the trust. The University estimated the present value of future cash flows using a discount rate of 2.8 percent and 3.2 percent at June 30, 2011 and 2010, respectively. The composition of the contribution receivable at June 30 is as follows:

	2011	2010
Fair value of charitable remainder unitrust	\$ 587,903	\$ 514,622
Less unamortized discount	<u>(253,463)</u>	<u>(230,710)</u>
Present value of charitable remainder unitrust	<u>\$ 334,440</u>	<u>\$ 283,912</u>

Note 7 - Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following:

	2011	2010
Land	\$ 10,730,592	\$ 10,538,163
Buildings	116,234,776	115,608,430
Equipment	34,157,664	32,468,425
Construction in progress	<u>17,615</u>	<u>260,851</u>
Total property	161,140,647	158,875,869
Less accumulated depreciation	<u>(89,902,018)</u>	<u>(85,794,152)</u>
Net property	<u>\$ 71,238,629</u>	<u>\$ 73,081,717</u>

Depreciation expense was \$4,239,962 and \$4,191,287 for the years ended June 30, 2011 and 2010, respectively.

Note 8 - Bond Financing Costs

The University has recorded costs associated with bond financing in prepaid expenses and other assets. Bond financing costs are amortized over the straight-line method over the 30-year term of the bond. As of June 30, 2011 and 2010, accumulated amortization was \$404,979 and \$364,481, respectively.

Note 9 - Retirement Plan

The University participates in a defined contribution retirement plan covering eligible employees. Employees hired before January 1, 2006, were eligible for a University match of 9 percent of the employee salaries and an additional match up to 3 percent of employee salary deferrals. Employees hired on or after January 1, 2006 were subject to the following schedule: The University made a 100 percent match on the first 3 percent of employee contributions and an additional 6 percent contribution with a minimum employee participation of 3 percent. Effective January 1, 2011, all eligible participants that make pre-tax contributions of 1 percent, 2 percent, or 3 percent of eligible compensations will receive University matching contributions of 1 percent, 2 percent, or 9 percent of eligible compensation, respectively. The University contributed \$1,993,277 and \$2,376,621 for fiscal years 2011 and 2010, respectively.

Note 10 - Bonds Payable

On August 15, 2001, the University issued Michigan Higher Education Facilities Authority Limited Obligation Revenue Refunding Bonds, Series 2001, in the amount of \$27,685,000. The proceeds were used to retire bonds in the amount of \$6,652,709 and notes in the amount of \$3,200,000, and the balance was used for capital improvements. The bonds sold at a premium of \$326,000 and included debt issuance and bond insurance costs of \$1,359,415.

The bonds require principal payments of \$445,000 beginning in fiscal year 2004 and increasing to \$1,780,000 in 2032. The stated interest rates begin at 4.0 percent per annum, increasing to 5.5 percent. The University is required to meet certain financial covenants, including debt service and net asset requirements, the most restrictive of which is the net asset requirement.

Note 10 - Bonds Payable (Continued)

Future principal amounts due for bonds and the bond premium are summarized below:

Years Ending <u>June 30</u>	<u>Amount</u>
2012	\$ 641,253
2013	671,253
2014	706,253
2015	741,253
2016	781,253
Thereafter	<u>20,144,831</u>
Total	<u>\$ 23,686,096</u>

The University recognized interest expense of \$1,207,673 and \$1,238,252 related to the bonds for the years ended June 30, 2011 and 2010, respectively.

Restricted cash equivalent of \$1,837,867 and \$1,836,142 at June 30, 2011 and 2010, respectively, is required to be held for future bond payments.

Note 11 - Notes and Land Contracts Payable

The University's long-term debt (other than bonds) includes the following:

	<u>2011</u>	<u>2010</u>
Land contract payable, payable in monthly installments of \$3,000 to \$3,500, including interest at 9.25 percent to 9.75 percent. A balloon payment of \$293,363 is due in January 2012	\$ 297,623	\$ 309,944
Interest-free notes payable to Sodexo, payable in annual installments of \$11,686, due in June 2023	140,260	-
Interest-free notes payable to Follett, payable in annual installments of \$24,727. Amount was paid in full during 2011	-	<u>24,727</u>
Total	<u>\$ 437,883</u>	<u>\$ 334,671</u>

Kettering University

Notes to Financial Statements June 30, 2011 and 2010

Note 11 - Notes and Land Contracts Payable (Continued)

Maturities of long-term debt are as follows:

Years Ending June 30	Amount
2012	\$ 309,309
2013	11,686
2014	11,686
2015	11,686
2016	11,686
Thereafter	81,830
Total	<u>\$ 437,883</u>

The University recognized interest expense of \$29,679 and \$30,315 for the years ended June 30, 2011 and 2010, respectively, related to this debt.

The University has an available line of credit with maximum borrowings of \$1,500,000. This line of credit bears interest at a variable rate equal to the bank's prime rate (3.25 percent) at June 30, 2011. There were no borrowings outstanding at June 30, 2011 and 2010. The line expires on December 31, 2011.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2011	2010
Purpose restrictions:		
Plant	\$ 414,227	\$ 1,021,808
Endowment	16,190,145	8,561,980
Other	2,271,295	1,939,041
Time restrictions	<u>682,549</u>	<u>525,826</u>
Total	<u>\$ 19,558,216</u>	<u>\$ 12,048,655</u>

Note 13 - Conditional Asset Retirement Obligations

As a result of an evaluation of available asbestos remediation estimates, the University recorded a liability for asset retirement obligations. Accumulated depreciation was measured from 1982, the date the liability and capitalized asset would have been recognized if the accounting standard were in effect when the legal obligation to remediate asbestos occurred. Accordingly, the asset retirement obligation liability was \$984,664 and \$884,573 at June 30, 2011 and 2010, respectively, the capitalized asset associated with the asset retirement obligation was approximately \$142,000 and \$133,000 at June 30, 2011 and 2010, respectively, and accumulated depreciation was approximately \$80,000 and \$74,000, respectively. For the year ended June 30, 2010, obligations totaling approximately \$116,000 were settled. No obligations were settled during the year ended June 30, 2011. For the years ended June 30, 2011 and 2010, depreciation expense associated with the capitalized asset was approximately \$6,800 and \$2,900, respectively, and accretion expense associated with the remediation liability was \$90,922 and \$38,600, respectively.

Note 14 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the University's assets measured at fair value on a recurring basis at June 30, 2011 and 2010, and the valuation techniques used by the University to determine those fair values.

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the University has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Note 14 - Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2011 and 2010.

Note 14 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2011

	Level 1	Level 2	Level 3	Balance at June 30, 2011
Assets				
Cash equivalents:				
Money market funds - short-term investment	\$ 12,668,925	\$ -	\$ -	\$ 12,668,925
Investments:				
Money market funds - short-term investment	297,183	-	-	297,183
Common Stock	8,063,592	-	-	8,063,592
Equity - Mutual funds - Domestic	16,920,574	-	-	16,920,574
Equity - Mutual funds - Foreign	13,755,967	-	-	13,755,967
Fixed Income - Mutual funds - Domestic	6,250,854	-	-	6,250,854
Fixed Income - Commingled funds	-	6,255,506	-	6,255,506
Fixed Income - Funds-of-bonds	-	-	6,267,049	6,267,049
Equity - Funds-of-funds	-	-	8,004,014	8,004,014
Alternative - Absolute return hedge fund	-	-	2,350,046	2,350,046
Sub-total	45,288,170	6,255,506	16,621,109	68,164,785
Investments - Held in trusts:				
Money market mutual funds - short-term investment	129,884	-	-	129,884
Equity - Mutual funds - Domestic	1,008,254	-	-	1,008,254
Equity - Mutual funds - Foreign	547,268	-	-	547,268
Fixed Income - Mutual funds - Domestic	1,535,726	-	-	1,535,726
Fixed Income - Mutual funds - Foreign	102,312	-	-	102,312
Fixed Income - Mutual funds - Fund-of-funds	400,004	-	-	400,004
Sub-total	3,723,448	-	-	3,723,448
Charitable remainder unitrust	-	-	334,440	334,440
Total Assets	<u>\$ 61,680,543</u>	<u>\$ 6,255,506</u>	<u>\$ 16,955,549</u>	<u>\$ 84,891,598</u>

Note 14 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2010

	Level 1	Level 2	Level 3	June 30, 2010
Assets				
Cash equivalents:				
Money market funds - short-term investment	\$ 8,462,267	\$ -	\$ -	\$ 8,462,267
Investments:				
Money market funds - short-term investment	301,674	-	-	301,674
Common Stock	6,494,703	-	-	6,494,703
Equity - Mutual funds - Domestic	14,109,245	-	-	14,109,245
Equity - Mutual funds - Foreign	12,362,664	-	-	12,362,664
Fixed Income - Mutual funds - Domestic	5,385,597	-	-	5,385,597
Fixed Income - Commingled funds	-	6,160,417	-	6,160,417
Fixed Income - Funds-of-bonds	-	-	5,295,872	5,295,872
Equity - Funds-of-funds	-	-	6,478,617	6,478,617
Alternative - Absolute return hedge fund	-	-	2,427,278	2,427,278
Sub-total	38,653,883	6,160,417	14,201,767	59,016,067
Investments - Held in trusts:				
Money market mutual funds - short-term investment	86,960	-	-	86,960
Equity - Mutual funds - Domestic	1,847,602	-	-	1,847,602
Equity - Mutual funds - Foreign	49,074	-	-	49,074
Fixed Income - Mutual funds - Domestic	1,354,032	-	-	1,354,032
Sub-total	3,337,668	-	-	3,337,668
Charitable remainder unitrust	-	-	283,912	283,912
Total Assets	<u>\$ 50,453,818</u>	<u>\$ 6,160,417</u>	<u>\$ 14,485,679</u>	<u>\$ 71,099,914</u>

Note 14 - Fair Value Measurements (Continued)

The following table sets forth a summary of the changes in the fair value of the University's Level 3 assets for the years ended June 30 are as follows:

	2011				
	Fair Value at June 30, 2010	Net Purchases (Sales and Settlements)	Total Realized Gains (Losses)	Total Unrealized Gains (Losses)	Balance at June 30, 2011
Investments - Fixed Income funds-of-bonds	\$ 5,295,872	\$ 700,002	\$ -	\$ 271,175	\$ 6,267,049
Investments - Equity funds-of-funds	6,478,617	(326,453)	622,825	1,229,025	8,004,014
Investments - Absolute return hedge fund	2,427,278	-	-	(77,232)	2,350,046
Charitable remainder unitrust	283,912	-	10,106	40,422	334,440
Total level 3 assets at fair value	<u>\$ 14,485,679</u>	<u>\$ 373,549</u>	<u>\$ 632,931</u>	<u>\$ 1,463,390</u>	<u>\$ 16,955,549</u>

	2010				
	Fair Value at June 30, 2009	Net Purchases (Sales and Settlements)	Total Realized Gains (Losses)	Total Unrealized Gains (Losses)	Balance at June 30, 2010
Investments - Fixed Income funds-of-bonds	\$ -	\$ 5,166,557	\$ -	\$ 129,315	\$ 5,295,872
Investments - Equity funds-of-funds	6,014,455	86,822	356,313	21,027	6,478,617
Investments - Absolute return hedge fund	2,138,083	475,000	-	(185,805)	2,427,278
Charitable remainder unitrust	260,070	-	7,706	16,136	283,912
Total level 3 assets at fair value	<u>\$ 8,412,608</u>	<u>\$ 5,728,379</u>	<u>\$ 364,019</u>	<u>\$ (19,327)</u>	<u>\$ 14,485,679</u>

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs and are included in the Statement of Activities and Changes in Net Assets.

Split interest agreement assets categorized as Level 3 assets consist primarily of a beneficial interest in a charitable remainder unitrust. The University estimates the fair value of these split interest agreement assets based upon the fair value of the assets in the trust unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions.

Investments in Entities that Calculate Net Asset Value per Share - The University holds shares or interests in investment companies at year end where the fair value of the investment held is estimated on the net asset value per share (or its equivalent) of the investment company.

Note 14 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Fixed Income -				
Commingled funds	\$ 6,255,506	\$ -	Weekly	5 days
Fixed Income -				
Fund-of-bonds	6,267,049	-	Monthly	5 days
Equity -				
Funds-of-funds	8,004,014	-	Anytime	30 days
Alternative -				
Absolute return hedge fund	2,350,046	-	Biannually	100 days
	<u>\$22,876,615</u>	<u>\$ -</u>		

The fixed income, commingled funds class, consist primarily of a variety of domestic and foreign equities held indirectly through investments in sub-advisors and third party investment funds. These equities are valued based on the latest net asset value made available by the fund manager as of the valuation date using quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider assumptions, including time value and yield curve as well as other relevant economic measures.

The absolute return hedge fund class includes a fund manager that invests with a group of private offshore investment managers who manage investment partnerships, managed accounts and other investment vehicles.

The equity fund-of-funds class includes a personal trust that invests in both domestic and foreign common stocks or similar equity securities of high-quality financially secure companies listed on principal exchanges.

The fixed income fund-of-bonds class includes a fixed income manager that invests in both governmental and corporate bonds listed on principal exchanges.

Note 15 - Donor and Board Restricted Endowments

Interpretation of Relevant Law - The board of trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 University classifies as permanently 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 at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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 organization 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 of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

UPMIFA was signed into law in Michigan on September 15, 2009 and therefore, a reclassification between net assets was reflected as a change in accounting to properly account for earnings on the endowment funds during the year ended June 30, 2010.

Notes to Financial Statements June 30, 2011 and 2010

Note 15 - Donor and Board Restricted Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

Net assets by type of fund:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment	\$ (244,396)	\$ 16,190,145	\$ 42,730,120	\$ 58,675,869
Board designated "funds functioning as endowment"	<u>8,157,894</u>	<u>-</u>	<u>-</u>	<u>8,157,894</u>
Total funds	<u>\$ 7,913,498</u>	<u>\$ 16,190,145</u>	<u>\$ 42,730,120</u>	<u>\$ 66,833,763</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:				
Investment income	\$ 113,037	\$ 771,426	\$ -	\$ 884,463
Realized gain on investments	326,437	2,034,698	-	2,361,135
Net appreciation (unrealized)	<u>2,551,885</u>	<u>6,958,834</u>	<u>-</u>	<u>9,510,719</u>
Total investment return	2,991,359	9,764,958	-	12,756,317
Contributions	-	-	1,321,345	1,321,345
Appropriation of endowment assets for expenditures	<u>(296,000)</u>	<u>(2,136,793)</u>	<u>-</u>	<u>(2,432,793)</u>
Net changes in endowment	2,695,359	7,628,165	1,321,345	11,644,869
Endowment net assets - Beginning of year	<u>5,218,139</u>	<u>8,561,980</u>	<u>41,408,775</u>	<u>55,188,894</u>
Endowment net assets - End of year	<u>\$ 7,913,498</u>	<u>\$ 16,190,145</u>	<u>\$ 42,730,120</u>	<u>\$ 66,833,763</u>

Note 15 - Donor and Board Restricted Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2010

Net assets by type of fund:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment	\$ (1,592,078)	\$ 8,561,980	\$ 41,408,775	\$ 48,378,677
Board designated "funds functioning as endowment"	<u>6,810,217</u>	<u>-</u>	<u>-</u>	<u>6,810,217</u>
Total funds	<u>\$ 5,218,139</u>	<u>\$ 8,561,980</u>	<u>\$ 41,408,775</u>	<u>\$ 55,188,894</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:				
Investment income	\$ 114,178	\$ 747,718	\$ -	\$ 861,896
Realized gain on investments	221,654	1,407,876	-	1,629,530
Net appreciation (unrealized)	<u>1,937,919</u>	<u>1,569,262</u>	<u>-</u>	<u>3,507,181</u>
Total investment return	2,273,751	3,724,856	-	5,998,607
Contributions	-	48,681	1,815,809	1,864,490
Appropriation of endowment assets for expenditures	(287,006)	(2,094,236)	-	(2,381,242)
Other Changes:				
Release of permanent restriction by donors	<u>-</u>	<u>117,867</u>	<u>(117,867)</u>	<u>-</u>
Net changes in endowment	1,986,745	1,797,168	1,697,942	5,481,855
Endowment net asset reclassification	(6,491,097)	6,491,097	-	-
Endowment net assets - Beginning of year	<u>9,722,491</u>	<u>273,715</u>	<u>39,710,833</u>	<u>49,707,039</u>
Endowment net assets - End of year	<u>\$ 5,218,139</u>	<u>\$ 8,561,980</u>	<u>\$ 41,408,775</u>	<u>\$ 55,188,894</u>

Note 15 - Donor and Board Restricted Endowments (Continued)

Return Objectives and Risk Parameters - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that achieve a long-term total return that outpaces spending and inflation, and achieve market returns using index funds. The University's spending policy determines the amount of endowment income to be distributed for spending purposes during the year. Any excess/deficit is designated as quasi-endowment.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University 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 University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year 5 percent of its endowment fund's average market value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment to grow annually. This is consistent with the University'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.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$244,396 and \$1,592,078 as of June 30, 2011 and June 30, 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation of endowment payout that was deemed prudent.

Note 16 –Contingent Liabilities

In the normal course of business, the University has various unresolved legal actions and potential contingencies. As of June 30, 2011, the outcome of these legal actions was not determinable. Management believes the resolution of these lawsuits will not have a material impact on the financial statements; therefore, a provision for a loss was not included in the financial statements.

Note 17 – Subsequent Event

Declines in Investment Values - Subsequent to year-end, the University's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.