

LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

**FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**



LAKE SUPERIOR
STATE UNIVERSITY

LAKE SUPERIOR STATE UNIVERSITY

TABLE OF CONTENTS

	<u>PAGE</u>
University Officers	1
Management's Discussion and Analysis	2-10
Report of Independent Auditors	11-12
Lake Superior State University	
Statements of Net Position	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15-16
Lake Superior State University Foundation	
Statements of Financial Position	17
Statements of Activities	18
Notes to Financial Statements	19-47

Lake Superior State University

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Lake Superior State University Management's Discussion and Analysis

This discussion and analysis section of the Lake Superior State University (University) annual financial report provides an overview of our financial activities during the years ended June 30, 2014, 2013 and 2012. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Lake Superior State University Foundation (Foundation) whenever appropriate. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with University management.

Reporting Entity

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

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

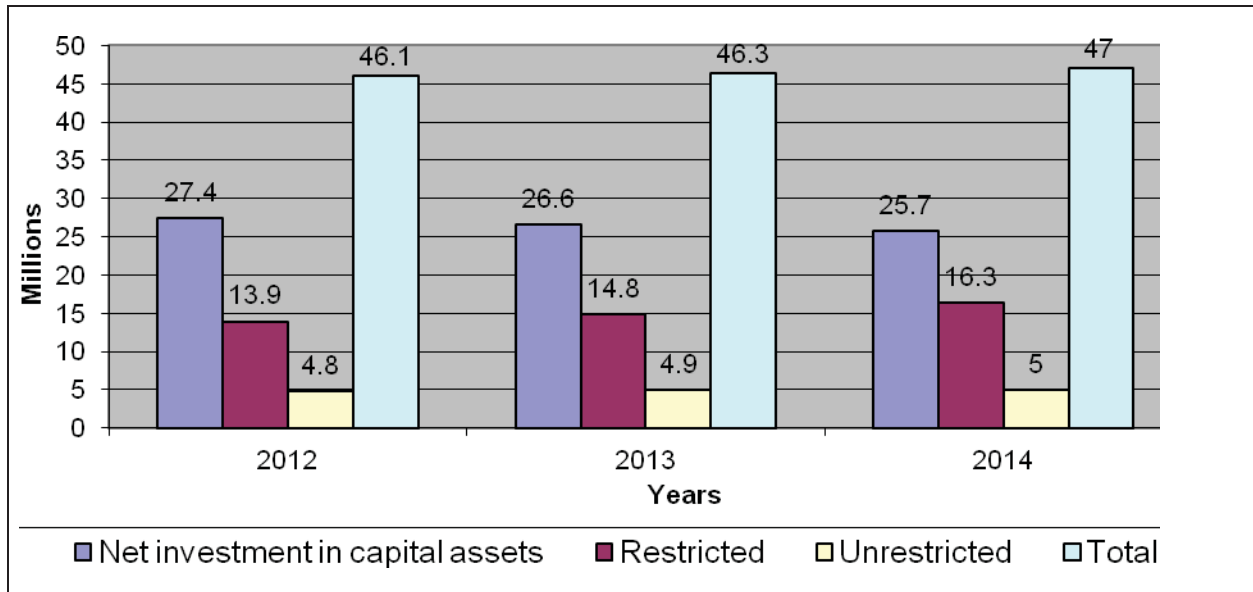
Using the Annual Report

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

Financial Highlights

The University's financial position was fairly stable at June 30, 2014. Net position for the year ended June 30, 2014 of \$47.0 million increased by approximately \$783,000 from the prior year as compared to an increase of approximately \$157,000 for the year ended June 30, 2013. Unrestricted net position of \$5.0 million increased by approximately \$88,000. The increase in total net position is largely due to an increase in State appropriations and investment income, net of investment expenses.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2014, 2013 and 2012.



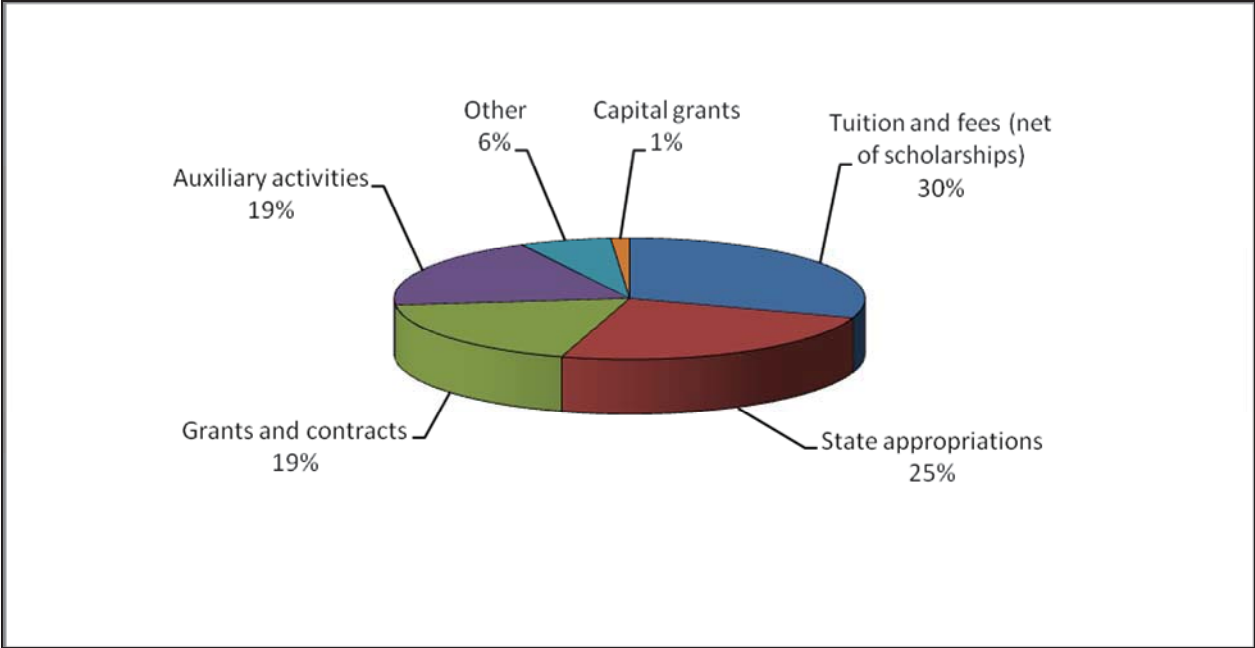
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not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

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

Revenues of the University consists of four main categories: tuition, State appropriations, auxiliary activities, and other revenue.

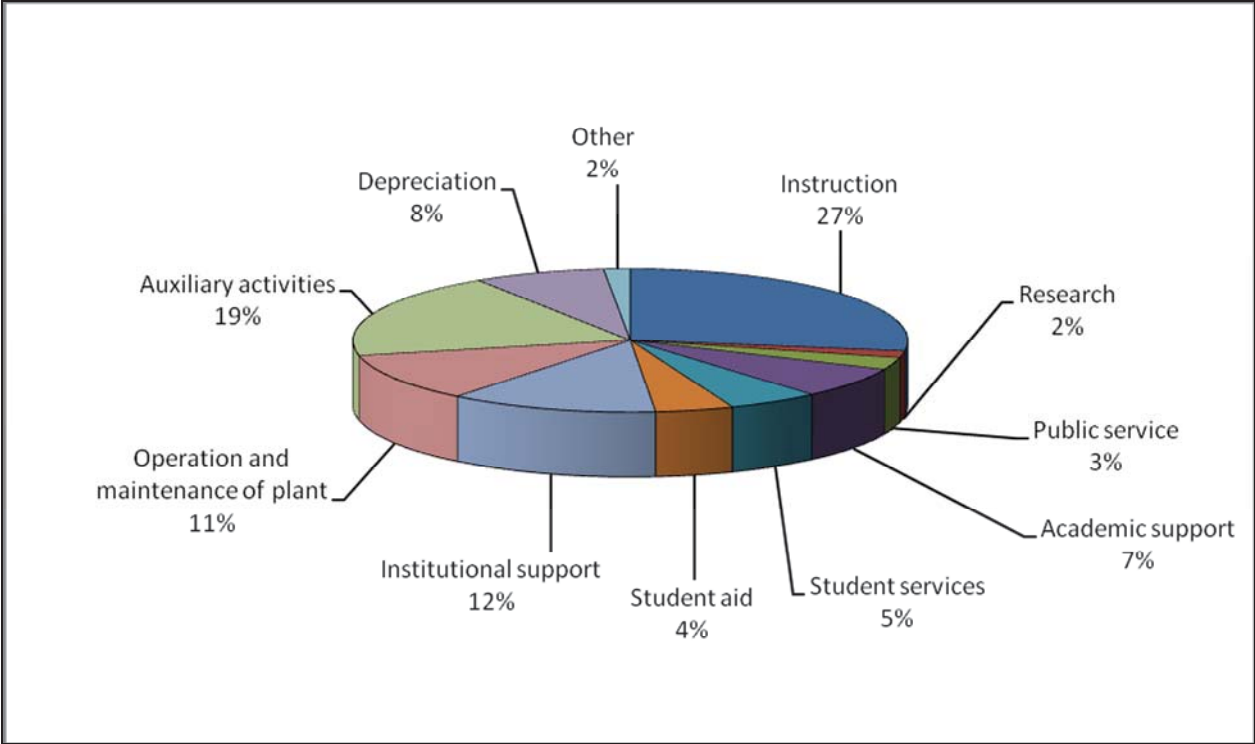
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled \$49,972,743 for the 2014 Fiscal Year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2014:



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

Operating expenses for the 2014 Fiscal Year totaled \$48,430,869. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2014:



The Statement of Net Position

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

	June 30		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 14,496,814	\$ 14,181,885	\$ 14,007,127
Capital assets, net	46,972,775	49,424,886	50,620,780
Other noncurrent assets	<u>13,003,068</u>	<u>11,842,997</u>	<u>11,196,678</u>
Total Assets	<u>\$ 74,472,657</u>	<u>\$ 75,449,768</u>	<u>\$ 75,824,585</u>
Liabilities:			
Current liabilities	\$ 5,082,215	\$ 5,046,511	\$ 4,840,972
Noncurrent liabilities	<u>22,347,453</u>	<u>24,142,925</u>	<u>24,880,553</u>
Total liabilities	<u>27,429,668</u>	<u>29,189,436</u>	<u>29,721,525</u>
Net Position:			
Net investment in capital assets	25,754,352	26,620,347	27,340,744
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	16,108,148	14,547,090	13,716,872
Unrestricted	<u>4,975,162</u>	<u>4,887,568</u>	<u>4,840,117</u>
Total net position	<u>47,042,989</u>	<u>46,260,332</u>	<u>46,103,060</u>
Total Liabilities and Net Position	<u>\$ 74,472,657</u>	<u>\$ 75,449,768</u>	<u>\$ 75,824,585</u>

Changes from 2013 to 2014:

Cash and cash equivalents and short-term investments, collectively, increased by approximately \$365,000 to \$10.5 million. Accounts receivable decreased by approximately \$110,000 from the prior year. Current assets increased approximately \$315,000. Management attributes the majority of the increase in current assets to an increase in State appropriations, investment income, other nonoperating revenues and controlled spending.

Net capital assets decreased by \$2.4 million as a result of the annual depreciation charge of \$3.7 million, and asset additions of \$1.3 million.

Total liabilities decreased by \$1.8 million, primarily due to principal pay downs of total long-term debt in the amount of \$1.6 million.

Total net position increased by approximately \$783,000. The University's net investment in capital assets decreased approximately \$866,000. This is the result of the depreciation charge being greater than capital asset acquisitions and payments on long-term debt. Restricted, expendable net position increased \$1.6 million as a result of an upturn in the investment market. Unrestricted net position increased by approximately \$88,000. The June 30, 2014 unrestricted net position of \$5.0 million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, and a general fund deficit of \$466,000.

Changes from 2012 to 2013:

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

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

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

Total net position increased by approximately \$157,000. The University's net investment in capital assets decreased approximately \$720,000. This is the result of the depreciation charge being greater than capital asset acquisitions and payments on long-term debt. Restricted, expendable net position increased approximately \$830,000 as a result of an upturn in the investment market. Unrestricted net position increased by approximately \$47,000. The June 30, 2013 unrestricted net position of \$4.8 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves, and a general fund deficit of \$379,000.

The Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the revenues earned and expenses incurred each fiscal year. Activities are reported as either operating or nonoperating. A public university's dependency on State aid and grants will result in operating deficits because the financial reporting model classifies State appropriations as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

	<u>Year Ended June 30</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total operating revenues	\$ 31,098,907	\$ 30,666,721	\$ 31,335,660
Total operating expenses	<u>48,430,869</u>	<u>47,451,838</u>	<u>47,801,178</u>
Operating loss	(17,331,962)	(16,785,117)	(16,465,518)
Net nonoperating revenues	<u>17,468,855</u>	<u>16,650,168</u>	<u>14,296,566</u>
Income (loss) before other revenues	136,893	(134,949)	(2,168,952)
Total other revenues	<u>645,764</u>	<u>292,221</u>	<u>313,626</u>
Increase (decrease) in net position	782,657	157,272	(1,855,326)
Net position, beginning of year	<u>46,260,332</u>	<u>46,103,060</u>	<u>47,958,386</u>
Net position, end of year	<u>\$ 47,042,989</u>	<u>\$ 46,260,332</u>	<u>\$ 46,103,060</u>

Changes from 2013 to 2014:

Operating revenues increased by approximately \$432,000. Tuition and fees, net of scholarship allowance, decreased by approximately \$258,000 or 1.7% after a tuition rate increase of 3.32% with a slight decrease in enrollment. Scholarship allowances increased approximately \$185,000 from the prior year. Auxiliary revenues increased by approximately \$211,000 or 2.2% after a 2.94% room and board rate increase and a slight decline in housing occupancy.

Operating expenses increased by approximately \$979,000. Operation and plant maintenance increased by approximately \$473,000, Research expenses increased approximately \$301,000 and Auxiliary activities increased approximately \$367,000 during the year.

Net nonoperating revenues increased by approximately \$819,000. State appropriations increased by approximately \$207,000. Bond issue costs decreased by approximately \$286,000 and investment income increased by approximately \$671,000.

The net result of operations for the year was an increase in net position of approximately \$783,000.

Changes from 2012 to 2013:

Operating revenues decreased by approximately \$669,000. Tuition and fees, net of scholarship allowance, decreased by approximately \$967,000 or 6.0% after a tuition rate increase of 2.98% with a decrease in enrollment of over 8.0%. Scholarship allowances were almost the same as the prior year. Auxiliary revenues decreased by approximately \$385,000 or 4.0% after a 1.95% room and board rate increase and a slight decline in housing occupancy.

Operating expenses decreased by approximately \$349,000. Operation and plant maintenance decreased by approximately \$247,000 during the year and there were no notable increases or decreases in any other category of spending.

Net nonoperating revenues increased by approximately \$2.4 million. State appropriations increased by approximately \$1.3 million. Federal Pell grants decreased by approximately \$368,000 and investment income increased by \$1.0 million.

The net result of operations for the year was an increase in net position of approximately \$157,000.

The Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and help measure the University's ability to meet its financial obligations as they mature.

	<u>Year Ended June 30</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided by (used in):			
Operating activities	\$ (13,459,081)	\$ (12,221,219)	\$ (12,525,992)
Noncapital financing activities	16,140,078	16,120,312	15,774,521
Capital and related financing activities	(2,986,153)	(4,140,362)	(4,191,545)
Investing activities	<u>621,796</u>	<u>(950,987)</u>	<u>1,440,476</u>
Net change in cash and cash equivalents	316,640	(1,192,256)	497,460
Cash and cash equivalents, beginning of year	<u>1,266,840</u>	<u>2,459,096</u>	<u>1,961,636</u>
Cash and cash equivalents, end of year	<u>\$ 1,583,480</u>	<u>\$ 1,266,840</u>	<u>\$ 2,459,096</u>

Changes from 2013 to 2014:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities for the year ended June 30, 2014 was \$13.5 million, increasing significantly from the prior year. Uses of cash from operating activities include payments to employees, vendors, and students. Payments to vendors, for consumables such as food and utilities, increased significantly compared to prior year.

The net cash provided by noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was \$16.1 million for the year ended June 30, 2014, up \$45,000 from 2013. The University received \$402,000 more in State appropriations and \$357,000 less from Federal Pell grants than the prior year.

Net cash used in capital and related financing activities decreased by \$1.2 million. The University spent \$1.2 million on capitalized improvements in 2014 and 2.0 million in 2013.

Cash from investing activities increased by \$1.6 million. The increase is mostly attributable to the proceeds from sales and maturities of investments which increased by \$1.6 million from the prior year.

Overall, cash and cash equivalents increased by \$317,000 for the year ended June 30, 2014.

Changes from 2012 to 2013:

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

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

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

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

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

Factors That Will Affect the Future

Lake Superior State University's Board of Trustees named Thomas Pleger, PhD as the University's eighth President. Starting on July 1, 2014, after having served as Campus Executive Officer and Dean at the University of Wisconsin-Baraboo/Sauk County since 2006, Dr. Pleger was quick to prioritize areas of strategic importance for the University including enrollment, communication, and shared governance. Under his leadership and experience, these initiatives are expected to make a positive difference. Shared governance is relatively new at Lake Superior State University and is one area in which the new President is confident he can have a major impact. He has seen how a mature, shared governance system can bring people together and is enthusiastic about the opportunity to grow it here.

Enrollment was down for the second year, but has stabilized. Slight growth is projected for incoming freshmen for fall 2014. The University has begun initiatives, including utilizing more intuitive and interactive recruiting software, expanded its social media footprint, and is moving forward with new web site development that is expected to get the attention of prospective students. The University has a beautiful campus with a small private university feel, unique programs with state-of-the-art laboratories, and great student success stories. Undergraduate students have hands-on experiences and perform research usually found only in graduate programs. The University attracts high quality students and has a rate of retention higher than the national average for a school of similar size and mission. For now, Lake Superior State University continues to be a little known gem in northern Michigan, but the word is getting out that this is a great place for students to come to college and be successful.

The State of Michigan has shown support of higher education in recent years. In the State's fiscal year 2014-2015 budget, the cumulative increase to all state universities since fiscal year 2011-2012 is 11 percent. Half of the funding is based on performance measures that reward schools for producing graduates to fill Michigan jobs and to control costs and increase affordability for Michigan students. Lake Superior State University received 18.5 percent over that period, indicating it outperformed many of the larger Michigan public universities compared to its peers. In addition, the State has recognized that certain universities, including Lake Superior State University, have been underfunded for certain mandates and has taken a step in the right direction to address and partially fund those issues.

The LSSU Foundation successfully completed a capital campaign for the renovation of one of the University's historic buildings, newly renamed R.W. Considine Hall. Donors have been extremely generous in support of University programs and scholarships. They recognize the difference that the University makes in the community, state, and beyond, and know that their contributions make a huge difference to the University and its students. Just after the close of this fiscal year, the LSSU Foundation received the largest gift and single bequest in its history which will reach many students and have generations of impact at Lake Superior State University.

Lake Superior State University had a banner year in awards of grants and contracts. The awards were from a wide variety of organizations and grant authors represented faculty and staff from across the campus. A significant portion of the funding is dedicated to student research, improving student learning outcomes, or expanding experiential learning opportunities for students. Lake Superior State University is a third time recipient of the U.S. Department of Education's competitive Title III grant. In 2013, only thirty-two grants were awarded from over two hundred applicants; LSSU was the only Michigan higher education project awarded. The University was awarded over \$1.8 million over a five-year period to meet its objectives to ultimately increase retention and graduation rates while improving financial efficiency.

The University has successfully negotiated three-year contracts with its two employee groups, the Faculty Association and the Educational Support Professionals. These groups received a modest increase in salaries and wages as did the non-unionized employees. This is the first year in many that all groups have received an increase which will be instrumental in improving the campus climate.

The University will have a Higher Learning Commission accreditation visit in 2016 and will continue to take measures to demonstrate all the great work of the University. Faculty and staff will work to strengthen the culture of evaluation and assessment during the coming year. The Lukenda School of Business will be hosting a visit by program evaluators for ACBSP accreditation this fall. This will be the first time the University has prepared for accreditation for its business programs. This accreditation, and the renovation of R.W. Considine Hall, will greatly enhance enrollment in business programs.

Report of Independent Auditors

Board of Trustees
Lake Superior State University

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Superior State University (University), a component unit of the State of Michigan, and Lake Superior State University Foundation (Foundation), a discretely presented component unit of the University, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake Superior State University and its discretely presented component unit, Lake Superior State University Foundation, as of June 30, 2014, and the respective changes in financial position and Lake Superior State University cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the University and Foundation as of June 30, 2013, and for the year then ended, were audited by other auditors whose report dated October 4, 2013, expressed unmodified opinions on those statements

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014 on our consideration of Lake Superior State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
August 26, 2014

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

Assets	As of June 30	
	2014	2013
Current assets		
Cash and cash equivalents	\$ 1,583,480	\$ 1,266,840
Short-term investments	8,892,580	8,844,276
Accounts receivable, net	1,292,514	1,402,427
State appropriations receivable	2,223,820	2,190,204
Inventories	430,991	405,919
Other	73,429	72,219
Total current assets	14,496,814	14,181,885
Noncurrent assets		
Student loans receivable, net	2,328,485	2,534,605
Endowment investments	10,409,261	9,028,330
Unamortized bond insurance costs	265,322	280,062
Land and art collection	2,716,860	2,716,860
Depreciable capital assets, net	44,255,915	46,708,026
Total noncurrent assets	59,975,843	61,267,883
Total assets	\$ 74,472,657	\$ 75,449,768
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,950,307	\$ 2,063,608
Unearned revenue	1,066,732	990,113
Deposits	182,675	183,798
Current portion of long-term debt	1,642,501	1,572,992
Current portion of employee benefit programs	240,000	236,000
Total current liabilities	5,082,215	5,046,511
Long-term debt, net of current portion	21,033,710	22,715,178
Employee benefit programs, net of current portion	1,313,743	1,427,747
Total liabilities	27,429,668	29,189,436
Net position		
Net investment in capital assets	25,754,352	26,620,347
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	11,520,588	10,093,769
Loans	3,019,368	3,046,189
Capital projects and debt service	1,568,192	1,407,132
Unrestricted	4,975,162	4,887,568
Total net position	47,042,989	46,260,332
Total liabilities and net position	\$ 74,472,657	\$ 75,449,768

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2014	2013
Operating revenues		
Tuition and fees (net of scholarship allowances of \$8,106,827 and \$7,922,303 in 2014 and 2013, respectively)	\$ 15,084,396	\$ 15,342,873
Federal grants and contracts	1,494,114	1,199,745
State grants and contracts	102,823	77,713
Nongovernmental grants and contracts	3,759,125	3,616,035
Auxiliary activities	9,574,639	9,364,034
Other	1,083,810	1,066,321
Total operating revenues	31,098,907	30,666,721
Operating expenses		
Instruction	13,272,541	13,413,200
Research	744,097	443,045
Public service	1,320,510	1,137,991
Academic support	3,394,271	3,065,992
Student services	2,584,757	2,625,422
Student aid	2,196,292	2,437,485
Institutional support	5,874,196	5,574,264
Operation and maintenance of plant	5,262,532	4,789,312
Auxiliary activities	9,305,889	8,938,425
Depreciation	3,726,397	4,182,975
Other	749,387	843,727
Total operating expenses	48,430,869	47,451,838
Operating loss	(17,331,962)	(16,785,117)
Nonoperating revenues (expenses)		
State appropriations	12,222,453	12,015,169
Federal Pell grants	3,923,650	4,282,891
Interest on capital debt and leases	(744,477)	(780,662)
Bond issue cost	-	(286,222)
Amortization of prepaid bond insurance	(14,740)	(14,740)
Investment income, net of investment expenses	2,051,031	1,379,812
Gifts for expendable endowments	28,900	54,622
Gain (loss) on assets sold or retired	2,038	(702)
Net nonoperating revenues	17,468,855	16,650,168
Income (loss) before other revenues	136,893	(134,949)
Other revenues		
Capital grants and gifts	645,764	292,221
Increase in net position	782,657	157,272
Net position, beginning of year	46,260,332	46,103,060
Net position, end of year	\$ 47,042,989	\$ 46,260,332

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2014	2013
Cash flows from operating activities		
Tuition and fees	\$ 15,259,965	\$ 15,529,780
Grants and contracts	5,347,228	4,898,666
Payments to employees	(27,772,347)	(27,321,566)
Payments to vendors	(14,982,370)	(13,349,169)
Payments for financial aid	(2,196,292)	(2,437,485)
Loans issued to students	(321,300)	(405,968)
Collections of interest and principal on loans to students	527,420	464,076
Auxiliary activities	9,615,815	9,339,166
Other receipts	1,062,800	1,061,281
Net cash used in operating activities	(13,459,081)	(12,221,219)
Cash flows from noncapital financing activities		
State appropriations	12,188,837	11,786,694
Federal Pell grants	3,922,341	4,278,996
Gifts for expendable endowments	28,900	54,622
Federal Direct Lending receipts	12,513,150	13,579,171
Federal Direct Lending disbursements	(12,513,150)	(13,579,171)
Net cash provided by noncapital financing activities	16,140,078	16,120,312
Cash flows from capital and related financing activities		
Payment of bond issuance costs	-	(1,250)
Capital grants and gifts received	596,662	138,435
Purchases and construction of capital assets	(1,233,329)	(1,958,637)
Proceeds from disposal of capital assets	10,000	15,617
Principal paid on debt and capital leases	(1,586,117)	(1,365,272)
Interest paid on debt and capital leases	(773,369)	(969,255)
Net cash used in capital and related financing activities	(2,986,153)	(4,140,362)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	10,253,790	8,678,570
Purchases of investments	(9,852,410)	(10,094,747)
Investment income, net	220,416	465,190
Net cash (used in) provided by investing activities	621,796	(950,987)
Net (decrease) increase in cash and cash equivalents	316,640	(1,192,256)
Cash and cash equivalents, beginning of year	1,266,840	2,459,096
Cash and cash equivalents, end of year	\$ 1,583,480	\$ 1,266,840

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

(Continued)

	Year Ended June 30	
	2014	2013
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (17,331,962)	\$ (16,785,117)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,726,397	4,182,975
Provision for uncollectible accounts and student loans receivables	226,139	209,289
Change in assets and liabilities:		
Accounts receivable, net	(65,622)	(54,897)
Student loans receivable, net	157,008	37,102
Inventories	(25,072)	(178,816)
Other	(1,210)	236,246
Accounts payable and accrued expenses	(110,251)	29,866
Unearned revenue	76,619	22,103
Deposits	(1,123)	6,683
Employee benefit programs	(110,004)	73,347
Net cash used in operating activities	<u><u>\$ (13,459,081)</u></u>	<u><u>\$ (12,221,219)</u></u>
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	<u><u>\$ 48,919</u></u>	<u><u>\$ 154,988</u></u>
Entered into capital lease to purchase capital equipment	<u><u>\$ -</u></u>	<u><u>\$ 889,777</u></u>

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 472,008	\$ 160,073
Short-term investments	2,974,065	2,500,000
Other current assets	98,907	28,597
Current portion of unconditional promises to give, net	299,851	148,604
Total current assets	3,844,831	2,837,274
Noncurrent assets		
Investments	8,868,542	7,320,786
Unconditional promises to give, net of current portion	135,429	190,275
Beneficial interest in charitable remainder trust	350,948	344,810
Total noncurrent assets	9,354,919	7,855,871
Total assets	\$ 13,199,750	\$ 10,693,145
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,982	\$ 4,379
Employee benefit programs	19,934	19,257
Total current liabilities	27,916	23,636
Annuity obligations	49,815	49,553
Total liabilities	77,731	73,189
Net assets		
Restricted		
Permanently	6,020,439	5,608,738
Temporarily	6,414,961	4,316,643
Unrestricted	686,619	694,575
Total net assets	13,122,019	10,619,956
Total liabilities and net assets	\$ 13,199,750	\$ 10,693,145

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2014	2013
Operating revenues		
Contributions	\$ 2,871,287	\$ 2,538,625
Change in value of split interest agreements	11,347	18,157
Total operating revenues	2,882,634	2,556,782
Operating expenses	476,005	463,344
Operating income	2,406,629	2,093,438
Nonoperating revenues (expenses)		
Investment income, net	400,627	582,523
Net unrealized gains on investments	894,244	409,406
Distributions to Lake Superior State University	(1,199,437)	(981,364)
Net nonoperating revenues	95,434	10,565
Increase in net assets	2,502,063	2,104,003
Net assets, beginning of year	10,619,956	8,515,953
Net assets, end of year	\$ 13,122,019	\$ 10,619,956

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As required by the Governmental Accounting Standards Board (GASB), the University's financial statements include the financial statements of both the University and its legally separate tax-exempt component unit, the *Lake Superior State University Foundation* (Foundation). As a result of a) the Foundation's Board of Trustees is drawn primarily from community representatives, independent from the governance of the University's Board of Trustees and b) restricted resources held by the Foundation can be used only by, or for the benefit of, the University, the Foundation is considered a component unit of the University. The Internal Revenue Service, an agency of the Department of the Treasury of the United States, determined on August 9, 1985, that the Foundation was a tax-exempt organization under section 501(c)3 of the tax code. The Foundation exclusively benefits the University; however, its Board of Directors is not substantively the same as that of the University. The Foundation is discretely presented in the University's financial statements in accordance with the provisions of GASB 61. See pages 17 & 18 of this report for the statements of net assets and statements of activities of the Foundation.

Contributions to the University by the Foundation have been made in the amount of \$1,199,437 and \$981,364 during 2014 and 2013, respectively. Support from the University provided to the Foundation amounted to \$421,852 and \$454,452 during 2014 and 2013, respectively.

Basis of Presentation - University

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Change in Accounting Principle - University

Effective with the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and rename that measure as net position, rather than net assets. In accordance with these standards, the University has modified the presentation of the Statements of Net Position. At June 30, 2014 and 2013, the University has no deferred outflows nor deferred inflows to present.

Basis of Presentation - Foundation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of less than one year and liquid bond/fixed income funds.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Investments and Endowment Investments

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Revenue Recognition

Revenues are recognized when earned and expenses are recognized when the service is provided or when materials are received. Restricted grant revenue is recognized only to the extent expended. Operating revenues of the University consist of tuition and fees, grants and contracts, auxiliary enterprise revenues, and other revenue. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, and Federal Pell grant revenue are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

State appropriation revenue is recognized in the period for which it is appropriated.

During 2014 and 2013, the University received \$55,964,957 and \$44,270,465 (net of a 3% administrative fee retained by the University), respectively, of State appropriations which were forwarded to 21 and 14 charter schools, respectively. The University also received \$100,000 in State appropriations for Bay Mills Community College during fiscal 2014 and 2013, which was forwarded to Bay Mills Community College on a monthly basis when received. Appropriations received and related disbursements passed on to the charter schools and Bay Mills Community College are considered agency transactions and, accordingly, are not reported in the accompanying financial statements.

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

Unearned Revenue

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

Income Taxes

The University is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code section 501 (c) (1), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2014 or 2013.

The Foundation is also exempt from federal income taxes under Section 501(c) (3) and qualifies as an organization operated for the benefit of a college or university owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Certain activities of the Foundation may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2014 or 2013.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. The Foundation analyzes its filing positions in the state jurisdictions where it is required to file income tax returns, including tax years 2009 through 2014 in these jurisdictions. The Foundation also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of operating expenses. The continued application of ASC Topic 740 has had no significant impact on the Foundation's financial statements.

Split-Interest Agreements

Beneficial Interest in Charitable Remainder Trust

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

Annuity Obligations

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

Fair Value Measurements

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

Foundation Net Assets

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

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

Subsequent Events

In preparing these financial statements, Foundation management has evaluated, for the potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2014, the most recent statement of net assets presented herein, through August 26, 2014, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNIVERSITY

Cash and short-term investments - The University utilizes the "pooled cash" method of accounting for substantially all of its cash and short-term investments. Investment policies for cash and short-term investments, as set forth by the Board of Trustees, authorize the University to invest, with limitations, in commercial paper of companies with a rating within the two highest classifications of prime as established by at least one of the standard rating services. Investments may also be made in securities of the U.S. Treasury and federal agencies and in time savings accounts. Short-term investments are stated at fair value.

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

	2014	2013
Disbursement accounts	\$ 67,720	\$ 147,685
Money market funds	1,515,760	1,119,155
Total cash and cash equivalents	\$ 1,583,480	\$ 1,266,840

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

	2014	2013
<u>University short-term investments</u>		
Certificates of deposit	\$ 1,016,124	\$ 1,014,448
Mutual funds		
Bond/fixed income funds	7,876,456	7,829,828
Total University short-term investments	\$ 8,892,580	\$ 8,844,276
<u>University endowment investments</u>		
Mutual funds		
Equity funds	\$ 6,452,257	\$ 5,729,300
Bond/fixed income funds	2,553,095	2,162,042
Exchange traded funds	1,403,909	1,136,988
Total University endowment investments	\$ 10,409,261	\$ 9,028,330

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

As of June 30, 2014, the University had the following investments with related maturities:

	Maturities (in Years)			
	Fair Market Value	Less Than 1	1-5	6-10
Money market funds	\$ 1,515,760	\$ 1,515,760	\$ -	\$ -
Bond/fixed income funds	10,429,551	7,876,456	-	2,553,095
Total investments	<u>\$11,945,311</u>	<u>\$ 9,392,216</u>	<u>\$ -</u>	<u>\$ 2,553,095</u>

As of June 30, 2013, the University had the following investments with related maturities:

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

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

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of June 30, 2014, \$527,997 of the University’s bank balance of \$1,853,506 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

Foreign Currency Risk - The University's exposure to foreign currency risk is derived from its positions in international investments consisting solely of foreign currency denominated mutual fund equity investments. The University's investment policy permits investments in these asset types. At June 30, 2014 and 2013, the University held 40,878 and 41,980 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of \$2,064,372 and \$1,755,200, respectively. The University holds no other assets which may be subject to the risks of foreign currency.

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

Policies regarding marketable securities in the University endowment investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds or other marketable securities. The University endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the original gift principal. The spending policy is reviewed periodically by the Finance Committee, which recommends changes to the Board of Trustees. The net appreciation on University investments of donor-restricted endowments approximated \$2,971,000 and \$1,892,000 at June 30, 2014 and 2013, respectively. Net appreciation is a component of restricted, expendable net position.

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	1.7%	2.7%
Net realized and unrealized gains	<u>15.2</u>	<u>13.1</u>
Total investment gain	<u>16.9%</u>	<u>15.8%</u>

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS - FOUNDATION

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

	<u>2014</u>	<u>2013</u>
Mutual funds		
Index funds	\$ 1,794,246	\$ 1,477,930
Growth funds	2,872,877	2,347,220
Bond/fixed income funds	5,566,765	4,683,223
Exchange traded funds	1,141,858	918,854
Value funds	447,823	378,343
Money market	<u>1,270</u>	<u>1,146</u>
Subtotal	11,824,839	9,806,716
Marketable securities	<u>17,768</u>	<u>14,070</u>
Total Foundation investments	<u>\$ 11,842,607</u>	<u>\$ 9,820,786</u>

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

	<u>2014</u>	<u>2013</u>
Mutual funds		
Index funds	\$ 285,162	\$ 54,216
Growth funds	327,108	269,144
Bond/fixed income funds	41,400	(89,694)
Exchange traded funds	175,606	96,830
Value funds	<u>61,269</u>	<u>71,074</u>
Subtotal	890,545	401,570
Marketable securities	<u>3,699</u>	<u>7,836</u>
Total Foundation unrealized gains	<u>\$ 894,244</u>	<u>\$ 409,406</u>

4. FAIR VALUE

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 1,794,246	\$ -	\$ -	\$ 1,794,246
Growth funds	2,872,877	-	-	2,872,877
Bond/fixed income funds	5,139,173	-	427,592	5,566,765
Exchange traded funds	1,141,858	-	-	1,141,858
Value funds	447,823	-	-	447,823
Money market	1,270	-	-	1,270
Marketable securities	<u>17,768</u>	<u>-</u>	<u>-</u>	<u>17,768</u>
Total investments at fair value	<u>\$11,415,015</u>	<u>\$ -</u>	<u>\$ 427,592</u>	<u>\$11,842,607</u>
Beneficial Interest in				
Charitable Remainder Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 350,948</u>	<u>\$ 350,948</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2013:

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

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2014:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance, beginning of year	\$ 394,613	\$ 344,810
Unrealized gains relating to investments held at year end	14,979	-
Net purchases	18,000	-
Change in value	-	6,138
Balance, end of year	<u>\$ 427,592</u>	<u>\$ 350,948</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

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

5. ACCOUNTS AND STUDENT LOAN RECEIVABLES

Accounts receivable result primarily from student tuition and fee billings and auxiliary enterprise sales, such as food service and student residence. In addition, receivables arise from grant awards and financial aid. These receivables are reported net of an allowance for collection losses in the amount of \$595,419 and \$455,451 at June 30, 2014 and 2013, respectively.

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

	2014	2013
Tuition and fees	\$ 504,985	\$ 585,218
Governmental grants and contracts	296,932	339,982
Auxiliary activities	190,040	236,406
Other	206,456	195,888
Private grants and contracts	94,101	44,933
Accounts receivable, net	<u>\$ 1,292,514</u>	<u>\$ 1,402,427</u>

In addition, the University has student loans receivable, in the amount of \$2,328,485 and \$2,534,605, which are recorded net of an allowance for uncollectible loans of \$520,051 and \$472,199 as of June 30, 2014 and 2013, respectively. Approximately 80% of student loans receivable are expected to be collected in periods beyond one year.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

6. UNCONDITIONAL PROMISES TO GIVE

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

	2014	2013
Unconditional promises due in less than one year	\$ 306,567	\$ 156,115
Unconditional promises due in one to five years, net of discount to net present value at 1% of \$3,597 and \$5,896	116,003	160,849
Unconditional promises due in more than five years, net of discount to net present value at 8% of \$27,574	19,426	29,426
Present value of promises to give	441,996	346,390
Less allowance for uncollectible amounts	6,716	7,511
Net unconditional promises to give	435,280	338,879
Less current portion	299,851	148,604
Unconditional promises to give, net of current portion	<u>\$ 135,429</u>	<u>\$ 190,275</u>

7. CHARITABLE REMAINDER TRUST

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

At June 30, 2014 and 2013, based on the donor's life expectancy and an assumed 5.8% discount rate, the present value of the future benefits expected to be received by the Foundation were estimated to be \$350,948 and \$344,810, respectively.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

8. CAPITAL ASSETS

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

	2014			Balance June 30, 2014
	Balance July 1, 2013	Additions	Reductions	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ -	\$ -	\$ 838,684
Land	1,301,179	-	-	1,301,179
Art collection	576,997	-	-	576,997
Total capital assets not being depreciated	2,716,860	-	-	2,716,860
Capital assets being depreciated				
Land improvements	5,608,024	187,934	-	5,795,958
Infrastructure	3,254,282	-	-	3,254,282
Building and building improvements	116,658,426	615,234	-	117,273,660
Equipment and other	20,019,914	479,080	544,469	19,954,525
Total capital assets being depreciated	145,540,646	1,282,248	544,469	146,278,425
Accumulated depreciation	(98,832,620)	(3,726,397)	536,507	(102,022,510)
Total capital assets being depreciated, net	46,708,026	(2,444,149)	7,962	44,255,915
Total capital assets, net	\$ 49,424,886	\$ (2,444,149)	\$ 7,962	\$ 46,972,775

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2014	2013
Accounts payable to vendors	\$ 740,310	\$ 833,333
Payroll and payroll taxes	782,977	670,749
Health insurance claims	155,259	304,715
Interest	91,761	94,811
Workers' compensation claims	180,000	160,000
Total accounts payable and accrued expenses	\$ 1,950,307	\$ 2,063,608

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Worker's Compensation

The University is self-insured for workers' compensation claims up to \$550,000 per claim at June 30, 2014 and 2013. The accrued workers' compensation obligation represents claims made prior to June 30, 2014 and 2013, which remain unpaid at those dates. The University's third-party administrator bases these amounts upon an analysis of workers' compensation claims, which includes historical incident rates and other related factors.

10. LONG-TERM DEBT

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

		2014					
		<u>Outstanding Principal</u>					
	<u>Interest Rate</u>	<u>Maturity</u>	<u>July 1 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30 2014</u>	<u>Current Portion</u>
Bonds payable							
General Revenue							
Bonds, Series 2012							
Series bonds	2.0%-4.0%	2014-2031	\$ 22,320,000	\$ -	\$ 1,220,000	\$ 21,100,000	\$1,245,000
Net premium on bond issuance			490,985	-	25,842	465,143	-
Total – bonds payable			22,810,985	-	1,245,842	21,565,143	1,245,000
Capital leases	up to 5.24%	2014- 2024	1,477,185	-	366,117	1,111,068	397,501
Total – long-term debt			\$ 24,288,170	\$ -	\$ 1,611,959	22,676,211	\$1,642,501
Less current portion						1,642,501	
Long-term debt, net of current portion						\$ 21,033,710	
		2013					
		<u>Outstanding Principal</u>					
	<u>Interest Rate</u>	<u>Maturity</u>	<u>July 1 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30 2013</u>	<u>Current Portion</u>
Bonds payable							
General Revenue							
Bonds, Series 2012							
Series bonds	2.0%-4.0%	2013-2031	\$ 23,355,000	\$ -	\$ 1,035,000	\$ 22,320,000	\$1,220,000
Net premium on bond issuance			516,827	-	25,842	490,985	-
Total – bonds payable			23,871,827	-	1,060,842	22,810,985	1,220,000
Capital leases	up to 5.24%	2013- 2024	917,680	889,777	330,272	1,477,185	352,992
Total – long-term debt			\$ 24,789,507	\$ 889,777	\$ 1,391,114	24,288,170	\$ 1,572,992
Less current portion						1,572,992	
Long-term debt, net of current portion						\$ 22,715,178	

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Bonded Debt

General Revenue Bonds, Series 2012

In March, 2012, the University issued fixed rate General Revenue Bonds in the amount of \$23,355,000. As of June 30, 2014, serial bonds payable in the amount of \$21,100,000 are payable from general revenues, maturing in varying amounts through November 2031, with interest charged at annual rates ranging from 2.0% to 4.0%. All of the bonds are callable after November 15, 2021.

In 2012, the University used the proceeds from above mentioned bond issue to refund \$4,670,000 and \$18,685,000 in outstanding fixed rate General Revenue Bonds, Series 1997 and 2001, respectively. As of June 30, 2014 and 2013, the certificates are considered defeased and the liability has been removed from the statement of net position. At June 30, 2012, no amounts remain in escrow. The refunding resulted in an interest savings of \$3,540,834 and a net present value savings of \$2,821,221.

Debt Service Requirements

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,245,000	\$ 721,625	\$ 1,966,625
2016	1,270,000	696,475	1,966,475
2017	890,000	674,875	1,564,875
2018	910,000	655,738	1,565,738
2019	935,000	626,800	1,561,800
2020-2024	5,225,000	2,572,300	7,797,300
2025-2029	6,245,000	1,510,100	7,755,100
2030-2031	<u>4,380,000</u>	<u>267,600</u>	<u>4,647,600</u>
Total – bonds payable	<u>\$ 21,100,000</u>	<u>\$ 7,725,513</u>	<u>\$ 28,825,513</u>

Obligations Under Capital Leases

The University leases certain equipment with a net book value of \$1,774,076 at June 30, 2014, under lease agreements which meet the capitalization criteria specified by generally accepted accounting principles.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

The following is a schedule of annual future minimum lease payments required under capitalized leases obligations as of June 30, 2014:

Year Ending June 30	Amount
2015	\$ 410,475
2016	167,716
2017	106,771
2018	91,644
2019	61,644
2020-24	<u>295,094</u>
Total minimum payments due	1,133,344
Less amounts representing interest, imputed at annual rates ranging up to 5.24%	<u>22,276</u>
Present value of net minimum lease payments	<u>\$ 1,111,068</u>

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the years ended June 30, 2014, and 2013, are insignificant.

11. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plans

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

Support personnel represented by the Michigan Education Association/National Education Association (MEA) hired after January 1, 1996, and faculty and administrative employees are eligible for the TIAA-CREF plan. TIAA-CREF is a defined contribution plan where the University contributes an amount equal to 12.0 percent of administrative and faculty group employees' pay, and 10.0 percent of MEA employees' pay. The University contributed approximately \$1,630,000 and \$1,610,000 to this plan for the years ended June 30, 2014 and 2013, respectively. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

MPSERS is a noncontributory cost-sharing multiple-employer defined benefit plan administered by the Michigan State Employees' Retirement System. The cost of the MPSERS plan allocated to the University was approximately \$901,000, \$817,000 and \$816,000, for the years ended June 30, 2014, 2013 and 2012, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2013 the University is required to contribute 3.21% of MPSERS covered payroll for normal pension costs and 13.41% for the unfunded pension liability. In addition, separately computed supplemental contributions will be required for retiree health care benefits. Future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. Additional pension data for MPSERS is contained in MPSERS's comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Systems, 7150 Harris Dr., P. O. Box 30026, Lansing, MI 48901.

The University also contributes to the MPSERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPSERS. This plan provides medical benefits to retired employees of participating universities. Participating universities are contractually required to make monthly contributions to the plan at amounts assessed each year by MPSERS. The MPSERS Board of Trustees sets the employer contributions based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The University's contributions to the MPSERS healthcare plan for the years ended June 30, 2014, 2013 and 2012, were approximately \$801,000, \$839,000 and \$929,000, respectively, which equaled the required contributions each year.

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

Compensated Absences

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

Accumulated Sick Leave Benefits

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

	2014				
	July 1 2013	Additions	Payments	June 30 2014	Current Portion
Compensated absences	\$ 786,389	\$ 83,135	\$ 103,545	\$ 765,979	\$ 75,000
Accumulated sick leave benefits	<u>877,358</u>	<u>142,000</u>	<u>231,594</u>	<u>787,764</u>	<u>165,000</u>
Total employee benefit programs	<u>\$ 1,663,747</u>	<u>\$ 225,135</u>	<u>\$ 335,139</u>	<u>\$ 1,553,743</u>	<u>\$ 240,000</u>
	2013				
	July 1 2012	Additions	Payments	June 30 2013	Current Portion
Compensated absences	\$ 764,164	\$ 68,955	\$ 46,730	\$ 786,389	\$ 71,000
Accumulated sick leave benefits	<u>826,236</u>	<u>142,000</u>	<u>90,878</u>	<u>877,358</u>	<u>165,000</u>
Total employee benefit programs	<u>\$1,590,400</u>	<u>\$ 210,955</u>	<u>\$ 137,608</u>	<u>\$ 1,663,747</u>	<u>\$ 236,000</u>

Other Post Employment Health Benefits

The University allows retirees who are not covered by the MPSERS healthcare plan to purchase healthcare benefits at cost and has approximately 17 retirees participating in this health coverage at June 30, 2014 and 18 retirees in the prior year. The University segregates these retiree payments and health care expenses separately from current employee costs. Premium rates are adjusted on July 1 each year to cover projected health care increases for the next year and any funding deficits. Rates are set by the University from a cost analysis through the University's third-party health care administrators. Since retirees are required to pay all monthly premiums, there is no liability to the University; accordingly, no post employment health care liability has been recorded in the accompanying statements of net position.

12. SELF INSURANCE

Liability and Property

The University participates with 10 other Michigan universities in the Michigan Universities Self-Insurance Corporation (MUSIC). MUSIC's purpose is to provide indemnity to members against auto, comprehensive general liability, errors and omissions and property losses commonly covered by insurance. MUSIC also provides risk management and loss control services and programs.

Loss coverages are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer of losses and commercial carriers covering the third layer. Comprehensive general liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims-made basis.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

Insurance Reserves

The University provides coverage for up to a maximum of \$550,000 for each workers' compensation claim and \$80,000 and \$75,000 at June 30, 2014 and 2013, respectively, for each health insurance claim. The University purchases commercial insurance for workers' compensation and health insurance claims in excess of coverage provided by the self insurance reserves. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The University reserves an amount within unrestricted net position for health and maintenance reserves and records a liability for workers' compensation insurance. These reserves are determined by MUSIC for losses relating to catastrophes and amounted to \$3,550,333 and \$3,456,610 at June 30, 2014 and 2013, respectively. The workers' compensation claims liability of \$180,000 and \$160,000 for the years ending at June 30, 2014 and 2013, respectively, which is included in accounts payable and accrued expenses, is based on the requirements of generally accepted accounting principles, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Health insurance claims incurred but not reported at each June 30, 2014 and 2013, were \$155,259 and \$304,715 respectively, and, accordingly, a related liability has been recorded in the accompanying statements of net position.

13. NET ASSETS CATEGORIES - FOUNDATION

Unrestricted net assets at June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Board designated	\$ 254,548	\$ 240,256
Undesignated	<u>432,071</u>	<u>454,319</u>
	<u>\$ 686,619</u>	<u>\$ 694,575</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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

	2014	2013
University programs	\$ 3,369,890	\$ 2,285,656
Net appreciation on donor-restricted endowment funds	3,045,071	2,030,987
	<u>\$ 6,414,961</u>	<u>\$ 4,316,643</u>

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

	2014	2013
Remainder interests in split-interest agreements	\$ 350,948	\$ 344,810
Corpus of donor-restricted endowment funds	5,669,491	5,263,928
	<u>\$ 6,020,439</u>	<u>\$ 5,608,738</u>

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

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

	2014			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Revenue, gains, and other support:				
Investment income	\$ 16,608	\$ 384,019	\$ -	\$ 400,627
Net realized and unrealized appreciation in investments	3,698	890,546	-	894,244
Contributions	448,901	2,022,032	400,354	2,871,287
Change in value of split interest agreements	-	-	11,347	11,347
Net assets released from restrictions	1,198,279	(1,198,279)	-	-
Total revenue, gains, and support	1,667,486	2,098,318	411,701	4,177,505
Expenses:				
Operating expenses	(476,005)	-	-	(476,005)
Contributions to LSSU	(1,199,437)	-	-	(1,199,437)
Changes in net assets	(7,956)	2,098,318	411,701	2,502,063
Net assets, beginning of year	694,575	4,316,643	5,608,738	10,619,956
Net assets, end of year	<u>\$ 686,619</u>	<u>\$ 6,414,961</u>	<u>\$ 6,020,439</u>	<u>\$ 13,122,019</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

	2013			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Revenue, gains, and other support:				
Investment income	\$ 48,523	\$ 534,000	\$ -	\$ 582,523
Net realized and unrealized appreciation in investments	1,731	407,675	-	409,406
Contributions	485,571	1,525,613	527,441	2,538,625
Change in value of split interest agreement	-	-	18,157	18,157
Net assets released from restrictions	981,590	(981,590)	-	-
Total revenue, gains, and support	1,517,415	1,485,698	545,598	3,548,711
Expenses:				
Operating expenses	(463,344)	-	-	(463,344)
Contributions to LSSU	(981,364)	-	-	(981,364)
Changes in net assets	72,707	1,485,698	545,598	2,104,003
Net assets, beginning of year	621,868	2,830,945	5,063,140	8,515,953
Net assets, end of year	\$ 694,575	\$ 4,316,643	\$ 5,608,738	\$ 10,619,956

14. FOUNDATION ENDOWMENT

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

Interpretation of Relevant Law

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

In accordance with SMPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

	2014			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Investment return:				
Investment income	\$ -	\$ 137,609	\$ -	\$ 137,609
Net appreciation (realized and unrealized)	-	1,136,956	-	1,136,956
Net investment return	-	1,274,565	-	1,274,565
Contributions and other revenue	-	-	400,354	400,354
Change in value	-	-	11,347	11,347
Appropriation of endowment assets for expenditure	-	(260,481)	-	(260,481)
Changes to endowment net assets	-	1,014,084	411,701	1,425,785
Endowment net assets:				
Beginning of year	-	2,030,987	5,608,738	7,639,725
End of year	\$ -	\$ 3,045,071	\$ 6,020,439	\$ 9,065,510

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

15. OTHER CONTINGENCIES AND COMMITMENTS

Legal Matters

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Union Contracts

The University has three groups of employees, two of which are covered under union collective bargaining agreements. The collective bargaining agreement covering the Support Personnel under the Michigan Education Association/National Education Association (MEA) was ratified effective April 27, 2012. The Faculty Association contract was ratified effective August 4, 2014. The employee groups covered and the expiration of the contracts are as follows:

<u>Employee Group</u>	<u>Union Name</u>	<u>Contract Expired/Expires</u>
Support Personnel	Michigan Education Association/ National Education Association	September 30, 2014
Faculty	Michigan Education Association/ National Education Association	August 31, 2017
Administrative and Professional	N/A	N/A

MPSERS Unfunded Liability

Certain employees of the University are covered under the MPSERS retirement plan. As of June 30, 2014 and 2013, the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2014 or 2013. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's position that the University is not responsible for any shortfall in the fund as a result of changes in benefits made by MPSERS.

State Building Authority

The University has lease agreements with the State Building Authority (SBA) and the State of Michigan for the Arts Classroom Building and the Crawford Hall Addition and Remodeling. The buildings were financed with SBA revenue bonds, State appropriations, and University general revenue bonds.

The SBA bond issues are collateralized by a pledge of rentals to be received from the State pursuant to the lease agreements between the SBA, the State, and the University. During the lease terms, the SBA will hold title to the facilities; the State will make all annual lease payments to the SBA; and the University will pay all operating and maintenance costs of the facilities.

At the expiration of the leases, the SBA has agreed to sell each facility to the University for one dollar. The cost and accumulated depreciation for these facilities is included in the accompanying statements of net position.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

16. NATURAL CLASSIFICATION OF EXPENSES

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

2014

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,069,302	\$ 1,203,239	\$ --	\$ --	\$ --	\$ --	\$ 13,272,541
Research	362,401	381,696	--	--	--	--	744,097
Public service	704,770	615,740	--	--	--	--	1,320,510
Academic support	2,279,704	1,114,567	--	--	--	--	3,394,271
Student services	2,091,288	493,469	--	--	--	--	2,584,757
Student aid	--	--	--	2,196,292	--	--	2,196,292
Institutional support	3,542,202	2,331,994	--	--	--	--	5,874,196
Operations and maintenance of plant	2,674,482	847,469	1,740,581	--	--	--	5,262,532
Auxiliary activities	4,050,418	4,199,537	1,055,934	--	--	--	9,305,889
Depreciation	--	--	--	--	3,726,397	--	3,726,397
Other	--	--	--	--	--	749,387	749,387
Total operating expenses	<u>\$ 27,774,567</u>	<u>\$ 11,187,711</u>	<u>\$ 2,796,515</u>	<u>\$ 2,196,292</u>	<u>\$ 3,726,397</u>	<u>\$ 749,387</u>	<u>\$ 48,430,869</u>

2013

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

17. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standings Board (GASB) has issued the following Statement for future implementation:

Pensions

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the impact is not known. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

The University will continue to assess the impact of this new accounting pronouncement on the University's financial statements for adoption in fiscal year 2015 and adoption is expected to have a material impact on the University.

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