LAWRENCE UNIVERSITY OF WISCONSIN

Appleton, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 30, 2013 and 2012

LAWRENCE UNIVERSITY OF WISCONSIN

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 34

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lawrence University of Wisconsin
Appleton, Wisconsin

We have audited the accompanying financial statements of Lawrence University of Wisconsin (the "University"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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.

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

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

Opinion

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

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
October 4, 2013

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LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 4,775,705	$ 6,732,353
Receivables		
Students accounts, net of allowance for doubtful accounts of $291,000 and $265,000	249,600	167,019
Government grants	76,373	145,213
Accrued interest	118,925	143,720
Contributions, net	10,146,516	5,304,562
Other	170,335	170,853
Inventories	294,362	282,338
Prepaid expenses and other assets	4,184,465	4,386,040
Student loans receivable, net	5,776,264	5,891,557
Investments	218,398,530	200,300,925
Property and equipment, less accumulated depreciation	111,582,812	110,973,561
TOTAL ASSETS	$ 355,773,887	$ 334,498,141
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,432,001	$ 1,412,972
Accrued liabilities	7,593,561	7,774,441
Deferred income and deposits	1,114,651	1,104,408
Due to student organizations	251,752	202,925
Postretirement obligation	2,609,595	2,529,045
Asset retirement obligation	3,198,055	4,148,626
Annuities payable	1,611,996	1,836,615
Long-term debt	37,094,910	38,597,859
U.S. government grants refundable	1,709,419	1,663,072
Total Liabilities	56,615,940	59,269,963
NET ASSETS		
Unrestricted	32,091,880	25,337,759
Temporarily restricted	116,609,298	106,758,519
Permanently restricted	150,456,769	143,131,900
Total Net Assets	299,157,947	275,228,178
TOTAL LIABILITIES AND NET ASSETS	$ 355,773,887	$ 334,498,141

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 58,663,565	$ -	$ -	$ 58,663,565
Less: tuition discounts	(26,269,424)	-	-	(26,269,424)
Net Student Revenue	32,394,141	-	-	32,394,141
Room and board	7,290,480	-	-	7,290,480
Auxiliary enterprises	1,736,060	-	-	1,736,060
Investment returns designated for current operations	1,536,517	7,255,393	157,894	8,949,804
Government grants	560,180	-	-	560,180
Contribution revenue	2,938,833	-	-	2,938,833
Other income	498,645	166,291	-	664,936
	46,954,856	7,421,684	157,894	54,534,434
Net assets released from restrictions	11,551,529	(11,551,529)	-	-
Total Operating Revenues	58,506,385	(4,129,845)	157,894	54,534,434
OPERATING EXPENSES				
Instruction	19,002,406	-	-	19,002,406
Research	660,707	-	-	660,707
Public service	1,594,289	-	-	1,594,289
Academic support	4,216,823	-	-	4,216,823
Student services	5,574,770	-	-	5,574,770
Institutional administration	11,978,975	-	-	11,978,975
Physical plant operations	6,071,220	-	-	6,071,220
Auxiliary enterprises	706,855	-	-	706,855
Interest expense	1,699,094	-	-	1,699,094
Depreciation	6,819,760	-	-	6,819,760
Total Operating Expenses	58,324,899	-	-	58,324,899
Operating Revenues in Excess of Operating Expenses	181,486	(4,129,845)	157,894	(3,790,465)
NONOPERATING INCOME (LOSS)				
Investment returns in excess of amounts designated for current operations	6,168,775	7,852,502	135,142	14,156,419
Contributions for long-term purposes	-	5,991,220	6,941,099	12,932,319
Change in beneficial interests in trusts	-	34,889	95,210	130,099
Change in value of split interest agreements	(16,572)	81,135	(43,860)	20,703
Other nonoperating items, net	420,432	20,878	39,384	480,694
Total Nonoperating Income (Loss)	6,572,635	13,980,624	7,166,975	27,720,234
Change in Net Assets	6,754,121	9,850,779	7,324,869	23,929,769
NET ASSETS - Beginning of Year	25,337,759	106,758,519	143,131,900	275,228,178
NET ASSETS - END OF YEAR	$ 32,091,880	$ 116,609,298	$ 150,456,769	$ 299,157,947

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 54,824,480	$ -	$ -	$ 54,824,480
Less: tuition discounts	(22,748,053)	-	-	(22,748,053)
Net Student Revenue	32,076,427	-	-	32,076,427
Room and board	6,663,999	-	-	6,663,999
Auxiliary enterprises	1,776,972	-	-	1,776,972
Investment returns designated for current operations	1,579,304	7,280,555	124,880	8,984,739
Government grants	1,082,946	-	-	1,082,946
Contribution revenue	2,245,168	-	-	2,245,168
Other income	563,551	20,175	-	583,726
	45,988,367	7,300,730	124,880	53,413,977
Net assets released from restrictions	13,629,142	(13,629,142)	-	-
Total Operating Revenues	59,617,509	(6,328,412)	124,880	53,413,977
OPERATING EXPENSES				
Instruction	18,209,283	-	-	18,209,283
Research	1,174,388	-	-	1,174,388
Public service	1,565,094	-	-	1,565,094
Academic support	4,516,040	-	-	4,516,040
Student services	5,438,666	-	-	5,438,666
Institutional administration	13,170,918	-	-	13,170,918
Physical plant operations	6,031,959	-	-	6,031,959
Auxiliary enterprises	591,368	-	-	591,368
Interest expense	1,662,271	-	-	1,662,271
Depreciation	6,729,878	-	-	6,729,878
Total Operating Expenses	59,089,865	-	-	59,089,865
Operating Revenues in Excess of Operating Expenses	527,644	(6,328,412)	124,880	(5,675,888)
NONOPERATING INCOME (LOSS)				
Investment returns (deficiencies) in excess of amounts designated for current operations	(9,001,640)	(2,947,900)	102,068	(11,847,472)
Contributions for long-term purposes	-	7,387,588	3,066,486	10,454,074
Change in beneficial interests in trusts	-	138,327	(70,140)	68,187
Change in value of split interest agreements	3,902	(3,821)	(97,077)	(96,996)
Other nonoperating items, net	(319,045)	-	47,452	(271,593)
Total Nonoperating Income (Loss)	(9,316,783)	4,574,194	3,048,789	(1,693,800)
Change in Net Assets	(8,789,139)	(1,754,218)	3,173,669	(7,369,688)
NET ASSETS - Beginning of Year	34,126,898	108,512,737	139,958,231	282,597,866
NET ASSETS - END OF YEAR	$ 25,337,759	$ 106,758,519	$ 143,131,900	$ 275,228,178

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 23,929,769	$ (7,369,688)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,819,760	6,729,878
Asset retirement obligation accretion/abatements	(952,122)	209,032
Bad debts	44,374	89,139
Realized and unrealized (gains) losses on investments	(20,387,970)	5,392,174
Change in beneficial interest in trusts	(2,814)	(53,116)
Change in split interest agreements	(159,034)	(187,988)
Income reinvested	(2,557,272)	(2,404,125)
Investment returns restricted for long-term investment	(293,036)	(226,948)
Contributions restricted for long-term purposes	(12,939,674)	(10,459,222)
Actuarial adjustment of annuities payable	55,382	209,368
(Gain)/loss on disposal of fixed assets	6,439	(30,369)
Loan cancellations and reinstatements	22,499	22,715
Change in certain assets and liabilities:		
Receivables:		
Student accounts	(111,342)	6,796
Contributions	372,805	(175,522)
Government grants	68,840	(90,632)
Accrued interest	24,795	315
Other	49,345	(11,644)
Inventories	(12,024)	18,587
Prepaid expenses and other assets	617,660	(19,320)
Accounts payable	19,029	273,643
Accrued liabilities	(180,880)	1,027,368
Deferred income, deposits and funds held for student organizations	10,243	54,765
Postretirement obligation	80,550	113,783
Net Cash Flows from Operating Activities	(5,474,678)	(6,881,011)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(28,873,491)	(21,858,401)
Proceeds from sales of investments	33,723,942	26,526,811
Purchases of property and equipment	(7,452,899)	(5,876,833)
Proceeds from sales of property and equipment	19,000	30,369
Disbursements of loans to students	(729,051)	(810,165)
Repayments of loans from students	806,233	852,851
Net Cash Flows from Investing Activities	(2,506,266)	(1,135,368)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principal on debt	(1,760,000)	(2,746,267)
Investment returns restricted for long-term investment	293,036	226,948
Contributions received restricted for long-term purposes	7,737,603	11,647,231
Changes in U.S. government grants refundable	46,347	23,236
Payments to annuitants	(292,690)	(307,184)
Net Cash Flows from Financing Activities	6,024,296	8,843,964
Net Change in Cash and Cash Equivalents	(1,956,648)	827,585
CASH AND CASH EQUIVALENTS - Beginning of Year	6,732,353	5,904,768
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,775,705	$ 6,732,353

See accompanying notes to financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Lawrence University of Wisconsin (the "University"), which formally opened in 1847, is an independent, nonsectarian, coeducational institution of higher learning with an enrollment of approximately 1,400 students located in Appleton, Wisconsin. The University, through its undergraduate college and conservatory, educates men and women in the liberal arts and sciences and music. Committed to the development of intellect and talent, the acquisition of knowledge and understanding, and the cultivation of judgment and values, the University prepares students for lives of service, achievement, leadership and personal fulfillment. The accounting policies of the University reflect practices common to universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications – For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released over time as the long-lived assets are depreciated over their useful lives.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are included in changes in unrestricted net assets.

Non-operating activities reflect transactions affecting the net assets associated with endowment and capital campaign contributions, gains or losses on investments, change in value of split interest agreements, and other activities of a non-operating nature.

Temporarily Restricted Net Assets – With respect to temporarily restricted net assets, the University has adopted the following accounting policies:

Reporting as Temporarily Restricted Revenues – Contributions received with donor-imposed restrictions that are met in the same year as received are either classified as unrestricted net assets immediately or are reported as revenues of the temporarily restricted net asset class depending on the nature of the restriction. Contributions restricted for purposes that the University would normally fulfill are immediately recorded in the unrestricted net asset class. For those contributions recorded as revenues of the temporarily restricted net asset class, a reclassification to unrestricted net assets is made to reflect the expiration of contribution restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment – Contributions for property and equipment additions are classified as temporarily restricted net assets and released from restriction as depreciation is recognized.

Tuition and Fees and Auxiliary Revenues – Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Cash and Cash Equivalents – The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the University is restricted for the Federal Perkins Loan Fund.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Receivables – Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and loans receivable are written off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recorded when received. Receivables are generally unsecured.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

Inventories – Inventories are valued at the lower of cost or market and consist primarily of janitorial, food service and office supplies.

Property and Equipment – Property and equipment is stated at cost less accumulated depreciation. The University depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 30 to 40 years, land improvements 20 years and equipment/library books 3 to 20 years. The University has a policy of capitalizing all items $1,000 or more or any group of items totaling $2,500 or more. Normal repair and maintenance expenses are charged to operations as incurred.

Art and Other Collections – The University does not assign or record a value for art and other collections received as gifts. Accordingly, the value of certain art and other collections has been excluded from the statements of financial position. All art and other collections are insured at a value of approximately $7,400,000 and $7,600,000 as of June 30, 2013 and 2012.

Deferred Revenue – Certain revenue related to summer education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

Asset Retirement Obligations – Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. At June 30, 2013 and 2012, the asset retirement obligations are estimated to be $3,198,055 and $4,148,626, respectively. Fiscal year 2013 included an adjustment of approximately $950,000 to record various abatement costs.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Self-Funded Insurance – The University maintains a self-funded health plan. Specific and aggregate stop loss coverage on the health plan is provided to limit the ultimate exposure of the University. A liability is provided for claims incurred but not reported. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims. The liability for self-funded insurance claims incurred but not reported is shown in accrued liabilities on the statement of financial position.

Grants to Specified Students – Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amount of such grants totaled $749,032 and $1,407,543, respectively, during the year ended June 30, 2013 and $660,780 and $1,301,305, respectively during the year ended June 30, 2012.

U.S. Government Grants Refundable – Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are 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.

Income Tax Status – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2013 and 2012. The University's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal year 2010 and thereafter are open to examination by federal and state authorities.

NOTE 1 – Significant Accounting Policies (cont.)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest Rate Exchange Agreements – The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. The interest rate exchange agreements are recognized as either an asset or liability on the statement of financial position and are measured at fair value. Because the interest rate exchange agreements are often held for the life of the strategy, they may reflect significant unrealized gains or losses depending on the change in value since the inception of the contracts. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and accrued liabilities, deferred income and deposits are reasonable estimates of fair value due to the short-term maturity of these financial instruments.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Other investments are carried at cost. The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

Fund Raising and Advertising Expenses – For the years ended June 30, 2013 and 2012, fund raising expenses totaled $2,487,187 and $2,487,849, respectively. Advertising expenses totaled $94,780 and $109,297, respectively. The University expenses advertising costs at the time incurred.

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis as shown in Note 17.

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements, which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2013:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 419,840	$ -	$ 419,840	$ -
Equity securities				
Domestic	62,486,064	62,486,064	-	-
Foreign	57,060,883	57,060,883	-	-
Hedge fund	25,988,546	-	21,988,546	4,000,000
Fixed income securities				
Domestic	30,477,630	20,256,991	2,856,583	7,364,056
Foreign	4,707,649	-	4,707,649	-
Private equity funds	15,819,339	-	-	15,819,339
Real estate funds	18,774,669	-	14,465,649	4,309,020
Beneficial interest in funds held in trust	2,663,910	-	-	2,663,910
Total	$ 218,398,530	$ 139,803,938	$ 44,438,267	$ 34,156,325
LIABILITIES				
Interest rate exchange agreements	$ 1,352,564	$ -	$ 1,352,564	$ -

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2012:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 914,630	$ -	$ 914,630	$ -
Equity securities				
Domestic	62,573,498	62,573,498	-	-
Foreign	57,956,979	57,956,979	-	-
Lawrence Corporation Ownership	520,000	520,000	-	-
Hedge fund	7,790,428	-	7,790,428	-
Fixed income securities				
Domestic	29,770,517	-	29,770,517	-
Foreign	4,601,377	-	4,601,377	-
Private equity funds	15,870,367	-	-	15,870,367
Real estate funds	17,626,519	-	17,626,519	-
Beneficial interest in funds held in trust	2,676,610	-	-	2,676,610
Total	$ 200,300,925	$ 121,050,477	$ 60,703,471	$ 18,546,977
LIABILITIES				
Interest rate exchange agreements	$ 1,833,257	$ -	$ 1,833,257	$ -

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-term investments – The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 2 as these funds are not traded on a regular basis.

Equity securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Lawrence Corporation Ownership – Ownership in Lawrence Corporation is classified as Level 1 as it has pricing which is readily available.

Fixed income securities – Investments in fixed income securities are comprised of government and municipal bonds and notes, corporate bonds and assets, mortgage backed securities, and floating rate bank loans. The majority of the fixed income securities are classified as Level 1 as the underlying securities are traded in an active market for which closing prices are readily available. Some of the fixed income securities are Level 2 since fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets. Some fixed income securities are conservatively classified as Level 3 as these investments are in an investment vehicle for which there is no readily determinable fair value and valuation may be based on significantly unobservable inputs. These securities typically still have liquidity.

Alternative investments – Investments in private equity funds, for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30.

Real Estate and Hedge Funds – The majority of the investments in hedge and real estate funds are classified as Level 2 since fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets. In cases where the investee has provided its investors with a new asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of June 30. Some investments in real estate and hedge funds are classified as Level 3 as these investments are in an investment vehicle for which there is no readily determinable fair value and valuation may be based on significantly unobservable inputs.

Beneficial interest in trusts – The University's beneficial interest in trusts administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trust's assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

Interest rate exchange agreements – Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

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 estimate of fair value at the reporting date.

The following table presents a reconciliation of statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2013:

	Balances June 30, 2012	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Transfers	Balances June 30, 2013
Assets						
Hedge fund	$ -	$ -	$ 4,000,000	$ -	$ -	$ 4,000,000
Fixed income securities	-	453,719		-	6,910,337	7,364,056
Private equity funds	15,870,367	423,985	2,232,147	(2,707,160)	-	15,819,339
Real estate funds	-	123,616		(378,466)	4,563,870	4,309,020
Beneficial interest in funds held in trust	2,676,610	100,875	-	(113,575)	-	2,663,910
Totals	$18,546,977	$ 1,102,195	$ 6,232,147	$ (3,199,201)	$ 11,474,207	$ 34,156,325

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2013.	$ 305,547

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2012:

	Balances June 30, 2011	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Balances June 30, 2012
Assets					
Private equity funds	$ 13,085,486	$ 1,291,871	$3,137,395	$(1,644,385)	$ 15,870,367
Beneficial interest in funds held in trust	2,608,164	68,446	-	-	2,676,610
Totals	$ 15,693,650	$ 1,360,317	$3,137,395	$(1,644,385)	$ 18,546,977

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2012	$ 869,085

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University's interest in the fund. Investments are categorized as Level 2 instruments when the University has the ability to redeem its investment in the entity at the NAV per share in the near term. If the University does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments The University generally considers a redemption period of 90 days or less to be considered near term.

The following table lists the investments in alternative investments by major category:

	Private Equity Funds	Real Estate Funds	Hedge Funds
Fair Value as of June 30, 2013	$15,819,339	$18,774,669	$25,988,546
Significant Investment Strategy	Venture, Buyout, and Distressed in the US and international	Core and some value added, primarily in the US	Long/short stocks, convertible arbitrage, volatility arbitrage, distressed credit, relative value fixed income, special situations, global macro, commodities
Remaining Life	1 to 13 years	-	-
Dollar Amount of Unfunded Commitments as of June 30, 2013	$12,072,000	$ -	$ -
Timing to Draw Down Commitments	1 to 13 years	1 to 10 years	N.A.
Redemption Terms	N.A.	30 day notice for core	60-90 days notice
Redemption Restrictions	N.A.	Value added real estate is closed end fund	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.

The fair value of variable rate long-term debt is assumed to approximate cost based on the nature of those obligations. The approximate fair value of fixed rated debt (2012 Series bonds) was $9,188,643 as of June 30, 2013. The estimated fair value for the fixed rate debt was estimated using the rates currently offered for comparable debt instruments with similar remaining maturities. Based on these inputs, the fair value of the fixed rate long-term debt would be classified as a Level 2 liability.

NOTE 3 – NET ASSETS

Temporarily restricted net assets are comprised of the following at June 30:

	2013	2012
Restricted for capital additions	$ 66,191,238	$ 68,222,189
Restricted for other donor designated purposes	42,986,526	32,008,756
Restricted to future periods	5,573,118	4,737,712
Split-interest agreements, net	1,858,416	1,789,862
Totals	$ 116,609,298	$ 106,758,519

Permanently restricted net assets are comprised of the following:

	2013	2012
Endowment investments, the income from which is expendable to support:		
Faculty chairs	$ 27,306,760	$ 26,806,760
Scholarships	69,184,412	67,400,409
Other donor imposed restrictions	38,546,179	36,483,250
General operations	6,946,385	6,884,382
	141,983,736	137,574,801
Contributions receivable, net	3,727,489	701,180
Split-interest agreements, net	4,745,544	4,855,919
Totals	$ 150,456,769	$ 143,131,900

The endowment balance disclosed above consists of investments and permanently restricted contributions receivable and trust interests.

NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2013 and 2012 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Purpose restrictions accomplished:		
Funded endowment tuition discounts	$ 599,751	$ 660,135
Lawrence Fellows	-	139,483
Posse Program	56,781	900,000
Other donor imposed restrictions	1,497,581	1,684,379
Investment return designated for current purposes	6,373,246	6,474,449
Depreciation based releases	1,988,850	2,606,772
	10,516,209	12,465,218
Unrestricted pledge payments received	1,035,320	1,163,924
Totals	$ 11,551,529	$ 13,629,142

These assets were reclassified to unrestricted net assets.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at June 30:

	2013	2012
Temporarily restricted - operations	$ 5,886,820	$ 3,771,224
Temporarily restricted - capital projects	726,900	1,012,303
Permanently restricted - endowment	3,862,061	735,541
Gross unconditional promises to give	10,475,781	5,519,068
Less:		
Discount to net present value	(263,797)	(156,065)
Allowance for uncollectible promises	(65,468)	(58,441)
Net Unconditional Promises to Give	$ 10,146,516	$ 5,304,562

At June 30, 2013, contributions receivable of $4,200,685 are due in less than one year and $5,246,750 are due in one to five years and $1,028,346 is due in more than five years. Contributions due in more than one year were discounted at interest rates ranging from 1.6% to 5.6%. Contributions due in less than one year were not discounted.

The fair value of contributions receivable is based on a discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy.

NOTE 6 – STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

Student loans are comprised of the following as of June 30:

	2013	2012
Student loans:		
Lawrence University Loans	$ 1,060,401	$ 1,139,660
Perkins Student Loans	5,607,863	5,643,897
	6,668,264	6,783,557
Less: Allowance for uncollectible accounts		
Beginning of year	(892,000)	(867,000)
Increases	-	(26,034)
Write-offs	-	1,034
End of year	(892,000)	(892,000)
Student Loans Receivable, Net	$ 5,776,264	$ 5,891,557

Funds advanced by the Federal government of $2,472,968 at June 30, 2013 and 2012 are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

June 30,	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2013	$ 3,104	$ 4,447	$ 413,170	$ 420,721
2012	$ 5,089	$ 4,144	$ 383,510	$ 392,743

NOTE 7 – INVESTMENTS

Investments are stated at market value and consist of the following:

	2013	2012
Cash and short-term investments	$ 1,439	$ 497,605
Certificates of deposits	418,401	417,025
Fixed income securities		
Domestic	30,477,630	29,770,517
Foreign	4,707,649	4,601,377
Equity securities		
Domestic	62,486,064	62,573,498
Foreign	57,060,883	57,956,979
Lawrence Corporation Ownership	-	520,000
Alternative investments	60,582,554	41,287,314
Beneficial interests in trusts	2,663,910	2,676,610
Total Investments	$ 218,398,530	$ 200,300,925

NOTE 7 – INVESTMENTS (cont.)

Investment returns are comprised of the following for the years ended June 30:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ -	$ 2,918,753	$ -	$ 2,918,753
Net realized and unrealized gains	7,705,292	12,189,142	293,036	20,187,470
Return on investments	7,705,292	15,107,895	293,036	23,106,223
Investment return designated for current operations	(1,536,517)	(7,255,393)	(157,894)	(8,949,804)
Investment return in excess (deficient) of amounts designated for current operations	$ 6,168,775	$ 7,852,502	$ 135,142	$ 14,156,419

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ -	$ 2,744,305	$ -	$ 2,744,305
Net realized and unrealized gains	(7,422,336)	1,588,350	226,948	(5,607,038)
Return on investments	(7,422,336)	4,332,655	226,948	(2,862,733)
Investment return designated for current operations	(1,579,304)	(7,280,555)	(124,880)	(8,984,739)
Investment return in excess of amounts designated for current operations	$ (9,001,640)	$ (2,947,900)	$ 102,068	$ (11,847,472)

Investment fees of $613,000 and $554,000 for 2013 and 2012 are included in the above investment income.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2013	2012
Land and land improvements	$ 7,944,161	$ 7,820,014
Buildings	161,313,040	160,542,041
Equipment/Library Books	58,406,082	56,809,990
Construction in progress	5,169,969	541,686
	232,833,251	225,713,731
Less: Accumulated depreciation	(121,250,439)	(114,740,170)
Totals	$ 111,582,812	$ 110,973,561

NOTE 9 – LINE OF CREDIT

The University has a 12-month revolving unsecured line of credit with a bank under which it may borrow up to $10,000,000 (for general operating purposes). At June 30, 2013, there were no borrowings on the line of credit. The line of credit accrues interest at a variable rate which was 1.294% at June 30, 2013.

NOTE 10 – LONG-TERM DEBT

The University has the following long-term debt outstanding at June 30:

Wisconsin Health and Educational Facilities Authority, Revenue Bonds	2013	2012
Series 2009 - variable rate (currently 0.07%). The University restructured its variable rate debt. The series 2009 bonds are a variable rate demand bonds and can be called. The bonds are backed by a letter of credit from Chase Bank. The University entered into three new interest rate exchange agreements and still has the original interest rate exchange agreement in place from the Series 2002 bond. In total, the University has entered into an interest rate exchange agreement to fix the rate of interest on $18 million of this debt. Under the agreement, the University either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. See footnote 16 for details regarding statement of financial position and statement of activities impact related to these agreements. The interest rate exchange agreements have the following rates and maturities:		
$5 million maturing in 2014 at 2.79%, $7 million maturing in 2016 at 3.04%, $6 million maturing in 2017 at 4.3%.	$ 26,275,000	$ 27,135,000
Series 2012 - fixed rate (ranging from 1.4% to 3.5%), unsecured, payable in annual installments, maturing on February 1, 2023.	11,065,000	-
Series 1998 - 5.00% fixed rate, unsecured, payable in full on October 15, 2013.	-	1,846,899
Series 1998 - 5.125% fixed rate, unsecured, payable in full on October 15, 2018.	-	4,665,000
Series 1998 - 5.125% fixed rate, unsecured, payable in full on April 15, 2028.	-	5,235,000
	37,340,000	38,881,899
Less: Bond discounts	(245,090)	(284,040)
Totals	$ 37,094,910	$ 38,597,859

NOTE 10 – LONG-TERM DEBT (cont.)

The Series 2009 and 2012 Revenue Bonds have restrictive financial covenants. The University is in compliance with these covenants as of June 30, 2013.

Maturities of long-term debt are as follows:

2014	$ 1,620,000
2015	1,885,000
2016	1,960,000
2017	2,050,000
2018	2,345,000
Thereafter	27,480,000
	$ 37,340,000

For the years ended June 30, 2013 and 2012, interest expense on long-term debt approximated $1,387,000 and $1,578,000, respectively. There was no capitalized interest in 2013 or 2012.

NOTE 11 – EXECUTIVE RETIREMENT PLAN

The University is providing a retired executive with monthly cash payments of approximately $7,500. These monthly payments started when the executive retired in June 2004 and will continue until June 30, 2022. The payments are discounted at a rate of 3.75% and 5% for 2013 and 2012. The present value of these payments at June 30, 2013 and 2012 was $668,446 and $686,308, respectively, and are included in accrued liabilities on the statements of financial position. Payments during the years ended June 30, 2013 and 2012 were $88,880, and retirement expense was $71,018 and $55,923, respectively.

NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS

The University provides retired employees over 65 and their respective spouses, if applicable, with monthly cash payments, which are to be utilized toward the payment of postretirement health benefits. Retirees and spouses under age 65 continue to participate in the University's health plan on a cost-sharing basis.

The following table shows the reconciliation of the accrued postretirement cost for the fiscal years ending June 30:

	2013	2012
Accrued postretirement benefit cost at July 1	$ (2,529,045)	$ (2,415,262)
Net periodic postretirement benefit cost	(192,010)	(232,867)
Actual retiree benefit payments	111,460	119,084
Accrued postretirement benefit cost at June 30	$ (2,609,595)	$ (2,529,045)

Benefits expected to be paid for each of the five years subsequent to June 30, 2013 are estimated to be $101,406, $111,882, $118,890, $115,807 and $109,892, respectively. Benefits expected to be paid 2019 through 2023 are estimated to be $755,675. Contributions from the University expected to be paid to the plan for the year ended June 30, 2014 are estimated to be $216,464.

NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS (cont.)

The following table shows the reconciliation of the funded status to the accrued postretirement benefit cost as of June 30:

	2013	2012
Accumulated postretirement benefit obligation (APBO):		
(a) Retirees	$ (720,797)	$ (828,907)
(b) Active employees eligible to retire	(885,218)	(823,259)
(c) Active employees not eligible to retire	(919,169)	(695,958)
(d) Total APBO	(2,525,184)	(2,348,124)
Fair value of plan assets	-	-
Unfunded status	(2,525,184)	(2,348,124)
Unrecognized prior service cost	-	-
Unrecognized net gain	(84,411)	(180,921)
Accrued Postretirement Benefit Obligation	$ (2,609,595)	$ (2,529,045)

The June 30, 2013 APBO is based on June 30, 2013 participant data. For 2013 and 2012, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 3.75%, respectively. The assumed health care trend rate was 12% for fiscal year 2013 and gradually declines to 6% in the year 2025.

The effect of a 1.0% increase in each future health care trend rate would change the APBO by approximately $324,510 or 12.9%. The effect of a 1.0% decrease in each future health care trend rate would change the APBO by approximately ($271,011) or (10.7%).

NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS (cont.)

The following table shows the components of the net periodic postretirement benefit cost (NPPBC):

	2013	2012
Service cost	$ 106,049	$ 136,176
Interest cost	85,961	100,884
Net amortization and deferrals	-	(4,193)
Net Periodic Postretirement Benefit Cost	$ 192,010	$ 232,867

The above 2013 service cost and interest cost are based on June 30, 2013 participant data. For 2013 and 2012, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 3.75%, respectively. The assumed health care trend rate was 12% for fiscal year 2013 and gradually declines to 6% in the year 2029.

The effect of a 1.0% increase in each future health care trend rate would change the combined service cost and interest cost by approximately $32,516 or 16.9%. The effect of a 1.0% decrease in each future health care trend rate would change the combined service cost and interest cost by approximately ($26,466) or (13.8%).

NOTE 13 – RETIREMENT PLAN

Employees working 20 hours or more per week and who have been employed for one year are eligible to participate in individual annuity retirement programs provided through Teachers Insurance Annuity Association and the University Retirement Equities Fund and/or Fidelity Investments Tax-Exempt Services Company. Annuities are purchased through employer and employee contributions determined on the same fixed percentages of salary for all employees. All participants are always 100% vested in their individual account balances.

Total retirement expense for the years ended June 30, 2013 and 2012 was approximately $1,759,000 and $1,620,000, respectively.

NOTE 14 – DEFERRED GIFT AGREEMENTS

The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the University receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor.

During the years ended June 30, 2013 and 2012, the University received gift income of approximately $7,000 and $5,000, respectively, relating to deferred gift agreements. Total assets held by the University under deferred gift agreements and liabilities related to these agreements totaled approximately $10,277,000 and $1,612,000, respectively, at June 30, 2013 and $10,221,000 and $1,837,000, respectively, at June 30, 2012.

NOTE 15 – ENDOWMENT

The University's endowment consists of approximately 750 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The following tables exclude contributions receivable and therefore there will be a variance between permanently restricted net assets shown on the statement of activities and the tables.

NOTE 15 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,663,162)	$ 38,234,702	$ 141,983,736	$ 176,555,276
Board-designated endowment funds	35,876,650	-	-	35,876,650
Total Endowment Net Assets	$ 32,213,488	$ 38,234,702	$ 141,983,736	$ 212,431,926

Endowment net asset composition by type of fund consists of the following as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (7,185,467)	$ 30,388,866	$ 137,574,801	$ 160,778,200
Board-designated endowment funds	33,533,877	-	-	33,533,877
Total Endowment Net Assets	$ 26,348,410	$ 30,388,866	$ 137,574,801	$ 194,312,077

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ 26,348,410	$ 30,388,866	$ 137,574,801	$ 194,312,077
Investment return:				
Investment income	-	2,918,753	-	2,918,753
Net appreciation - realized and unrealized	7,401,595	12,182,476	157,894	19,741,965
Total investment return	7,401,595	15,101,229	157,894	22,660,718
Contributions	-	-	4,111,879	4,111,879
Liquidation of split interest agreement to endowment	-	-	297,056	297,056
Appropriation of endowment assets for expenditure	(1,536,517)	(7,255,393)	(157,894)	(8,949,804)
Endowment Net Assets, June 30, 2013	$ 32,213,488	$ 38,234,702	$ 141,983,736	$ 212,431,926

NOTE 15 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$47,819,383	$33,358,760	$133,472,658	$214,650,801
Investment return:				
Investment income	-	2,744,305	-	2,744,305
Net appreciation (depreciation) - realized and unrealized	(7,470,998)	1,574,856	124,880	(5,771,262)
Total investment return	(7,470,998)	4,319,161	124,880	(3,026,957)
Contributions	-	-	4,093,643	4,093,643
Redesignation of board-designated funds	(12,420,671)	-	-	(12,420,671)
Transfer between funds	-	(8,500)	8,500	-
Appropriation of endowment assets for expenditure	(1,579,304)	(7,280,555)	(124,880)	(8,984,739)
Endowment Net Assets, June 30, 2012	$26,348,410	$30,388,866	$137,574,801	$194,312,077

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 GAAP, deficiencies of this nature that are reported in unrestricted net assets were $3,663,162 and $7,185,467 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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 governing board, the endowment assets are invested in a manner that is intended to produce a real rate of return over inflation sufficient to support, in perpetuity, the mission of the University. It is particularly important to preserve the value of the assets in real terms to enable the Endowment to maintain the purchase power of its support of the University without eroding the real, long-term value of the corpus of the Endowment.

Strategies Employed for Achieving Objectives – The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the University with a long-term asset mix that is intended to meet the University's long-term return goals with the appropriate level of risk.

NOTE 15 – ENDOWMENT (cont.)

The alternative investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The University's management, the investment committee of the Board of Trustees and the University's external investment consultants review reports provided by the general partners, and the University's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with Board policy.

As of June 30, 2013 and 2012 the University has commitments to make further investments in several of its alternative investments totaling approximately $12,072,000 and $10,098,000, respectively.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The University provides endowment income for general institutional purposes through the application of a budgeted endowment income plan. This plan provides the University with a rational and systematic means of determining the portion of investment income available to support current operations. The long-term endowment payout goal stipulated in the Statement of Investment Policy adopted in January, 2008 is computed by applying a formula of 5% of the 12-quarter moving average market value of invested endowment assets as of December 31 each year. The budgeted payout percentage is approved annually by the Board of Trustees and is used to compute the investment return designated for current operations; the difference between total return and return designated for current operations is reflected as a non-operating change in net assets. In 2013 and 2012, the Board of Trustees approved the endowment payout of $8,949,804 and $8,984,739, respectively.

Interpretation of Relevant Law – The University's governing board has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as 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. In accordance with UPMIFA, the University 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 University 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 University
7. The investment policies of the University

NOTE 16 – DERIVATIVE INSTRUMENTS

The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate exchange agreements between the University and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparties.

NOTE 16 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2013, the University paid $578,312 more than it received in interest under the swap agreements. In fiscal 2012, the University paid $630,637 more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of June 30, 2013:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$ 5,000,000	March 1, 2014	2.79%	WKL-USD-SIFMA Municipal Swap Index
Floating to fixed rate swap	$ 7,000,000	March 1, 2016	3.04%	WKL-USD-SIFMA Municipal Swap Index
Floating to fixed rate swap	$ 6,000,000	August 14, 2017	4.30%	WKL-USD-SIFMA Municipal Swap Index

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2013 and 2012 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative		
	Statement of Financial Position Location	Fair Value	
		2013	2012
Interest rate swap	Accrued Liabilities	$ 1,352,564	$ 1,833,257

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Deratives Recognized in the Statement of Changes in Net Assets	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets	
		2013	2012
Interest rate swap	Other Non-operating Items	$ 480,693	$ 271,593

NOTE 17 – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by function for the years ended June 30 were as follows:

	2013	2012
Program Expenses		
Instruction	$ 24,176,751	$ 23,374,129
Research	660,707	1,174,388
Public service	1,614,120	1,727,828
Academic support	5,106,122	5,220,248
Student services	7,970,612	7,402,135
Auxiliary expenses	6,112,991	6,254,208
	45,641,303	45,152,936
Support Expenses		
Institutional administration	12,683,596	13,936,929
Totals	$ 58,324,899	$ 59,089,865

NOTE 18 – SUPPLEMENTAL CASH FLOW & NONCASH INVESTING AND FINANCING INFORMATION

Supplemental Information		
Cash paid for interest	$ 1,404,726	$ 1,679,792
Property and equipment financed with accounts payable	414,516	204,641
Noncash Investing and Financing Information		
Refinancing of 1998 debt	11,065,000	-

NOTE 19 – RELATED PARTY TRANSACTIONS

The University received $1.2 million and $1.1 million of gifts and contributions during fiscal years 2013 and 2012, respectively, from board of trustee members and employees. As of June 30, 2013 and 2012, $1.6 million and $1.5 million of these contributions, respectively, were recorded as receivables.

NOTE 20 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments and accounts receivable and notes. The University places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

NOTE 21 – LETTER OF CREDIT

In 2009, the University issued $29.81 million of Variable Rate Demand Revenue Refunding Bonds. The University continues to have a bank letter of credit which expires on December 31, 2013 that was issued to pay principal and accrued interest on this bond issue. On December 3, 2010, the University revised its letter of credit to $29.03 million.

NOTE 22 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 4, 2013, which is the date that the financial statements were issued.