University of Detroit Mercy

Financial Report

June 30, 2013

Contents

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Independent Auditor's Report

To the Board of Trustees
University of Detroit Mercy

Report on the Financial Statements

We have audited the accompanying financial statements of University of Detroit Mercy (the "University"), which comprise the balance sheet as of June 30, 2013 and 2012 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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. Those standards require that we plan and perform the audits 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 auditor's 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.

To the Board of Trustees
University of Detroit Mercy

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Detroit Mercy as of June 30, 2013 and 2012 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 on our consideration of University of Detroit Mercy'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. 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 University of Detroit Mercy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 24, 2013

University of Detroit Mercy

Balance Sheet

	June 30 2013	June 30 2012
Assets		
Cash and cash equivalents	$ 27,466,433	$ 23,066,068
Accounts receivable - Less allowance of $2,688,000 in 2013 and $2,149,000 in 2012:		
Student	5,630,649	5,430,964
Government	6,984,410	5,418,053
Dental clinic	181,967	164,121
Other	988,899	647,782
Total accounts receivable - Net of allowance	13,785,925	11,660,920
Contributions receivable - Net	1,545,480	1,433,386
Notes receivable - Less allowance of $4,111,000 in 2013 and $4,096,000 in 2012 (Note 3)	16,718,207	16,171,152
Prepaids, deposits, and other assets	1,404,345	1,033,110
Investments (Note 2)	28,881,759	23,829,661
Restricted cash - Unspent bond proceeds	472,755	4,015,333
Properties - Net (Note 6)	122,464,878	119,794,162
Total assets	**$ 212,739,782**	**$ 201,003,792**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 6,613,007	$ 7,202,852
Other accrued expenses	6,214,403	7,981,466
Fair value of interest rate swap agreement (Note 7)	4,902,331	7,846,369
Unearned revenue	7,137,314	3,478,020
Federal student loans	16,158,559	16,196,225
Notes and bonds payable (Note 7)	44,265,000	45,185,000
Accrued postretirement benefits (Note 8)	7,285,954	8,173,476
Total liabilities	92,576,568	96,063,408
Net Assets		
Unrestricted	90,277,487	77,436,490
Temporarily restricted	9,700,686	8,395,844
Permanently restricted	20,185,041	19,108,050
Total net assets	120,163,214	104,940,384
Total liabilities and net assets	**$ 212,739,782**	**$ 201,003,792**

See Notes to Financial Statements.

University of Detroit Mercy

Statement of Activities and Changes in Net Assets

	Year Ended June 30 2013	Year Ended June 30 2012
Unrestricted Net Assets		
Revenue:		
Student tuition and fees	$ 155,196,390	$ 153,258,625
Less University-sponsored student financial aid	(48,760,585)	(48,485,304)
Less student financial aid funded from gifts and grants	(5,109,548)	(5,040,194)
Net student tuition and fees	101,326,257	99,733,127
Government appropriations, grants, and contracts	10,478,926	11,115,345
Private gifts, grants, and contracts	9,919,422	6,631,700
Investment income	181,393	216,210
Realized and unrealized gains (losses) on investments	385,157	(250,987)
Departmental activities and other revenue	8,703,909	8,448,347
Auxiliary enterprises	9,391,669	8,741,386
Net assets released from restrictions	3,493,869	3,244,182
Total revenue	143,880,602	137,879,310
Expenses:		
Instruction	54,483,731	52,393,662
Research	978,073	915,396
Public service	1,598,961	2,733,067
Academic support	23,361,404	23,035,052
Student services	9,933,196	9,509,116
Institutional support	16,428,342	18,579,700
Operations and maintenance of plant	8,796,710	9,041,695
Depreciation	7,466,429	7,111,293
Interest on long-term debt	1,763,772	1,515,455
Adjustment of value of interest rate swap agreement (Note 7)	(2,944,038)	4,189,565
Auxiliary enterprises	10,385,142	10,678,177
Other	150,244	284,148
Total expenses	132,401,966	139,986,326
Increase (Decrease) in Unrestricted Net Assets from Operations - Before other adjustments	11,478,636	(2,107,016)
Nonoperating Activities - Adjustment to pension and postretirement benefits (Note 8)	1,362,361	(1,475,539)
Increase (Decrease) in Unrestricted Net Assets	12,840,997	(3,582,555)
Temporarily Restricted Net Assets		
Gifts - Net of recovery of $32,314 in 2013 and write off of $1,908,000 in 2012	1,813,481	1,215,150
Investment income	429,774	407,571
Realized and unrealized gains (losses) on investments	2,555,456	(1,071,892)
Net assets released from restrictions	(3,493,869)	(3,244,182)
Increase (Decrease) in Temporarily Restricted Net Assets	1,304,842	(2,693,353)
Increase in Permanently Restricted Net Assets - Gifts	1,076,991	427,767
Increase (Decrease) in Net Assets	15,222,830	(5,848,141)
Net Assets - Beginning of year	104,940,384	110,788,525
Net Assets - End of year	**$ 120,163,214**	**$ 104,940,384**

See Notes to Financial Statements.

University of Detroit Mercy

Statement of Cash Flows

	Year Ended June 30 2013	Year Ended June 30 2012
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 15,222,830	$ (5,848,141)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Realized and unrealized net (gain) loss on investments	(2,940,613)	1,322,879
Depreciation	7,466,429	7,111,293
(Recovery) write-off of restricted gifts	(32,314)	1,907,763
Accrued postretirement benefits	(887,522)	983,631
(Increase) decrease in fair value of interest rate swap agreement	(2,944,038)	4,189,565
Gifts restricted for long-term investments	(1,076,991)	(427,767)
(Increase) decrease in assets:		
Accounts receivable	(2,125,005)	(3,218,077)
Contributions receivable	(79,780)	71,161
Prepaids and deposits	(371,235)	(237,786)
Increase (decrease) in liabilities:		
Accounts payable	1,290,500	254,756
Accrued other expenses	(1,767,063)	285,506
Unearned revenue	3,659,294	735,514
Net cash provided by operating activities	15,414,492	7,130,297
Cash Flows from Investing Activities		
(Increase) decrease in investments - Net	(2,111,485)	998,864
Disbursements of loans to students	(3,328,271)	(2,605,855)
Repayments of loans from students	2,781,216	2,761,150
(Decrease) increase in federal student loans payable	(37,666)	193,623
Acquisition of properties	(12,017,490)	(22,917,055)
Net cash used in investing activities	(14,713,696)	(21,569,273)
Cash Flows from Financing Activities		
Proceeds from new debt	-	16,000,000
Payments on notes and bonds payable	(920,000)	(640,000)
Gifts restricted for long-term investment	1,076,991	427,767
Net cash provided by financing activities	156,991	15,787,767
Net Increase in Cash and Cash Equivalents	857,787	1,348,791
Cash and Cash Equivalents - Beginning of year	27,081,401	25,732,610
Cash and Cash Equivalents - End of year	**$ 27,939,188**	**$ 27,081,401**
Supplemental Cash Flow Information - Cash paid for interest	**$ 1,763,772**	**$ 1,654,254**
Balance Sheet Classifications of Cash and Cash Equivalents		
Cash and cash equivalents	$ 27,466,433	$ 23,066,068
Restricted cash - Unspent bond proceeds	472,755	4,015,333
Total cash and cash equivalents	**$ 27,939,188**	**$ 27,081,401**

Note 1 - Summary of Significant Accounting Policies

Organization - University of Detroit Mercy (the "University") is an educational facility that operates three campuses and a University health center in Detroit, Michigan.

Basis of Accounting - The accompanying financial statements of the University have been prepared on the accrual basis.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Net Assets - The University records net assets, revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

  Details of unrestricted net assets as of June 30, 2013 and 2012 are as follows:

	2013	2012
Unrestricted for current operations	$ 7,337,358	$ 156,164
Board-designated	4,740,251	2,713,673
Endowment funds with deficiencies	-	(42,509)
Investment in plant - Net of long-term debt	78,199,878	74,609,162
Total	$ 90,277,487	$ 77,436,490

Note 1 - Summary of Significant Accounting Policies (Continued)

- **Temporarily Restricted Net Assets** - Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as temporarily restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are classified to unrestricted net assets and reported as net assets released from restrictions. Income from temporarily restricted net assets is predominantly intended to fund general operations, investment in properties, and scholarship expenditures. Unconditional promises from donors are reported as contributions receivable as part of temporarily restricted support and are recognized at the estimated present value of the future cash flows, net of allowances.

  Details of temporarily restricted net assets as of June 30, 2013 and 2012 are as follows:

	2013	2012
Academic programs	$ 1,021,133	$ 689,574
Scholarships	5,900,730	3,969,944
Building and equipment	2,019,811	3,315,174
Other	759,012	421,152
Total	$ 9,700,686	$ 8,395,844

- **Permanently Restricted Net Assets** - Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted net assets. Income from permanently restricted net assets is predominantly intended for fixed asset and scholarship expenditures. Permanently restricted net assets of $20,185,041 and $19,108,050 at June 30, 2013 and 2012, respectively, are included in endowment funds held by the University.

Revenue Recognition - 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 unearned revenue in the year in which the funds are received. Revenue from government grant and contract agreements is recognized as it is earned through expenditure, in accordance with the agreement.

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents - The University considers all investments with maturities of less than 90 days when purchased to be cash equivalents. The University maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The University maintains cash balances in excess of the $250,000 guarantee. The University has not experienced any losses in such accounts. Management believes the University is not exposed to any significant credit risk related to cash.

Student Accounts Receivable - Accounts receivable are stated at net amounts. An allowance for doubtful accounts and related expense is established based on the age and historical collection results of receivables from students and others. Actual uncollectible accounts are charged against the allowance for doubtful accounts in the period that determination is made.

Contributions Receivable - Contributions receivable represent unconditional promises from donors to be used for capital and operating purposes. An allowance for uncollectible contributions and related expense is established based on the age and historical collection results of receivables from donors. Actual uncollectible contributions are charged against the allowance for uncollectible contributions in the period that determination is made. The following table summarizes the University's unconditional contributions receivable at June 30:

	2013	2012
Due within one year	$ 477,115	$ 624,595
Due after one year but within five years	1,242,830	896,621
Total	1,719,945	1,521,216
Less discount ($35,730 and $42,194 for June 30, 2013 and 2012, respectively, at five-year T-bill discount rates ranging from .72 percent to 4.64 percent) and allowance for uncollectible contributions	(174,465)	(87,830)
Net contributions receivable	$ 1,545,480	$ 1,433,386

Note 1 - Summary of Significant Accounting Policies (Continued)

Student Loans Receivable - The University participates in various student loan programs that provide loans to qualified students. The University makes uncollateralized loans to students based on financial need. Such loans are funded through government programs and institutional resources. These loans have mandated interest rates and repayment terms. The government-funded loans are subject to significant restrictions as to their transfer or disposition. Management reviews and assesses the collectibility of notes receivable on an annual basis and provides an allowance when collection is doubtful (see Note 3). As of June 30, 2013 and 2012, notes receivable represented 7.9 percent and 8.0 percent of total assets, respectively.

Investments - Marketable securities and other investments, including investments received as gifts, are stated at fair market value.

Properties - Properties are stated at cost or, if acquired by gift, at fair value at the date of gift. Depreciation of properties is provided by the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 50 years. Depreciation expense for the years ended June 30, 2013 and 2012 totaled $7,466,429 and $7,111,293, respectively.

Student Financial Aid - During 2013 and 2012, the University received and disbursed approximately $3.3 million and $3.8 million, respectively, to students under the U.S. Department of Education's Pell Grant program. This activity is not reported in the accompanying financial statements.

Fair Value of Financial Instruments - The carrying amounts of the University's cash equivalents, accounts receivable, notes receivable, accounts payable, accrued liabilities, and line of credit approximate their fair value due to the short maturity of such instruments. The fair value of the University's notes and bonds payable approximates the carrying amounts in the accompanying financial statements as the borrowing rate approximates the current market rate. The fair value of these financial instruments is determined using Level 2 inputs, as described in Note 5.

Unearned Revenue - Unearned revenue primarily represents unearned tuition and fees for class sessions to be conducted in the subsequent fiscal year.

Income Tax Status - The University operates as a nonprofit organization 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 University and recognize a tax liability if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

Note 1 - Summary of Significant Accounting Policies (Continued)

Management has analyzed the tax positions taken by the University and has concluded that as of June 30, 2013 and 2012, 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, 2010.

Functional Allocation of Expenditures - Functional allocation of expenditures is as follows:

	2013	2012
Program support	$ 105,398,715	$ 109,585,742
Support services	23,262,322	26,250,304
Fundraising	3,740,929	4,150,280
Total	$ 132,401,966	$ 139,986,326

Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Advertising Expenses - Advertising expenses for the years ended June 30, 2013 and 2012 were approximately $1,565,000 and $1,683,000, respectively.

Nonoperating Activities - Nonoperating changes in unrestricted net assets reflect transactions that are peripheral to the University's primary operating activities, providing a postsecondary education.

Labor Risks - Approximately 34 percent of the University's workforce is covered under six different collective bargaining agreements. One collective bargaining agreement representing the faculty and 22 percent of the workforce expired on May 15, 2013. As negotiations continue, the contract remains in effect until it is terminated or a successor contract is ratified. The remaining agreements expire at various dates from June 30, 2015 to March 31, 2017.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 24, 2013, which is the date the financial statements were issued.

Note 2 - Investments

The University invests in commercial paper, government bonds, corporate bonds, mutual funds, and common and preferred stocks. Substantially all of the investments are registered securities held by the University's custodians or by its agents and are subject to predetermined guidelines based on quality ratings issued by appropriate rating agencies. The University's investments in real estate are individually approved by the board of trustees.

The tables below present investments at fair value as of June 30, 2013 and 2012. See Note 5 for additional information.

	2013	2012
Pooled investment funds:		
Fixed-income mutual funds	$ 6,716,687	$ 6,536,809
Common/Preferred stocks and equity mutual funds	21,191,718	16,469,391
Total pooled investment funds	27,908,405	23,006,200
Other investments:		
Fixed-income mutual funds and debt securities	477,525	522,672
Common/Preferred stocks and equity mutual funds	483,224	276,942
Other	12,605	23,847
Total investments	$ 28,881,759	$ 23,829,661

Certain of the University's investments are pooled in a common investment fund. The pooled investment fund is reported at fair market value, which is determined by quoted market prices. Other investments are reported at fair value, which is determined by either quoted market prices or quoted prices for similar assets and liabilities in active markets or other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Earnings from investments represent investment gains and losses, dividends, and interest, net of direct investment expenses.

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 amounts reported in the balance sheet.

Note 3 - Notes Receivable

At June 30, notes receivable and the related allowance for doubtful accounts consisted of the following:

	2013	2012
Perkins	$ 15,242,925	$ 15,199,365
Other federal loan programs	5,560,641	4,838,261
Institutional loans	25,331	229,758
Subtotal	20,828,897	20,267,384
Less allowance for doubtful accounts:		
Beginning of the year	(4,096,232)	(3,966,650)
Increases	(216,829)	(129,582)
Write-offs	202,371	-
Balance - End of year	(4,110,690)	(4,096,232)
Net notes receivable	$ 16,718,207	$ 16,171,152

In addition to Perkins, the University participates in the Health Professionals Student, Nursing Student, Nurse Faculty, and ARRA-Nurse Faculty federal revolving loan programs. The availability of funds for loans under these programs is primarily dependent on reimbursements to the pool from repayments on outstanding loans. Loans disbursed under the federal programs are able to be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. At June 30, 2013 and 2012, the following amounts were past due under the student loan programs:

	Current	1-180 Days	181 days to 2 years	Over 2 years	Total
June 30, 2013	$ 16,273,984	$ 1,344,689	$ 911,304	$ 2,298,920	$ 20,828,897
June 30, 2012	15,773,225	1,335,868	769,782	2,388,509	20,267,384

The University records an allowance for doubtful accounts for its portion of the student loan when, in management's judgment, it is probable a portion of the loan will not be collected. The allowance for doubtful accounts is assessed annually and based on prior collections and delinquency status.

Note 4 - Donor-restricted and Board-designated Endowments

The University's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The State of Michigan enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in September 2009. The University has interpreted UPMIFA as requiring the preservation of donor-restricted endowment funds at the original value at the date of the gift 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 and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the 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 University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ 5,502,934	$ 20,185,041	$ 25,687,975
Board-designated endowment	4,740,251	-	-	4,740,251
Total	$ 4,740,251	$ 5,502,934	$ 20,185,041	$ 30,428,226

Note 4 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 2,671,164	$ 3,042,949	$ 19,108,050	$ 24,822,163
Investment income	64,743	427,266	-	492,009
Net appreciation in market value	373,310	2,552,928	-	2,926,238
Appropriation of endowment net assets for expenditures	(58,173)	(520,209)	-	(578,382)
Transfer to board-designated endowments	1,689,207	-	-	1,689,207
Gifts	-	-	1,076,991	1,076,991
Endowment net assets - End of year	$ 4,740,251	$ 5,502,934	$ 20,185,041	$ 30,428,226

Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (42,509)	$ 3,042,949	$ 19,108,050	$ 22,108,490
Board-designated endowment	2,713,673	-	-	2,713,673
Total	$ 2,671,164	$ 3,042,949	$ 19,108,050	$ 24,822,163

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 2,926,925	$ 4,391,162	$ 18,680,283	$ 25,998,370
Investment income	103,106	405,079	-	508,185
Net depreciation in market value	(238,458)	(1,069,255)	-	(1,307,713)
Appropriation of endowment net assets for expenditures	(120,409)	(684,037)	-	(804,446)
Gifts	-	-	427,767	427,767
Endowment net assets - End of year	$ 2,671,164	$ 3,042,949	$ 19,108,050	$ 24,822,163

Note 4 - Donor-restricted and Board-designated Endowments (Continued)

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. In accordance with accounting principles generally accepted in the United States of America (GAAP), deficiencies of this nature that are reported in unrestricted net assets were $42,509 as of June 30, 2012. This deficiency resulted from unfavorable market fluctuations. There were no donor-restricted endowment funds in a deficient position as of June 30, 2013.

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 donor-specified periods, 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 exceed the price and yield results of the market index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8.00 percent annually. Actual returns in any given year may vary from this amount.

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 a certain percent of its endowment fund's average fair value over the prior three years through the fiscal year end preceding the fiscal year in which the distribution is planned. The rates were 4.00 percent and 5.00 percent for the fiscal years ended June 30, 2013 and 2012, respectively. In establishing this policy, the University considered the long-term expected return on its endowment and 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.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide 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 and liabilities measured at fair value on a recurring basis at June 30, 2013 and 2012 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 or liabilities 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 and liabilities 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 or liability. 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.

In instances whereby 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 or liability.

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 2013 and 2012.

Note 5 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2013

	Level 1	Level 2	Level 3	Balance at June 30, 2013
Assets - Investments				
Pooled investment funds:				
Common stock:				
Domestic	$ 7,077,774	$ -	$ -	$ 7,077,774
International	698,958	-	-	698,958
Emerging markets	1,326,142	-	-	1,326,142
Exchange-traded funds:				
Domestic	9,955,279	-	-	9,955,279
International	2,133,565	-	-	2,133,565
Fixed-income mutual funds	6,716,687	-	-	6,716,687
Total pooled investment funds	27,908,405	-	-	27,908,405
Other investments				
Debt securities:				
U.S. government/federal agency	-	107,129	-	107,129
Corporate bonds and other	-	5,016	-	5,016
Asset-backed	-	1,355	-	1,355
Mutual funds:				
Fixed income	364,025	-	-	364,025
Equities	432,349	-	-	432,349
Common pooled equities	-	50,875	-	50,875
Other	-	12,605	-	12,605
Total	$ 28,704,779	$ 176,980	$ -	$ 28,881,759
Liabilities - Interest rate swap agreement	$ -	$ 4,902,331	$ -	$ 4,902,331

Note 5 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Level 1	Level 2	Level 3	Balance at June 30, 2012
Assets - Investments				
Pooled investment funds:				
Common stock:				
Domestic	$ 11,119,899	$ -	$ -	$ 11,119,899
International	4,095,223	-	-	4,095,223
Emerging markets	1,254,269	-	-	1,254,269
Fixed-income mutual funds	6,536,809	-	-	6,536,809
Total pooled investment funds	23,006,200	-	-	23,006,200
Other investments:				
Debt securities:				
U.S. government/federal agency	-	272,551	-	272,551
Corporate bonds and other	-	5,052	-	5,052
Asset-backed	-	26,555	-	26,555
Mutual funds:				
Fixed income	218,514	-	-	218,514
Equities	227,095	-	-	227,095
Common pooled equities	-	49,847	-	49,847
Other	-	23,847	-	23,847
Total	$ 23,451,809	$ 377,852	$ -	$ 23,829,661
Liabilities - Interest rate swap agreement	$ -	$ 7,846,369	$ -	$ 7,846,369

Note 6 - Properties

Properties consist of the following:

	2013	2012
Land and improvements	$ 5,510,977	$ 5,510,977
Buildings and improvements	145,783,155	130,226,843
Furniture and equipment	28,034,336	26,323,766
Library books	30,439,280	29,351,739
Construction in progress	362,635	8,579,913
Total	210,130,383	199,993,238
Less accumulated depreciation	87,665,505	80,199,076
Net investment in properties	$ 122,464,878	$ 119,794,162

Construction in progress at June 30, 2013 and 2012 includes $362,635 and $123,274, respectively, of capitalized interest.

Note 7 - Revolving Lines of Credit, Notes, and Bonds Payable

Long-term debt consists of the following:

	2013	2012
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds - Series 2007, bearing interest at a variable rate (an effective rate of 0.07 percent and 0.18 percent as of June 30, 2013 and 2012, respectively), interest due monthly and principal due annually through 2036	$ 28,515,000	$ 29,185,000
Michigan Facilities Authority Higher Education Limited Obligation Revenue Bonds - Series 2011, bearing interest at a variable rate (an effective rate of 0.07 percent and 0.19 percent as of June 30, 2013 and 2012, respectively), interest due monthly and principal due annually through 2040	15,750,000	16,000,000
Total	$ 44,265,000	$ 45,185,000

Note 7 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

Future principal maturities of the bonds are as follows:

Years Ending June 30		Amount
2014		$ 955,000
2015		1,000,000
2016		1,040,000
2017		1,095,000
2018		1,140,000
2019 and after		39,035,000
	Total	$ 44,265,000

Series 2007 Bonds proceeds were used to advance refund $6,680,000 of Series 1996 Bonds with an average interest rate of 6 percent and $7,865,000 of Series 2003 Bonds with a variable interest rate. The proceeds of $6,901,962 and $7,991,055 for the Series 1996 Bonds and the Series 2003 Bonds, net of underwriting and other issuance costs of $46,876 and $60,749, respectively, were deposited in escrow funds to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the long-term debt for the bonds has been removed from the University's financial statements.

In July 2011, the University issued Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds, Series 2011, in the amount of $16,000,000. The proceeds of the bonds were used to fund certain capital projects of the University. The bonds bear interest at a variable rate, with interest due monthly and principal due annually through 2040. Principal payments began on November 1, 2012.

The University has agreed to certain covenants, including maintenance of operations and debt service ratios.

The Series 2007 and Series 2011 Bonds are collateralized by separate outstanding letters of credit from a financial institution that expire on July 21, 2014. The bonds become callable on demand upon the expiration of the letters of credit.

The University entered into a remarketing agreement for the Series 2007 Bonds whereby the remarketing agent receives a fee equal to 0.09 percent of the average aggregate principal outstanding during the calendar year, payable quarterly, in arrears, on the first of each February, May, August, and November.

Note 7 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

The University entered into a remarketing agreement for the Series 2011 Bonds whereby the remarketing agent receives a fee equal to one-eighth of 1 percent of the aggregate principal outstanding during the calendar year, payable annually, in arrears, on November 1. The average variable interest rate on these bonds was 0.15 percent and 0.16 percent for the fiscal years ended June 30, 2013 and 2012, respectively.

Under the terms of the indenture and related agreements, bondholders have the option to redeem or put the bonds when the interest rate is reset. In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have an obligation to purchase the bonds tendered. The University maintains a direct-pay letter of credit with a financial institution to provide alternative liquidity to support the repurchase of tendered variable-rate bonds in the event that the bonds are unable to be remarketed. Financing obtained through a letter of credit facility to fund the purchase of bonds would bear interest rates different from those associated with the original bond issues.

During 2007, the University entered into an interest rate swap agreement on the Series 2007 Bonds for the purpose of managing the risk associated with interest rates on variable rate borrowings. The interest rate swap agreement is considered a derivative financial instrument for reporting purposes.

Any gains or losses recognized on the interest rate swap are recognized in current year earnings. Under the interest rate swap, the University has agreed to exchange, at specified intervals, the calculated difference between fixed and variable interest amounts on a declining notional amount, which is $28,515,000 at June 30, 2013. The fixed rate as defined by the interest rate swap agreement is 3.61 percent. The average variable rate for the bonds outstanding was 0.14 percent and 0.13 percent for the fiscal years ended June 30, 2013 and 2012, respectively.

The value of the swap instrument represents the estimated benefit or cost to the University to cancel the agreement as of the reporting date and is based on the option-pricing models that consider risks and other market factors. The fair value of the interest rate swap at June 30, 2013 and 2012 was recorded in the University's financial statements as a liability of approximately $4,902,000 and $7,846,000, respectively. Accordingly, the University recognized an unrealized gain of approximately $2,944,000 for the year ended June 30, 2013 and an unrealized loss of approximately $4,190,000 for the year ended June 30, 2012 related to the adjustment of value of the interest rate swap agreement.

Note 7 - Revolving Lines of Credit, Notes, and Bonds Payable (Continued)

The University has an unsecured line of credit totaling $10,000,000 under an agreement that expires March 28, 2014. Interest is charged at the prime rate plus 1.50 percent (4.75 percent at June 30, 2013). There were no borrowings against this line at June 30, 2013 and 2012.

Note 8 - Retirement Benefits

Substantially all University employees participate in either a defined contribution pension plan sponsored by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), or a noncontributory defined benefit pension plan, The Sisters of Mercy-Province of Detroit Retirement Plan.

The University and participants in the defined contribution retirement plan make annual contributions to TIAA-CREF to purchase individual annuities or to invest in tax-deferred savings plans. The University's contribution to the defined contribution plan totaled approximately $2,402,000 in 2013 and $4,855,000 in 2012.

Benefits under The Sisters of Mercy-Province of Detroit Retirement Plan are based on years of service and employees' compensation during the last 10 years of employment. Contributions are made in amounts necessary to fund the plan's benefits as computed by an independent actuary. The University amended its defined benefit pension plan effective July 1, 2002. As a result, no pension benefits have been earned by participants after June 2002.

In addition to providing pension benefits, the University pays a portion of the premiums for healthcare benefits provided to certain retired employees who reach retirement age while working for the University. Healthcare benefits for retirees and survivors are provided through insurance agreements, the premiums of which are based in part on the benefits paid. The University's costs are capped at certain amounts per month per person dependent on the age of the eligible participants as defined in the plan agreement.

Changes in projected benefit obligation and plan assets during the year, the funded status of the plan, and the reconciliation to the amount recognized on the balance sheet were as follows as of June 30 (using an actuarial measurement date of June 30):

Note 8 - Retirement Benefits (Continued)

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Projected benefit obligation	$ 5,281,891	$ 5,412,561	$ 7,285,954	$ 8,173,476
Fair value of plan assets	3,422,585	3,179,793	-	-
Funded status at end of year	$ (1,859,306)	$ (2,232,768)	$ (7,285,954)	$ (8,173,476)

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Other accrued expenses	$ 1,859,306	$ 2,232,768	$ -	$ -
Accrued postretirement benefits	-	-	7,285,954	8,173,476
Total	$ 1,859,306	$ 2,232,768	$ 7,285,954	$ 8,173,476

Accumulated net periodic benefit cost recognized as unrestricted net assets is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Net loss	$ 2,464,403	$ 2,587,557	$ 1,684,198	$ 2,858,401
Prior service cost	-	129	389,252	454,127
Total	$ 2,464,403	$ 2,587,686	$ 2,073,450	$ 3,312,528

Net periodic benefit cost, which is included in functional expenses, contributions, and benefits paid, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Net periodic benefit cost (benefit)	$ 84,973	$ 81,834	$ 597,358	$ 565,094
Employer contributions	335,152	214,394	245,802	368,661
Benefits paid	277,555	277,284	245,802	368,661

Note 8 - Retirement Benefits (Continued)

As of June 30, the following items are included in nonoperating activities as a pension and postretirement adjustment and are not yet recognized as components of net periodic benefit cost:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Net (gain) loss	$ (53,861)	$ 747,605	$ (1,015,355)	$ 942,491
Amortization of prior service credit (cost)	(129)	(12,569)	(64,875)	(58,804)
Amortization of net gain	(69,293)	(46,695)	(58,848)	(96,489)
Total recognized in nonoperating activities	$ (123,283)	$ 688,341	$ (1,139,078)	$ 787,198
Total recognized in functional expenses and nonoperating activities	$ (38,310)	$ 770,175	$ (541,720)	$ 1,352,292

The estimated net loss for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year is $66,899.

The estimated net loss and prior service cost for the other postretirement plan that will be amortized into net periodic benefit cost over the next fiscal year are $86,873 and $64,875, respectively.

Assumptions

Weighted average assumptions used to determine benefit obligations at June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	5.30%	5.00%	4.65%	4.05%

Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	5.00%	5.90%	4.05%	5.45%
Expected long-term return on plan assets	7.50%	8.00%	N/A	N/A

Note 8 - Retirement Benefits (Continued)

The overall expected rate of return on plan assets represents a weighted average composite rate based on the historical rates of returns of the respective asset classes.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the University, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

The investment program employs a total return investment approach whereby a mix of equities and fixed-income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition.

The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments.

The target allocation of plan assets at the June 30, 2013 measurement date, by asset category, as a percentage, is as follows: 15 percent U.S. and non-U.S. equity securities, 35 percent fixed-income obligations, 20 percent hedge funds, 15 percent long/short equity securities, and 15 percent other types of investments.

Note 8 - Retirement Benefits (Continued)

The following tables summarize the pension plan assets measured at fair value as of June 30, 2013 and 2012:

Pension Plan Assets Measured at Fair Value at June 30, 2013

	Level 1	Level 2	Level 3	Balance at June 30, 2013
Assets - Investments				
Cash and short-term investment funds	$ 361,975	$ 7,345	$ -	$ 369,320
Common stock:				
Domestic	175,585	-	-	175,585
International	7,827	-	-	7,827
Debt securities:				
U.S. government/federal agency	-	255,372	-	255,372
Corporate bonds	-	768,479	1,308	769,787
Mortgage- and asset-backed securities	-	27,393	-	27,393
Mutual funds - Equities	226,818	-	-	226,818
Derivatives (i)	62,280	-	-	62,280
Commingled funds directly holding securities	-	239,490	-	239,490
Hedge funds (ii)	-	276,216	814,281	1,090,497
Private equity (iii)	-	-	198,475	198,475
Other (v)	(259)	-	-	(259)
Total	$ 834,226	$ 1,574,295	$ 1,014,064	$ 3,422,585

Note 8 - Retirement Benefits (Continued)

Pension Plan Assets Measured at Fair Value at June 30, 2012

	Level 1	Level 2	Level 3	Balance at June 30, 2012
Assets - Investments				
Cash and short-term investment funds	$ 305,590	$ 932	$ -	$ 306,522
Common stock:				
Domestic	202,317	111	-	202,428
International	9,705	-	-	9,705
Debt securities:				
U.S. government/federal agency	-	349,750	-	349,750
Corporate bonds	-	784,120	-	784,120
Mortgage- and asset-backed securities	-	18,575	-	18,575
Mutual funds - Equities	67,009	-	-	67,009
Derivatives (i)	18,656	-	-	18,656
Commingled funds directly holding securities	-	267,360	-	267,360
Hedge funds (ii)	-	32,253	984,347	1,016,600
Private equity (iii)	-	-	162,020	162,020
Real estate partnerships (iv)	-	-	76	76
Other (v)	(23,028)	-	-	(23,028)
Total	$ 580,249	$ 1,453,101	$ 1,146,443	$ 3,179,793

(i) The pension plan is party to certain agreements, which are designed to manage exposures to equities and interest rate risks. These instruments are used for the purpose of hedging changes in the fair value of assets and actuarial present value of accumulated plan benefits that result from interest rate changes, or as an efficient substitute for traditional securities. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The pension plan's investment policy specifically prohibits the use of derivatives for speculative purposes.

(ii) The pension plan invests in various hedge fund strategies. These funds utilize a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed-income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

(iii) These assets include several private equity funds that invest primarily in the United States, Asia, and Europe, both directly and on the secondary market pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

(iv) These assets are reported at fair value based on either independent appraisals performed by the general partner during the year, or estimated using discounted cash flow and market analysis, supported by sales comparison information.

(v) These assets represent unsettled transactions relating primarily to purchases and sales of plan assets and accrued income. Due to the short maturity of these assets, the fair value is equal to the carrying amounts.

Note 8 - Retirement Benefits (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Pension Plan holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

The tables on the previous page present information about the pension plan assets measured at fair value at June 30, 2013 and 2012 and the valuation techniques used by the University to determine those fair values. See Note 5 for definitions of Levels 1, 2, and 3 of the fair value hierarchy.

In instances whereby 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 plan 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 2013 and 2012.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012 are as follows:

	Corporate Bonds	Hedge Funds	Private Equity	Real Estate Partnerships
Balance at July 1, 2012	$ -	$ 984,347	$ 162,020	$ 76
Transfer out to Level 2		(166,117)		
Realized gains	-	65,761	5,366	-
Unrealized (losses) gains	(114)	12,928	7,046	1
Purchases	1,422	229,801	51,023	
Sales	-	(312,247)	-	
Settlements	-	(192)	(26,980)	(77)
Balance at June 30, 2013	$ 1,308	$ 814,281	$ 198,475	$ -

Note 8 - Retirement Benefits (Continued)

	Corporate Bonds	Hedge Funds	Private Equity	Real Estate Partnerships
Balance at July 1, 2011	$ -	$ 894,597	$ 114,986	$ 3,292
Realized gains	-	20,307	5,199	-
Unrealized losses	-	(69,169)	(3,065)	(819)
Purchases	-	436,869	61,188	
Sales	-	(298,661)	-	
Settlements	-	404	(16,288)	(2,397)
Balance at June 30, 2012	$ -	$ 984,347	$ 162,020	$ 76

Contributions

The University expects to contribute approximately $258,000 to its pension plan and $365,000 to its postretirement benefit plan during the year ending June 30, 2014.

The expected benefits to be paid in the next fiscal years are as follows:

Years Ending June 30	Pension Benefits	Other Postretirement Benefits
2014	$ 280,000	$ 365,000
2015	286,000	391,000
2016	304,000	393,000
2017	320,000	402,000
2018	329,000	414,000
2019-2022	1,791,000	2,179,000

Note 9 - Insurance Commitments

The University funds a reserve for dental malpractice claims. At June 30, 2013 and 2012, the University owned a bank account administered by a third party with balances of $484,145 and $481,340, respectively, which is included as cash and cash equivalents and investments. Claims and related costs are paid from the University-owned bank trust account. Estimated claims at June 30, 2013 and 2012 were insignificant. In addition to the reserve, effective January 1, 2009, the University purchased professional liability insurance for dental malpractice risk. The additional insurance has a $100,000 deductible per occurrence and a $5,000,000 limit per occurrence. The aggregate coverage limit is $7,000,000.

The University is a member of the Association of Independent Colleges and Universities of Michigan (AICUM) Workers' Compensation Self-Insurers Fund. The University records workers' compensation expense at the time its contribution is due in accordance with the AICUM Workers' Compensation Trust agreement. Dividends are recorded as income in the year received. Additional provision for workers' compensation expense may be required if claims pending settlement by the fund exceed available fund equity. At June 30, 2013 and 2012, no such additional provision was required.

Note 10 - Contingencies

The University is a defendant in certain lawsuits. For those claims whereby the likelihood of loss is probable and measurable, a provision has been made in the accompanying financial statements related to such claims. Management believes that the resolution of these claims will not have a material impact on the financial statements.