

**LAKE SUPERIOR STATE UNIVERSITY**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEARS ENDED  
JUNE 30, 2015 AND 2014**



# LAKE SUPERIOR STATE UNIVERSITY

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>University Officers</b>	1
<b>Management's Discussion and Analysis</b>	2
<b>Report of Independent Auditors</b>	13
<b>Lake Superior State University</b>	
Statements of Net Position	15
Statements of Revenues, Expenses and Changes in Net Position	16
Statements of Cash Flows	17
<b>Lake Superior State University Foundation</b>	
Statements of Financial Position	19
Statements of Activities	20
<b>Notes to Financial Statements</b>	21
<b>Required Supplementary Information</b>	56

# Lake Superior State University

## University Officers

### Board of Trustees

Scot A. Lindemann  
Chair  
Term Expires January 27, 2016

Douglas R. Bovin  
Term Expires January 27, 2018

James P. Curran  
First Vice Chair  
Term Expires January 27, 2018

Ann Parker  
Second Vice Chair  
Term Expires January 27, 2020

Patrick K. Egan  
Term Expires January 27, 2016

Rodney M. Nelson  
Term Expires January 27, 2020

Sandi Frost Steensma  
Term Expires January 27, 2022

Dr. Mark W. Mercer  
Term Expires January 27, 2022

### President and Vice Presidents

Dr. Thomas C. Pleger  
President

Maurice E. Walworth  
Vice President, Academic  
Affairs and Provost

Sherry L. Brooks  
Vice President, Finance and  
Treasurer to the Board of Trustees

Dr. Ken Peress  
Vice President, Student Affairs

### Lake Superior State University Foundation

Charles J. Schmidt  
Chair

Patricia Caruso  
First Vice Chair

Dr. Thomas C. Pleger  
Second Vice Chair, Ex-Officio

Sherry L. Brooks  
Treasurer

## **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, 2015, 2014 and 2013. 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.

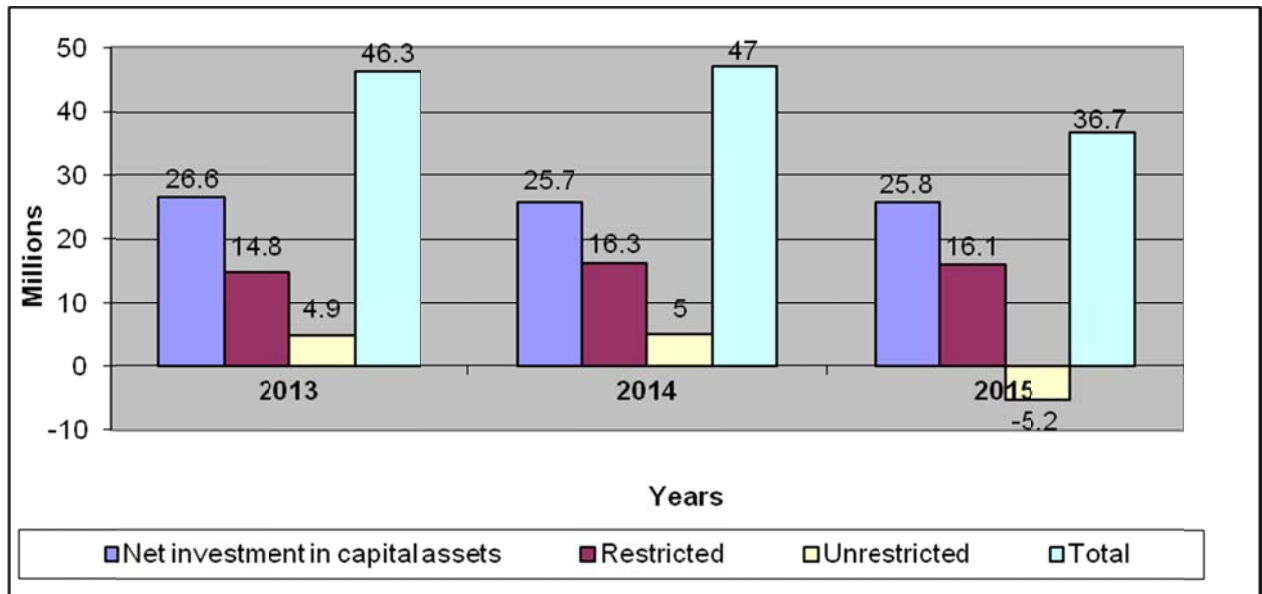
### **Using the Annual Report**

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 as of June 30, 2015. Net position for the year ended June 30, 2015 of approximately \$36.7 million decreased by approximately \$10.4 million from the prior year as compared to an increase of approximately \$783,000 for the year ended June 30, 2014. Unrestricted net position of approximately (\$5.2) million decreased by approximately \$10.2 million. The decrease in total net position is largely due to the recognition of the net pension obligation that was required by the change in accounting principal set forth by the pronouncement of GASB No. 68.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2015, 2014 and 2013:



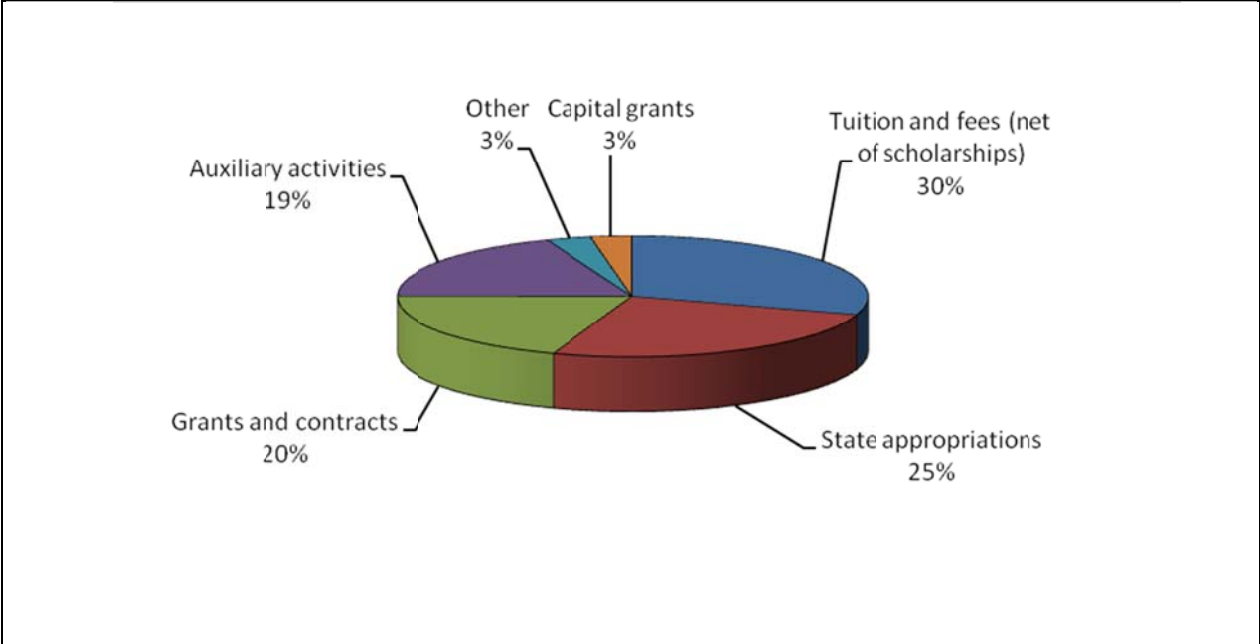
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not 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 services to be performed. Annual appropriations, while budgeted for operations, are considered nonoperating revenues according to U.S. generally accepted accounting principles.

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

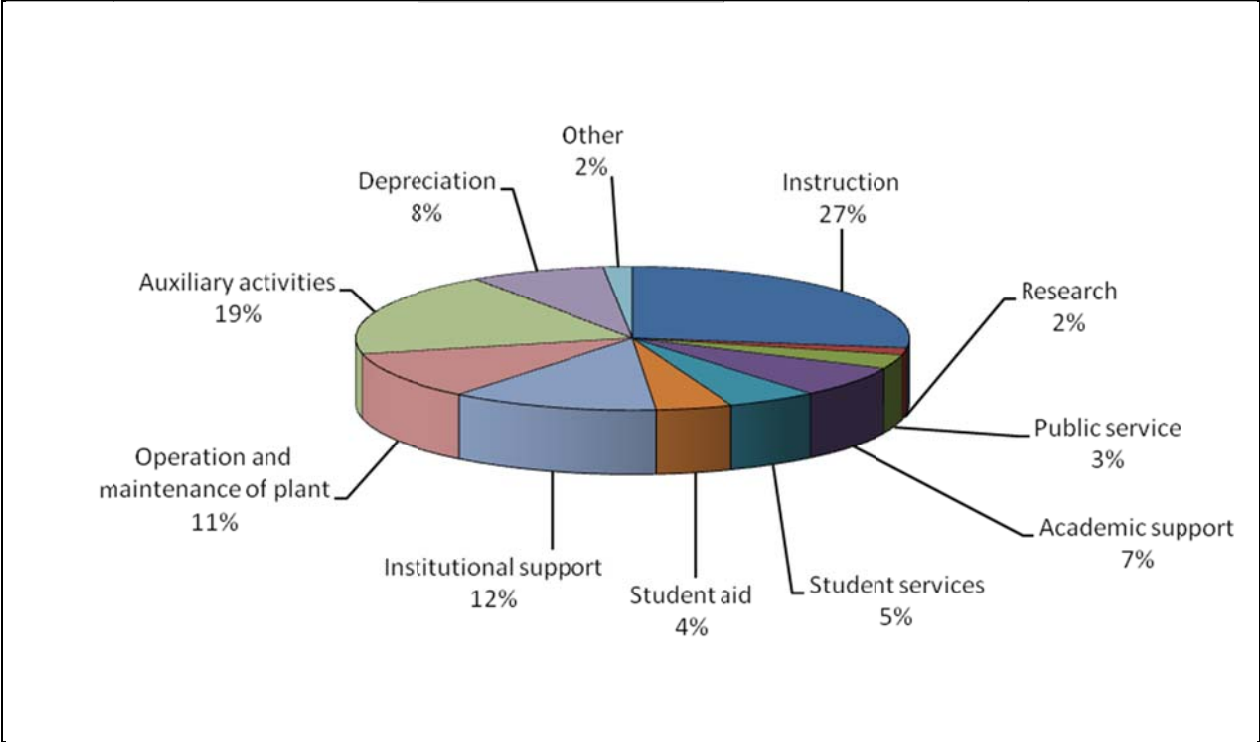
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled approximately \$50.6 million for the 2015 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2015:



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 totaled approximately \$49.6 million for the 2015 fiscal year. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2015:



## The Statements 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.

	<b>June 30</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Current assets	\$ 15,891,070	\$ 14,496,814	\$ 14,181,885
Capital assets, net	45,548,030	46,972,775	49,424,886
Other noncurrent assets	<u>12,933,949</u>	<u>13,003,068</u>	<u>11,842,997</u>
<b>Total Assets</b>	<b><u>\$ 74,373,049</u></b>	<b><u>\$ 74,472,657</u></b>	<b><u>\$ 75,449,768</u></b>
<b>Deferred outflows of resources</b>	<b><u>\$ 123,549</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Liabilities</b>			
Current liabilities	\$ 5,977,828	\$ 5,082,215	\$ 5,046,511
Noncurrent liabilities	20,968,044	22,347,453	24,142,925
Net pension obligation	<u>10,866,926</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>37,812,798</u>	<u>27,429,668</u>	<u>29,189,436</u>
<b>Net position</b>			
Net investment in capital assets	25,841,499	25,754,352	26,620,347
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	15,881,827	16,108,148	14,547,090
Unrestricted	<u>(5,244,853)</u>	<u>4,975,162</u>	<u>4,887,568</u>
Total net position	<u>36,683,800</u>	<u>47,042,989</u>	<u>46,260,332</u>
<b>Total Liabilities and Net position</b>	<b><u>\$ 74,496,598</u></b>	<b><u>\$ 74,472,657</u></b>	<b><u>\$ 75,449,768</u></b>

### **Changes from 2014 to 2015:**

Cash and cash equivalents and short-term investments, collectively, increased by approximately \$922,000 to approximately \$11.4 million. Accounts receivable increased by approximately \$82,000 from the prior year. Current assets increased approximately \$1.4 million. 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 approximately \$1.4 million as a result of the annual depreciation charge of approximately \$3.9 million and asset additions of approximately \$2.5 million.

Deferred outflows of resources reflected an increase in the net pension obligation of approximately \$124,000.

Total liabilities increased by approximately \$10.4 million, primarily due to the recognition of the net pension obligation of approximately \$10.9 million.

Total net position decreased by approximately \$10.4 million. The University's net investment in capital assets increased approximately \$87,000. This is the result of the capital asset acquisitions and payments on long-term debt being greater than the depreciation charge. Restricted, expendable net position decreased approximately \$226,000 as a result of a downturn in the investment market. Unrestricted net position decreased by approximately \$10.2 million, primarily due to the recognition of the net pension obligation of approximately \$10.9 million. The June 30, 2015 unrestricted net position of approximately (\$5.2) million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately \$643,000 and the net pension obligation of approximately \$10.9 million.

**Changes from 2013 to 2014:**

Cash and cash equivalents and short-term investments, collectively, increased by approximately \$365,000 to approximately \$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 approximately \$2.4 million as a result of the annual depreciation charge of approximately \$3.7 million and asset additions of approximately \$1.3 million.

Total liabilities decreased by approximately \$1.8 million, primarily due to principal pay downs of total long-term debt in the amount of approximately \$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 approximately \$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 approximately \$5.0 million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, and a general fund deficit of approximately \$466,000.

**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.

	<b>Year Ended June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total operating revenues	\$ 31,871,543	\$ 31,098,907	\$ 30,666,721
Total operating expenses	<u>49,643,772</u>	<u>48,430,869</u>	<u>47,451,838</u>
Operating loss	(17,772,229)	(17,331,962)	(16,785,117)



Net nonoperating revenues	<u>16,607,832</u>	<u>17,468,855</u>	<u>16,650,168</u>
Income (loss) before other revenues	(1,164,397)	136,893	(134,949)
Total other revenues	<u>1,419,118</u>	<u>645,764</u>	<u>292,221</u>
<b>Increase in net position</b>	<b>254,721</b>	<b>782,657</b>	<b>157,272</b>
Net position, beginning of year	47,042,989	46,260,332	46,103,060
Cumulative effect of change in accounting principal	<u>(10,613,910)</u>	<u>-</u>	<u>-</u>
<b>Net position, end of year</b>	<b><u>\$ 36,683,800</u></b>	<b><u>\$ 47,042,989</u></b>	<b><u>\$ 46,260,332</u></b>

#### **Changes from 2014 to 2015:**

Operating revenues increased by approximately \$773,000. Tuition and fees, net of scholarship allowances, decreased by approximately \$469,000 or 3.0% after a tuition rate increase of 2.61% and a slight decrease in enrollment. Scholarship allowances increased approximately \$799,000 from the prior year. Auxiliary activities, net of scholarship allowances, increased by approximately \$588,000 or 7.0% after a 3.37% room and board rate increase and a slight increase in housing occupancy.

Operating expenses increased by approximately \$1.2 million. Operation and maintenance of plant increased by approximately \$72,000, research expenses increased by approximately \$22,000 and auxiliary activities increased by approximately \$126,000 during the year.

Net nonoperating revenues decreased by approximately \$861,000. State appropriations increased by approximately \$675,000. Investment income, net of investment expenses, decreased by approximately \$1.7 million from 2014.

The net result of operations for the year was an increase in net position of approximately \$255,000.

#### **Changes from 2013 to 2014:**

Operating revenues increased by approximately \$432,000. Tuition and fees, net of scholarship allowances, decreased by approximately \$258,000 or 1.7% after a tuition rate increase of 3.32% and a slight decrease in enrollment. Scholarship allowances increased approximately \$185,000 from the prior year. Auxiliary activities, net of scholarship allowances, 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 maintenance of plant increased by approximately \$473,000, research expenses increased by approximately \$301,000 and auxiliary activities increased by 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, net of investment expenses, increased by approximately \$671,000.

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

## 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.

	<b>Year Ended June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Cash provided by (used in):			
Operating activities	\$ (13,039,816)	\$ (13,459,081)	\$ (12,221,219)
Noncapital financing activities	16,844,643	16,140,078	16,120,312
Capital and related financing activities	(3,217,851)	(2,986,153)	(4,140,362)
Investing activities	<u>92,253</u>	<u>621,796</u>	<u>(950,987)</u>
Net change in cash and cash equivalents	679,229	316,640	(1,192,256)
Cash and cash equivalents, beginning of year	<u>1,583,480</u>	<u>1,266,840</u>	<u>2,459,096</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 2,262,709</u></b>	<b><u>\$ 1,583,480</u></b>	<b><u>\$ 1,266,840</u></b>

### **Changes from 2014 to 2015:**

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, 2015 was approximately \$13.0 million, decreasing moderately from the prior year. Uses of cash from operating activities include payments to employees, vendors, and students.

The net cash provided by noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was approximately \$16.8 million for the year ended June 30, 2015, up approximately \$705,000 from 2014. The University received approximately \$608,000 more in State appropriations and approximately \$67,000 more in Federal Pell grants than in 2014.

Net cash used in capital and related financing activities increased by approximately \$232,000 from 2014. The University spent approximately \$2.3 million on capitalized improvements in 2015 and approximately \$1.2 million in 2014.

Cash provided by investing activities decreased by approximately \$530,000. The decrease is mostly attributable to a decrease of approximately \$1.5 million in the proceeds from sales and a decrease of approximately \$774,000 in the purchases of investments from 2014.

Overall, cash and cash equivalents increased by approximately \$679,000 for the year ended June 30, 2015.

### **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 approximately \$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 approximately \$16.1 million for the year ended June 30, 2014, up approximately \$20,000 from 2013. The University received approximately \$402,000 more in State appropriations and approximately \$357,000 less from Federal Pell grants than the prior year.

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

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

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

### **Factors That Will Affect the Future**

Dr. Tom Pleger is entering his second year as Lake Superior State University's eighth president. Dr. Pleger has embraced the mission and vision of the University and has made changes that have increased communication, collaboration, and transparency. The University's Board of Trustees will use a new procedure to evaluate Dr. Pleger, seeking input from across the campus and community. An electronic survey will be sent out early in the 2016 fiscal year which features important competency areas. Dr. Pleger told the Trustees, "Evaluations are great tools of feedback to make progress and improvement in the institution". This is the first time in the University's history that such a multi-tiered, public evaluation of the President has occurred.

Matt Jurvelin, Vice President for Enrollment and Student Services, joined the University at the beginning of the 2016 fiscal year. As part of a restructuring effort, Mr. Juvelin replaced two existing Vice President positions, the Vice President for Enrollment and the Vice President for Student Services, due to both of those positions becoming vacant. Mr. Jurvelin comes from the University of Wisconsin-Baraboo where he was the Assistant Dean for Student Services. Mr. Jurvelin has a background in enrollment management and student affairs and has worked at institutions in the University of Wisconsin system ranging from 600 to 14,000 students.

Enrollment continues to decline slightly but there are several new initiatives in place that will make the University better known for its quality programs and affordability. It takes a little time for results of initiatives to be realized but the expectation is that they will result in increased enrollment as early as the 2016 spring semester.

The University is the first university in the state to establish a set tuition rate for all North American students. Echoing calls from government and business leaders, the University's Board of Trustees approved a North America tuition initiative designed to attract academically talented students to enhance Michigan's economy, intellectual capital and overall environment. The "One Rate at Lake State" program, effective fall semester 2015, will make the unique opportunities available at the University open and affordable to a wider range of students. The University has the lowest average net-price for low-income students of Michigan's 15 public Universities, according to the U.S. Department of Education.

The University is creating a new program which administrators hope will make earning an associate's degree easier. The degree will have a focus on liberal arts. Students with the right collection of classes in English, composition, speech, science, social science and math can earn it. Many students are forced to

leave school before earning a four-year degree but would have enough credits for this associate's degree. This gives students something that they can take with them to enhance employment or to build on to eventually earn a four-year degree. Most Universities cannot offer both associate's and bachelor's degrees which makes this a unique recruiting tool for the University.

Dr. Pleger's contacts and familiarity with the Wisconsin system of higher education has afforded the University the ability to collaborate with University of Wisconsin colleges. Lake Superior State University and the University of Wisconsin (UW) Colleges, the 13 liberal arts transfer institutions of the University of Wisconsin System and UW Colleges Online, have signed an agreement, known as the LSSU-Wisconsin Bridge, which will allow UW students to seamlessly transfer to Lake Superior State University. This is the first time an out-of-state school has an agreement for the full transferability of the associate of arts and science degree into the bachelor's degree. This and Lake Superior State University's new "One Rate at Lake State" makes the University a very attractive option for UW students to complete their bachelor's degree.

The University is also increasing collaboration with Michigan and Ontario, Canadian community colleges and has entered into joint advertising arrangements with regional community college partners in Escanaba and Iron Mountain.

Effective August 1, 2015, the University is a proud partner with the Michigan Department of Education, Michigan High Schools, and Michigan Career and Technical Education Centers in providing direct pathways for students to continue their education after high school. Through coordinated Articulation Agreements, the University assists students in realizing a seamless and systematic transition, maximizing the use of resources and minimizing duplication of content as they move from their secondary to their postsecondary educational experience.

The University's teacher education program scored fifth highest in the state among the 33 that were evaluated by the Education Preparation Institution. Of particular note, the University's pass rate on the Michigan Test for Teacher Certification was the fifth highest and the teacher effectiveness rating score was the fourth highest in the state. This is a significant turnaround as, just two years ago, the teacher education program was under corrective action with the Michigan Department of Education. The University's story was showcased in an Education Week article due to the University's positive, proactive response to the state's corrective action and the resulting "renaissance" of the teacher education program.

A Memorandum of Understanding has been approved between the University and the Michigan Department of Natural Resources (DNR) whereby the DNR will allow the University to use its 2,776 acre facility with multiple buildings, lakes and an experimental stream. The University will develop the facility into a university teaching, field educational experience, and research station for its students and faculty. The facility also allows for collaboration with other educational institutions as well as visibility in Michigan's Lower Peninsula attracting potential students to the University's natural science programs.

The Higher Learning Commission (HLC) will visit the University in November 2016. A small, dedicated team of faculty and staff, led by the Associate Vice President for Assessment, make up an Accreditation Review Team (ART) that has been charged with writing the University's Assurance Argument and gathering the evidence to support it. The ART communicates to the campus community as to its progress regularly via email and a monthly newsletter. HLC accreditation is the main institutional accreditation of the University and meeting HLC's stated requirements and criteria is taken seriously. The accreditation process provides the University with an opportunity for critical self-analysis leading to improvement.

In addition to the HLC institutional accreditation, many University programs have been accredited by various accrediting institutions. Two more accreditations were approved recently, as described below, which speaks to the quality of University programs. These two new accreditations are important in attracting academically talented students with an interest in either environmental health or business.

The Environmental Health program at the University received accreditation from the Canadian Institute of Public Health Inspectors (CIPHI). This is the first program in the nation to be accredited in the US, through the National Environmental Health Science & Protective Accreditation Council, and now Canada. The University is partnering with Sault College and Algoma Public Health, in Sault Ste. Marie, Ontario to deliver this program.

The Lukenda School of Business has achieved initial global business accreditation from the Accreditation Council for Business Schools and Programs (ACBSP), a leading accreditation association in business education. ACBSP accreditation certifies that the teaching and learning processes within the University's School of Business meet the rigorous educational standards established by ACBSP. The programs accredited are the University's Bachelor of Science programs for accounting, business administration-entrepreneurship, business administration-international business, business administration-management, business administration-marketing, and finance and economics.

The University has begun renovation and construction on a new facility to house the Lukenda School of Business. South Hall, soon to be renamed R.W. Considine Hall, is scheduled for fall 2016 occupancy. The \$13.5 million project, in the heart of the University's campus, will bring much needed classroom and student/faculty collaboration space to campus and is expected to be a vibrant gathering place for all campus and community with amenities such as a café, board room, project rooms and other flexible, adaptable spaces.

Other projects on the horizon could include the renovation of a donated building for the Center for Freshwater Resources and Education (CFRE) which received the highest ranking of all public university capital outlay projects by Michigan's Joint Capital Outlay Subcommittee last year. This project has been in the works for at least 10 years. Although no projects have been approved for the current round of requests, the University is hopeful that the CFRE will be approved for planning. This will be a phenomenal education and research facility on the Saint Marys River in Sault Ste. Marie. Discussion has also begun to expand the Nursing Simulation program, possibly including a new building, as well as enhanced services involving partnerships with local health care providers.

The University has contracted for a 20-year master plan which will help direct the University on prioritized capital projects for the future and provide a roadmap for its facilities, grounds and infrastructure. The plan will help us to better connect with the community, evaluate traffic and parking on and around campus, and improve the overall appearance of campus. Coincidentally, the City of Sault Ste. Marie is going through their own master planning at the same time which offers a great opportunity to mesh ideas where the University and city have common interests and to strengthen town and gown relationships. The need to engage a firm to assist with master planning has been recognized for some time but funds were not available to take on a project like this. The Master plan, which is scheduled for delivery early 2016, was made possible by generous donations.

In the process of presenting a 2016 balanced General Fund budget, changes were made that will make the finances of the University sustainable while making sure that the most important initiatives are funded. The University has gone through some restructuring involving eliminating some positions or combining various departments or positions. Positions were also added, as needed, to address areas of safety, compliance, and the need for better data. About a dozen employees took advantage of a voluntary buyout program while all employee groups were awarded modest pay increases. Budgets continue to be

challenging and will continue to be until enrollment growth is achieved or other sources of revenues are developed.

State appropriation support has been slowly and steadily increasing and there has been increased support for fully funding the Michigan Indian Tuition Waiver (MITW). Universities have been funding the gap between their tuition and what the state pays for the MITW which puts an unfair burden on the schools. Universities have been largely silent on the issue until University President Pleger began lobbying for a change. Fully funding the MITW would encourage universities to recruit Native American students, which is especially important to the University and surrounding communities. It is encouraging that some additional funding has been provided by the state in the last two years to try to close this gap. We are getting closer to full funding of this state initiative.

The University is one of the seven Michigan public universities in the Michigan Public School Employees Retirement System (MPSERS). Included in the fiscal year 2016 appropriations budget is funding and the recommendation to enact legislation that will cap universities contribution rate to 25.73%. This is the rate universities were paying in 2012 and is a similar treatment to that afforded to community colleges and K-12 in PA300 of 2012. The seven universities have worked together to make this happen and will continue working on retiree health care reform.

This is the third straight year that the Foundation has produced over \$3 million in revenues. Prior to 2012-13, the high was just over \$2 million in 2002-03. Campaigns are ongoing and growth in giving, in general, is projected to increase. The increase for 2015 was up 4.8% and the 2016 projection is expected to be slightly higher.

The University faculty and staff continue to write grant applications and have been very successful in receiving funding for research and academic purposes. Our largest ongoing grant is the competitive Title III grant. In conjunction with one of many Title III grant objectives, a team of faculty, staff and administrators have engaged in a research project to identify momentum points for student progress. The team will review policy and procedural barriers which may work to negatively impact successful student accomplishments of identified University momentum points. This and other Title III objectives, such as establishing a Student Learning Commons and implementing advising support for students, are expected to have a significant positive impact on recruitment and retention. Another objective was to improve the cost-effectiveness of our learning management system. After significant research and campus input, the University will be transitioning from Blackboard to Moodle, an open-source learning management system. This decision is expected to be more cost effective in the long run and is believed to be more familiar and user friendly to incoming students.

A recent state decision that replaces the high school assessment ACT with the SAT beginning in spring 2016 poses challenges for all Michigan universities. This change will impact many areas of campus. The University has traditionally aligned its challenge testing with the ACT and has begun to review this aspect of its operations to be ready to align the University's testing with the SAT.

## 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 years ended June 30, 2015 and 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.

## ***Opinion***

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, 2015 and 2014, and the respective changes in financial position and Lake Superior State University cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1 and Note 11 to the financial statements, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the University to report its net pension obligation and associated deferred outflows of resources, deferred inflows of resources, and pension expense. The University has restated their July 1, 2014 net position accordingly. Our opinion is not modified with respect to these matters.

## ***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 12 and the Required Supplementary Information on page 55 (Schedule of the University's Proportionate Share of the Net Pension Obligation, Schedule of University's Contributions, and Notes to Required Supplementary Information) 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 November 23, 2015 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 Paulik PLC*

Saginaw, Michigan  
November 23, 2015



# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF NET POSITION

Assets	As of June 30	
	2015	2014
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,262,709	\$ 1,583,480
Short-term investments	9,135,180	8,892,580
Accounts receivable, net	1,374,689	1,292,514
State appropriations receivable	2,324,094	2,223,820
Inventories	389,802	430,991
Other	404,596	73,429
<b>Total current assets</b>	<b>15,891,070</b>	<b>14,496,814</b>
<b>Noncurrent assets</b>		
Student loans receivable, net	2,220,122	2,328,485
Endowment investments	10,463,245	10,409,261
Unamortized bond insurance costs	250,582	265,322
Land, construction in progress and art collection	4,554,189	3,327,241
Depreciable capital assets, net	40,993,841	43,645,534
<b>Total noncurrent assets</b>	<b>58,481,979</b>	<b>59,975,843</b>
<b>Total assets</b>	<b>\$ 74,373,049</b>	<b>\$ 74,472,657</b>
<b>Deferred outflows of resources</b>		
<b>Net pension obligation</b>	<b>\$ 123,549</b>	<b>\$ -</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,917,914	\$ 1,950,307
Unearned revenue	1,165,350	1,066,732
Deposits	192,143	182,675
Current portion of long-term debt	1,457,421	1,642,501
Current portion of employee benefit programs	245,000	240,000
<b>Total current liabilities</b>	<b>5,977,828</b>	<b>5,082,215</b>
Long-term debt, net of current portion	19,681,055	21,033,710
Employee benefit programs, net of current portion	1,286,989	1,313,743
Net pension obligation	10,866,926	-
<b>Total liabilities</b>	<b>\$ 37,812,798</b>	<b>\$ 27,429,668</b>
<b>Net position</b>		
Net investment in capital assets	\$ 25,841,499	\$ 25,754,352
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	11,589,435	11,520,588
Loans	2,978,634	3,019,368
Capital projects and debt service	1,313,758	1,568,192
Unrestricted	(5,244,853)	4,975,162
<b>Total net position</b>	<b>\$ 36,683,800</b>	<b>\$ 47,042,989</b>

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	
	2015	2014
<b>Operating revenues</b>		
Tuition and fees (net of scholarship allowances of \$8,361,379 in 2015 and \$7,562,339 in 2014)	\$ 15,160,349	\$ 15,628,884
Federal grants and contracts	1,712,776	1,494,114
State grants and contracts	151,257	102,823
Nongovernmental grants and contracts	4,098,449	3,759,125
Auxiliary activities (net of scholarship allowances of \$645,363 in 2015 and \$544,488 in 2014)	9,618,529	9,030,151
Other	1,130,183	1,083,810
<b>Total operating revenues</b>	<b>31,871,543</b>	<b>31,098,907</b>
<b>Operating expenses</b>		
Instruction	13,500,741	13,272,541
Research	766,524	744,097
Public service	1,599,180	1,320,510
Academic support	3,470,903	3,394,271
Student services	2,601,357	2,584,757
Student aid	2,209,799	2,196,292
Institutional support	5,977,715	5,874,196
Operation and maintenance of plant	5,334,587	5,262,532
Auxiliary activities	9,431,738	9,305,889
Depreciation	3,918,717	3,726,397
Other	832,511	749,387
<b>Total operating expenses</b>	<b>49,643,772</b>	<b>48,430,869</b>
<b>Operating loss</b>	<b>(17,772,229)</b>	<b>(17,331,962)</b>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	12,896,965	12,222,453
Federal Pell grants	3,988,914	3,923,650
Interest on capital debt and leases	(705,644)	(744,477)
Amortization of prepaid bond insurance	(14,740)	(14,740)
Investment income, net of investment expenses	388,838	2,051,031
Gifts for expendable endowments	58,608	28,900
Gain (loss) on assets sold or retired	(5,109)	2,038
<b>Net nonoperating revenues</b>	<b>16,607,832</b>	<b>17,468,855</b>
<b>Income (loss) before other revenues</b>	<b>(1,164,397)</b>	<b>136,893</b>
<b>Other revenues</b>		
Capital grants and gifts	1,419,118	645,764
<b>Increase in net position</b>	<b>254,721</b>	<b>782,657</b>
Net position, beginning of year	47,042,989	46,260,332
Cumulative effect of change in accounting principle	(10,613,910)	-
Net position, beginning of year - restated	36,429,079	46,260,332
<b>Net position, end of year</b>	<b>\$ 36,683,800</b>	<b>\$ 47,042,989</b>

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

# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2015	2014
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 15,134,522	\$ 15,259,965
Grants and contracts	5,868,409	5,347,228
Payments to employees	(28,590,635)	(27,772,347)
Payments to vendors	(14,136,166)	(14,982,370)
Payments for financial aid	(2,209,799)	(2,196,292)
Loans issued to students	(477,030)	(321,300)
Collections of interest and principal on loans to students	585,393	527,420
Auxiliary activities	9,631,225	9,615,815
Other receipts	1,154,265	1,062,800
<b>Net cash used in operating activities</b>	<b>(13,039,816)</b>	<b>(13,459,081)</b>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	12,796,691	12,188,837
Federal Pell grants	3,989,344	3,922,341
Gifts for expendable endowments	58,608	28,900
Federal Direct Lending receipts	11,460,530	12,513,150
Federal Direct Lending disbursements	(11,460,530)	(12,513,150)
<b>Net cash provided by noncapital financing activities</b>	<b>16,844,643</b>	<b>16,140,078</b>
<b>Cash flows from capital and related financing activities</b>		
Capital grants and gifts received	1,361,754	596,662
Purchases and construction of capital assets	(2,334,324)	(1,233,329)
Proceeds from disposal of capital assets	108,603	10,000
Principal paid on debt and capital leases	(1,619,285)	(1,586,117)
Interest paid on debt and capital leases	(734,599)	(773,369)
<b>Net cash used in capital and related financing activities</b>	<b>(3,217,851)</b>	<b>(2,986,153)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	8,712,786	10,253,790
Purchases of investments	(9,078,896)	(9,852,410)
Investment income, net	458,363	220,416
<b>Net cash provided by investing activities</b>	<b>92,253</b>	<b>621,796</b>
Net increase in cash and cash equivalents	679,229	316,640
Cash and cash equivalents, beginning of year	1,583,480	1,266,840
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,262,709</b>	<b>\$ 1,583,480</b>

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

# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS

Reconciliation of operating loss to net cash used in operating activities	Year Ended June 30	
	2015	2014
Operating loss	\$ (17,772,229)	\$ (17,331,962)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,918,717	3,726,397
Provision for uncollectible accounts and student loans receivables	60,607	226,139
Gain on repossession of property	(30,998)	-
Pension expense adjustment	129,467	-
Change in assets and liabilities:		
Accounts receivable, net	(181,964)	(65,622)
Student loans receivable, net	69,510	157,008
Inventories	41,189	(25,072)
Other	(331,167)	(1,210)
Accounts payable and accrued expenses	970,720	(110,251)
Unearned revenue	98,618	76,619
Deposits	9,468	(1,123)
Employee benefit programs	(21,754)	(110,004)
<b>Net cash used in operating activities</b>	<b>\$ (13,039,816)</b>	<b>\$ (13,459,081)</b>
<b>Supplemental disclosures of non-cash financing and investing activities</b>		
Gifts in-kind received and recorded as capital assets	\$ 57,363	\$ 48,919
Entered into capital lease to purchase capital equipment	\$ 107,392	\$ -
Receipt of repossessed property in satisfaction of outstanding receivable	\$ 77,605	\$ -

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

## LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

### STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2015	2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 381,971	\$ 472,008
Short-term investments	2,160,350	2,974,065
Other current assets	16,798	98,907
Current portion of unconditional promises to give, net	78,027	299,851
<b>Total current assets</b>	<b>2,637,146</b>	<b>3,844,831</b>
<b>Noncurrent assets</b>		
Investments	11,172,785	8,868,542
Unconditional promises to give, net of current portion	106,542	135,429
Beneficial interest in charitable remainder trust	340,335	350,948
<b>Total noncurrent assets</b>	<b>11,619,662</b>	<b>9,354,919</b>
<b>Total assets</b>	<b>\$ 14,256,808</b>	<b>\$ 13,199,750</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 11,372	\$ 7,982
Employee benefit programs	20,362	19,934
<b>Total current liabilities</b>	<b>31,734</b>	<b>27,916</b>
Annuity obligations	45,039	49,815
<b>Total liabilities</b>	<b>76,773</b>	<b>77,731</b>
<b>Net assets</b>		
Restricted		
Permanently	8,276,458	6,020,439
Temporarily	5,275,832	6,414,961
Unrestricted	627,745	686,619
<b>Total net assets</b>	<b>14,180,035</b>	<b>13,122,019</b>
<b>Total liabilities and net assets</b>	<b>\$ 14,256,808</b>	<b>\$ 13,199,750</b>

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

**LAKE SUPERIOR STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF ACTIVITIES**

	<b>Year Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating revenues</b>		
Contributions	\$ 3,332,419	\$ 2,871,287
Change in value of split interest agreements	(8,638)	11,347
<b>Total operating revenues</b>	<b>3,323,781</b>	<b>2,882,634</b>
Operating expenses	507,603	476,005
<b>Operating income</b>	<b>2,816,178</b>	<b>2,406,629</b>
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	407,001	400,627
Net unrealized gains (losses) on investments	(32,424)	894,244
Distributions to Lake Superior State University	(2,132,739)	(1,199,437)
<b>Net nonoperating revenues (expenses)</b>	<b>(1,758,162)</b>	<b>95,434</b>
<b>Increase in net assets</b>	<b>1,058,016</b>	<b>2,502,063</b>
Net assets, beginning of year	13,122,019	10,619,956
<b>Net assets, end of year</b>	<b>\$ 14,180,035</b>	<b>\$ 13,122,019</b>

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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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 19 & 20 of this report for the statements of net position and statements of activities of the Foundation.

Contributions to the University by the Foundation have been made in the amount of \$2,132,739 and \$1,199,437 during 2015 and 2014, respectively. Support from the University provided to the Foundation amounted to \$404,355 and \$421,852 during 2015 and 2014, 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 U.S. 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

JUNE 30, 2015

### **Change in Accounting Principle - University**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires the University to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB Statement No. 68 requiring the University to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the GASB Statements, the University has reported a net pension liability of \$10,613,910 as a cumulative effect of a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

### **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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities as of 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

JUNE 30, 2015

### 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 (activities). 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 three 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

JUNE 30, 2015

### Deferred Outflows of Resources

Deferred outflows of resources consist of net outflows related to the University's multi-employer net pension obligation and totaled \$123,549 as of June 30, 2015. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members.

### Net Pension Obligation

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

### 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 2015 and 2014, the University received \$63,670,140 and \$55,964,957 (net of a 3.0% administrative fee retained by the University), respectively, of State appropriations which were forwarded to 22 and 21 charter schools, respectively. The University also received \$100,000 in State appropriations for Bay Mills Community College during fiscal years 2015 and 2014, 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 as of the date of the gift.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **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 2015 or 2014.

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 2015 or 2014.

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 2011 through 2015 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 7.0% of the principal amounts. The 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **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.

*Temporarily restricted net assets* - Generally result from contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. 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 result from contributions and other inflows of assets that represent permanent endowments where use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.

### **Subsequent Events**

In preparing these financial statements, Foundation management has evaluated, for the potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2015, the most recent statement of net assets presented herein, through November 23, 2015, the date these financial statements were available to be issued. No such significant events or transactions were identified.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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.

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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

	<b>2015</b>	<b>2014</b>
Disbursement accounts	\$ 502,916	\$ 67,720
Money market funds	1,759,793	1,515,760
<b>Total cash and cash equivalents</b>	<b>\$ 2,262,709</b>	<b>\$ 1,583,480</b>

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

	<b>2015</b>	<b>2014</b>
<u>University short-term investments</u>		
Certificates of deposit	\$ 757,571	\$ 1,016,124
Mutual funds		
Bond/fixed income funds	8,377,609	7,876,456
<b>Total University short-term investments</b>	<b>\$ 9,135,180</b>	<b>\$ 8,892,580</b>
	<b>2015</b>	<b>2014</b>
<u>University endowment investments</u>		
Mutual funds		
Equity funds	\$ 6,492,177	\$ 6,452,257
Bond/fixed income funds	2,715,867	2,553,095
Exchange traded funds	1,255,201	1,403,909
<b>Total University endowment investments</b>	<b>\$ 10,463,245</b>	<b>\$ 10,409,261</b>

**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 as of year end.

As of June 30, 2015, 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	\$ 1,759,753	\$ 1,759,753	\$ -	\$ -	
Bond/fixed income funds	11,093,476	8,377,609	-	2,715,867	
<b>Total investments</b>	<b>\$12,853,229</b>	<b>\$10,137,362</b>	<b>\$ -</b>	<b>\$ 2,715,867</b>	

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

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
<b>Total investments</b>	<b>\$11,945,311</b>	<b>\$ 9,392,216</b>	<b>\$ -</b>	<b>\$ 2,553,095</b>

**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 in which 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, 2015, \$618,033 of the University's bank balance of \$1,883,009 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

**Foreign Currency Risk** - The University's exposure to foreign currency risk is derived from its positions in international investments consisting solely of foreign currency denominated mutual fund equity investments. The University's investment policy permits investments in these asset types. As of June 30, 2015 and 2014, the University held 41,185 and 40,878 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of \$2,066,685 and \$2,064,372, respectively. The University holds no other assets which may be subject to the risks of foreign currency.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

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 \$2,633,000 and \$2,971,000 as of June 30, 2015 and 2014, 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:

	<b>2015</b>	<b>2014</b>
Interest and dividends	2.4%	1.7%
Net realized and unrealized gains	0.8	15.2
<b>Total investment gain</b>	<b>3.2%</b>	<b>16.9%</b>

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

### 3. INVESTMENTS - FOUNDATION

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

	<b>2015</b>	<b>2014</b>
Mutual funds		
Index funds	\$ 2,308,136	\$ 1,794,246
Growth funds	3,702,070	2,872,877
Bond/fixed income funds	5,459,204	5,566,765
Exchange traded funds	1,272,542	1,141,858
Value funds	566,583	447,823
Money market	5,005	1,270
Subtotal	13,313,540	11,824,839



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Marketable securities	19,595	17,768
<b>Total Foundation investments</b>	<b><u>\$ 13,333,135</u></b>	<b><u>\$ 11,842,607</u></b>

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

	2015	2014
Mutual funds		
Index funds	\$ 108,170	\$ 285,162
Growth funds	53,806	327,108
Bond/fixed income funds	(60,724)	41,400
Exchange traded funds	(121,431)	175,606
Value funds	(14,072)	61,269
Subtotal	(34,251)	890,545
Marketable securities	1,827	3,699
<b>Total Foundation unrealized gains (losses)</b>	<b><u>\$ (32,424)</u></b>	<b><u>\$ 894,244</u></b>

#### 4. FAIR VALUE

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

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

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

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

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

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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 2,308,136	\$ -	\$ -	\$ 2,308,136
Growth funds	3,702,070	-	-	3,702,070
Bond/fixed income funds	4,907,203	-	552,001	5,459,204
Exchange traded funds	1,272,542	-	-	1,272,542
Value funds	566,583	-	-	566,583
Money market	5,005	-	-	5,005
Marketable securities	<u>19,595</u>	<u>-</u>	<u>-</u>	<u>19,595</u>
<b>Total investments at fair value</b>	<b><u>\$12,781,134</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 552,001</u></b>	<b><u>\$13,333,135</u></b>
<b>Beneficial Interest in</b>				
<b>Charitable Remainder Trust</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 340,335</u></b>	<b><u>\$ 340,335</u></b>

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>
<b>Total investments at fair value</b>	<b><u>\$11,415,015</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 427,592</u></b>	<b><u>\$11,842,607</u></b>
<b>Beneficial Interest in</b>				
<b>Charitable Remainder Trust</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 350,948</u></b>	<b><u>\$ 350,948</u></b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015:

	<b><u>Bond/Fixed Income Fund</u></b>	<b><u>Beneficial Interest in Charitable Remainder Trust</u></b>
Balance, beginning of year	\$ 427,592	\$ 350,948
Unrealized gains relating to investments held at year end	13,409	-
Net purchases	111,000	-
Change in value	<u>-</u>	<u>(10,613)</u>
<b>Balance, end of year</b>	<b><u>\$ 552,001</u></b>	<b><u>\$ 340,335</u></b>

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:

	<b><u>Bond/Fixed Income Fund</u></b>	<b><u>Beneficial Interest in Charitable Remainder Trust</u></b>
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	<u>-</u>	<u>6,138</u>
<b>Balance, end of year</b>	<b><u>\$ 427,592</u></b>	<b><u>\$ 350,948</u></b>

### 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 \$533,156 and \$585,419 as of June 30, 2015 and 2014, respectively.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

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

	<b>2015</b>	<b>2014</b>
Tuition and fees	\$ 531,251	\$ 504,985
Governmental grants and contracts	514,104	296,932
Auxiliary activities	203,969	190,040
Other	83,381	206,456
Private grants and contracts	41,984	94,101
<b>Accounts receivable, net</b>	<b>\$ 1,374,689</b>	<b>\$ 1,292,514</b>

In addition, the University has student loans receivable in the amount of \$2,220,122 and \$2,328,485, which are recorded net of an allowance for uncollectible loans of \$555,949 and \$520,051 as of June 30, 2015 and 2014, respectively. Approximately 80% of student loans receivable are expected to be collected in periods beyond one year.

### 6. UNCONDITIONAL PROMISES TO GIVE

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

	<b>2015</b>	<b>2014</b>
Unconditional promises due in less than one year	\$ 81,026	\$ 306,567
Unconditional promises due in one to five years, net of discount to net present value at 1% of \$2,523 and \$3,597	93,062	116,003
Unconditional promises due in more than five years, net of discount to net present value at 8% of \$26,520 and \$27,574	13,480	19,426
Present value of promises to give	187,568	441,996
Less allowance for uncollectible amounts	2,999	6,716
<b>Net unconditional promises to give</b>	<b>184,569</b>	<b>435,280</b>
Less current portion	78,027	299,851
<b>Unconditional promises to give, net of current portion</b>	<b>\$ 106,542</b>	<b>\$ 135,429</b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

### 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.

As of June 30, 2015 and 2014, 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 \$340,335 and \$350,948, respectively.

### 8. CAPITAL ASSETS

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

	<b>2015</b>			<b>Balance June 30, 2015</b>
	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ -	\$ -	\$ 838,684
Land	1,301,179	30,000	30,000	1,301,179
Art collection	576,997	25,000	-	601,997
Construction in progress	610,381	1,201,948	-	1,812,329
Total capital assets not being depreciated	3,327,241	1,256,948	30,000	4,554,189
Capital assets being depreciated				
Land improvements	5,795,958	39,545	-	5,835,503
Infrastructure	3,254,282	21,800	10,000	3,266,082
Building and building improvements	116,663,279	679,121	68,603	117,273,797
Equipment and other	19,954,525	599,832	291,917	20,262,440
Total capital assets being depreciated	145,668,044	1,340,298	370,520	146,637,822
Accumulated depreciation	(102,022,510)	(3,918,717)	297,246	(105,643,981)
Total capital assets being depreciated, net	43,645,534	(2,578,419)	73,274	40,993,841
<b>Total capital assets, net</b>	<b>\$ 46,972,775</b>	<b>\$ (1,321,471)</b>	<b>\$ 103,274</b>	<b>\$ 45,548,030</b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

	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
Construction in progress	151,504	458,877	-	610,381
Total capital assets not being depreciated	2,868,364	458,877	-	3,327,241
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	116,506,922	156,357	-	116,663,279
Equipment and other	20,019,914	479,080	544,469	19,954,525
Total capital assets being depreciated	145,389,142	823,371	544,469	145,668,044
Accumulated depreciation	(98,832,620)	(3,726,397)	536,507	(102,022,510)
Total capital assets being depreciated, net	46,556,522	(2,903,026)	7,962	43,645,534
<b>Total capital assets, net</b>	<b>\$ 49,424,886</b>	<b>\$ (2,444,149)</b>	<b>\$ 7,962</b>	<b>\$ 46,972,775</b>

As of June 30, 2015, construction in progress consisted of work performed on the R. W. Considine Hall (formerly South Hall), a classroom renovation project which will be home to the Lukenda School of Business. The anticipated completion date for the project is summer 2016.

### Construction in progress

Estimated cost of construction	\$ 13,500,000
Costs incurred through June 30, 2015	1,812,329

**Estimated cost to complete** **\$ 11,687,671**

Expected sources of financing:

State of Michigan funds	\$ 9,000,000
University funds and other sources	4,500,000

**Total** **\$ 13,500,000**

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2015	2014
Accounts payable to vendors	\$ 1,547,839	\$ 740,310
Payroll and payroll taxes	1,087,927	782,977
Health insurance claims	167,500	155,259
Interest	88,648	91,761
Workers' compensation claims	26,000	180,000
<b>Total accounts payable and accrued expenses</b>	<b>\$ 2,917,914</b>	<b>\$ 1,950,307</b>

#### Workers' Compensation

The University is self-insured for workers' compensation claims up to \$550,000 per claim as of June 30, 2015 and 2014. The accrued workers' compensation obligation represents claims made prior to June 30, 2015 and 2014, 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:

			2015				
			Outstanding Principal			June 30 2015	Current Portion
			Interest Rate	Maturity	July 1 2014		
<b>Bonds payable</b>							
General Revenue							
Bonds, Series 2012							
Series bonds	2.0%-4.0%	2015-2031	\$ 21,100,000	\$ -	\$ 1,245,000	\$ 19,855,000	\$ 1,270,000
Net premium on bond issuance			465,143	-	25,842	439,301	-
<b>Total bonds payable</b>			<b>21,565,143</b>	<b>-</b>	<b>1,270,842</b>	<b>20,294,301</b>	<b>1,270,000</b>
Capital leases	up to 5.24%	2015- 2024	1,111,068	107,392	374,285	844,175	187,421
<b>Total long-term debt</b>			<b>\$ 22,676,211</b>	<b>\$ 107,392</b>	<b>\$ 1,645,127</b>	<b>21,138,476</b>	<b>\$ 1,457,421</b>
Less current portion						1,457,421	
<b>Long-term debt, net of current portion</b>						<b>\$ 19,681,055</b>	

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

	<u>Interest Rate</u>	<u>Maturity</u>	<u>2014 Outstanding Principal</u>				<u>June 30 2014</u>	<u>Current Portion</u>
			<u>July 1 2013</u>	<u>Additions</u>	<u>Reductions</u>			
<b>Bonds payable</b>								
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	-	
<b>Total bonds payable</b>			<b>22,810,985</b>	<b>-</b>	<b>1,245,842</b>	<b>21,565,143</b>	<b>1,245,000</b>	
Capital leases	up to 5.24%	2014- 2024	1,477,185	-	366,117	1,111,068	397,501	
<b>Total long-term debt</b>			<b>\$ 24,288,170</b>	<b>\$ -</b>	<b>\$ 1,611,959</b>	<b>22,676,211</b>	<b>\$1,642,501</b>	
Less current portion						1,642,501		
<b>Long-term debt, net of current portion</b>						<b>\$ 21,033,710</b>		

### 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, 2015, serial bonds payable in the amount of \$19,855,000 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, 2031.

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, 2015 and 2014, the certificates are considered defeased and the liability has been removed from the statements of net position. The refunding resulted in an interest savings of \$3,540,834 and a net present value savings of \$2,821,221.



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### *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:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	975,000	588,600	1,563,600
2021-2025	5,410,000	2,379,500	7,789,500
2026-2030	6,485,000	1,261,500	7,746,500
2031-2032	<u>2,980,000</u>	<u>120,400</u>	<u>3,100,400</u>
<b>Total – bonds payable</b>	<b><u>\$ 19,855,000</u></b>	<b><u>\$ 7,003,888</u></b>	<b><u>\$ 26,858,888</u></b>

### **Obligations Under Capital Leases**

The University leases certain equipment with a net book value of \$820,041 as of June 30, 2015, under lease agreements which meet the capitalization criteria specified by generally accepted accounting principles.

The following is a schedule of annual future minimum lease payments required under capitalized lease obligations as of June 30, 2015:

<b>Year Ending June 30</b>	<b>Amount</b>
2016	\$ 193,459
2017	132,513
2018	117,386
2019	87,387
2020	87,387
2021-24	<u>245,286</u>
Total minimum payments due	863,418
Less amounts representing interest, imputed at annual rates ranging up to 5.24%	<u>19,243</u>
<b>Present value of net minimum lease payments</b>	<b><u>\$ 844,175</u></b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015 and 2014, are insignificant.

### 11. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

#### Retirement Plans

##### *Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF)*

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 (10.0 percent for administrative hired after January 1, 2010) and faculty group employees' pay, and 10.0 percent of MEA employees' pay. The University contributed approximately \$1,679,000 and \$1,630,000 to this plan for the years ended June 30, 2015 and 2014, respectively. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested.

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

##### *Michigan Public School Employees' Retirement System*

**Plan Description:** The University participates in the Michigan Public School Employees' Retirement System (MPSERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPSERS. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909. Separate pension information related to the University's employees included in this plan is not available. The seven participating public universities have a net pension obligation that is separated out from the system-wide MPSERS plan. The net pension obligation information included in this Note relates to the seven public universities that participate in MPSERS and not the plan as a whole.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**Contributions:** Public Act 300 of 1980, as amended, requires the University to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each university's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

University contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rates from October 1 to September 30 are as follows:

<u>Fiscal Year Ended</u>	<u>Funded Portion</u>	<u>Unfunded Portion</u>
June 30, 2015	4.80%	17.72%
June 30, 2014	3.00%	16.61%

Depending on the plan selected, plan member contributions range from 0.0 percent to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The University's required and actual contributions to the plan for the year ended June 30, 2015 were \$1,720,135. Contributions include \$183,773 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2015.

**Benefits Provided:** Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 years with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100.0 percent of the participant's final average compensation with an increase of 2.0 percent each year thereafter.

Benefits may transfer to a beneficiary upon death, and are determined in the same manner as retirement benefits, but with an actuarial reduction.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3.0 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Measurement of the MPSERS Net Pension Liability:** The plan's net pension liability for the seven universities participating in MPSERS is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the University's contribution requirement).

### MPSERS Net Pension Liability – Seven Universities as of September 30, 2014

Total pension liability	\$	1,013,910,892
Plan fiduciary net position		<u>638,804,892</u>
Net pension liability	\$	<u>375,106,000</u>
Plan fiduciary net position as a percentage of total pension liability		63.00%
Net pension liability as a percentage of covered-employee payroll		424.35%

MPSERS Net Pension Liability – Seven Universities as of October 1, 2013

Total pension liability	\$	980,227,806
Plan fiduciary net position		<u>587,853,544</u>
Net pension liability	\$	<u>392,374,262</u>

**Net Pension Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense:** As of June 30, 2015, the University reported a liability of \$10,866,926 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The University's proportion of the net pension liability was based on statutorily required contributions in relation to all reporting unit's statutorily required contributions for the measurement period. As of September 30, 2014, the University's proportionate share was 2.89703 percent.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

For the year ended June 30, 2015, the University recognized pension expense of \$1,181,611. As of June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 323,748	
Net difference between projected and actual plan investment		\$ 1,044,758
Changes in proportionate and differences between University contributions and proportionate share of contributions	60	
University contributions subsequent to the measurement date	844,499	
	<b>\$1,168,307</b>	<b>\$ 1,044,758</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2016	\$ 62,619
2017	(261,189)
2018	(261,189)
2019	(261,191)
	<b>\$ (720,950)</b>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

**Timing of the Valuation:** An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014 is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**Actuarial Valuations and Assumptions:** Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry age, normal
- Wage inflation rate - 3.50 percent
- Investment rate of return - 7.00 percent to 8.00 percent
- Projected salary increases - 3.50 percent to 12.30 percent, including wage inflation at 3.50 percent
- Cost-of-living adjustments - 3.00 percent annual non-compounded for MIP members
- Healthcare cost trend rate - 8.50 percent year 1 graded to 3.50 percent year 12
- Mortality - RP-2000 male/female combined healthy life mortality tables, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Rate of Return:** For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Single Discount Rate:** Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

For the purpose of this valuation, the expected rate of return on pension plan investments is 8.00 percent; the municipal bond rate is 4.11 percent (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve); and the resulting single discount rate is 8.00 percent.

**Long-term Expected Return on Plan Assets:** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

<b>Investment Category</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic Equity Pools	28.0%	4.8%
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate & Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
<b>Total</b>	<b>100.0%</b>	

**Sensitivity of the Net Pension Obligation to Changes in the Discount Rate:** The following presents the net pension obligations of the University, calculated using a discount rate of 8.00 percent, as well as what the University's net pension obligation would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent) or 1.00 percentage point higher (9.00 percent) than the current rate:

1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
\$13,600,313	\$10,866,926	\$8,511,594

**Payable to the Pension Plan:** As of June 30, 2015, the University reported a payable of \$96,303 for the outstanding amount of contributions to the pension plan required for the year then ended for the statutorily required pension contributions related to accrued labor expense.

### 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### Accumulated Sick Leave Benefits

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

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

	2015				
	July 1 2014	Additions	Payments	June 30 2015	Current Portion
Compensated absences	\$ 765,979	\$ 80,474	\$ 78,441	\$ 768,012	\$ 80,000
Accumulated sick leave benefits	787,764	-	23,787	763,977	165,000
<b>Total employee benefit programs</b>	<b>\$ 1,553,743</b>	<b>\$ 80,474</b>	<b>\$ 102,228</b>	<b>\$ 1,531,989</b>	<b>\$ 245,000</b>
	2014				
	July 1 2014	Additions	Payments	June 30 2015	Current Portion
Compensated absences	\$ 786,389	\$ 83,135	\$ 103,545	\$ 765,979	\$ 75,000
Accumulated sick leave benefits	877,358	142,000	231,594	787,764	165,000
<b>Total employee benefit programs</b>	<b>\$ 1,663,747</b>	<b>\$ 225,135</b>	<b>\$ 335,139</b>	<b>\$ 1,553,743</b>	<b>\$ 240,000</b>

### Other Postemployment Health Benefits

The University allows retirees who are not covered by the MPSERS healthcare plan to purchase healthcare benefits at cost and has approximately 15 retirees participating in this health coverage as of June 30, 2015 and 17 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 postemployment health care liability has been recorded in the accompanying statements of net position.



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 12. SELF INSURANCE

#### **Liability and Property**

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

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

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

#### **Insurance Reserves**

The University provides coverage for up to a maximum of \$550,000 for each workers' compensation claim and \$80,000 as of June 30, 2015 and 2014, 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 \$3,702,947 and \$3,550,333 as of June 30, 2015 and 2014, respectively. The workers' compensation claims liability of \$26,000 and \$180,000 for the years ending as of June 30, 2015 and 2014, respectively, which is included in accounts payable and accrued expenses, is based on the requirements of generally accepted accounting principles, which require 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 as of the date of the financial statements and the amount of the loss can be reasonably estimated. Health insurance claims incurred but not reported as of June 30, 2015 and 2014, were \$167,500 and \$155,259 respectively, and, accordingly, a related liability has been recorded in the accompanying statements of net position.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 13. NET ASSETS CATEGORIES - FOUNDATION

Unrestricted net assets as of June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Board designated	\$ 187,214	\$ 254,548
Undesignated	<u>440,531</u>	<u>432,071</u>
	<u><b>\$ 627,745</b></u>	<u><b>\$ 686,619</b></u>

Temporarily restricted net assets as of June 30 were restricted for the following:

	<u>2015</u>	<u>2014</u>
University programs	\$ 2,246,165	\$ 3,369,890
Net appreciation on donor-restricted endowment funds	<u>3,029,667</u>	<u>3,045,071</u>
	<u><b>\$ 5,275,832</b></u>	<u><b>\$ 6,414,961</b></u>

Permanently restricted net assets as of June 30 were restricted for the following:

	<u>2015</u>	<u>2014</u>
Remainder interests in split interest agreements	\$ 340,335	\$ 350,948
Corpus of donor-restricted endowment funds	<u>7,936,123</u>	<u>5,669,491</u>
	<u><b>\$ 8,276,458</b></u>	<u><b>\$ 6,020,439</b></u>

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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

	<b>2015</b>			
	<b>Unrestricted</b>	<b>Restricted</b>		<b>Total</b>
		<b>Temporarily</b>	<b>Permanently</b>	
Revenue, gains, and other support				
Investment income	\$ 69,608	\$ 238,454	\$ -	\$ 308,062
Net realized and unrealized appreciation in investments	1,827	64,688	-	66,515
Contributions	465,996	601,766	2,264,657	3,332,419
Change in value of split interest agreements	-	-	(8,638)	(8,638)
Net assets released from restrictions	<u>2,044,037</u>	<u>(2,044,037)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	2,581,468	(1,139,129)	2,256,019	3,698,358
Expenses				
Operating expenses	(507,603)	-	-	(507,603)
Contributions to the University	<u>(2,132,739)</u>	<u>-</u>	<u>-</u>	<u>(2,132,739)</u>
<b>Changes in net assets</b>	<b>(58,874)</b>	<b>(1,139,129)</b>	<b>2,256,019</b>	<b>1,058,016</b>
Net assets, beginning of year	<u>686,619</u>	<u>6,414,961</u>	<u>6,020,439</u>	<u>13,122,019</u>
<b>Net assets, end of year</b>	<b><u>\$ 627,745</u></b>	<b><u>\$ 5,275,832</u></b>	<b><u>\$ 8,276,458</u></b>	<b><u>\$ 14,180,035</u></b>
	<b>2014</b>			
	<b>Unrestricted</b>	<b>Restricted</b>		<b>Total</b>
		<b>Temporarily</b>	<b>Permanently</b>	
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	<u>1,198,279</u>	<u>(1,198,279)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	1,667,486	2,098,318	411,701	4,177,505
Expenses				
Operating expenses	(476,005)	-	-	(476,005)
Contributions to the University	<u>(1,199,437)</u>	<u>-</u>	<u>-</u>	<u>(1,199,437)</u>
<b>Changes in net assets</b>	<b>(7,956)</b>	<b>2,098,318</b>	<b>411,701</b>	<b>2,502,063</b>
Net assets, beginning of year	<u>694,575</u>	<u>4,316,643</u>	<u>5,608,738</u>	<u>10,619,956</u>
<b>Net assets, end of year</b>	<b><u>\$ 686,619</u></b>	<b><u>\$ 6,414,961</u></b>	<b><u>\$ 6,020,439</u></b>	<b><u>\$ 13,122,019</u></b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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 U.S. 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.

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:

	<b>2015</b>			
	<u>Unrestricted</u>	<u>Restricted</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Investment return				
Investment income	\$ -	\$ 238,454	\$ -	\$ 238,454
Net appreciation (realized and unrealized)	-	64,688	-	64,688
Total investment return	-	303,142	-	303,142
Contributions and other revenue	-	-	2,264,657	2,264,657
Change in value	-	-	(8,638)	(8,638)
Appropriation of endowment assets for expenditure	-	(318,546)	-	(318,546)
<b>Changes to endowment net assets</b>	<b>-</b>	<b>(15,404)</b>	<b>2,256,019</b>	<b>2,240,615</b>
Endowment net assets				
Beginning of year	-	3,045,071	6,020,439	9,065,510
<b>End of year</b>	<b>\$ -</b>	<b>\$ 3,029,667</b>	<b>\$ 8,276,458</b>	<b>\$ 11,306,125</b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

	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
Total 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)
<b>Changes to endowment net assets</b>	<b>-</b>	<b>1,014,084</b>	<b>411,701</b>	<b>1,425,785</b>
Endowment net assets				
Beginning of year	-	2,030,987	5,608,738	7,639,725
<b>End of year</b>	<b>\$ -</b>	<b>\$ 3,045,071</b>	<b>\$ 6,020,439</b>	<b>\$ 9,065,510</b>

### *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, will 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### *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.

### 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 October 1, 2014. 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, 2017
Faculty	Michigan Education Association/ National Education Association	August 31, 2017
Administrative and Professional	N/A	N/A

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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

JUNE 30, 2015

### 16. NATURAL CLASSIFICATION OF EXPENSES

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

2015							
	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,302,087	\$ 1,198,654	\$ -	\$ -	\$ -	\$ -	\$ 13,500,741
Research	508,042	258,482	-	-	-	-	766,524
Public service	809,563	789,617	-	-	-	-	1,599,180
Academic support	2,302,110	1,168,793	-	-	-	-	3,470,903
Student services	2,125,097	476,260	-	-	-	-	2,601,357
Student aid	-	-	-	2,209,799	-	-	2,209,799
Institutional support	3,787,060	2,190,655	-	-	-	-	5,977,715
Operations and maintenance of plant	2,972,726	797,075	1,564,786	-	-	-	5,334,587
Auxiliary activities	4,196,616	4,259,894	975,228	-	-	-	9,431,738
Depreciation	-	-	-	-	3,918,717	-	3,918,717
Other	-	-	-	-	-	832,511	832,511
<b>Total operating expenses</b>	<b>\$ 29,003,301</b>	<b>\$ 11,139,430</b>	<b>\$ 2,540,014</b>	<b>\$ 2,209,799</b>	<b>\$ 3,918,717</b>	<b>\$ 832,511</b>	<b>\$ 49,643,772</b>

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
<b>Total operating expenses</b>	<b>\$ 27,774,567</b>	<b>\$ 11,187,711</b>	<b>\$ 2,796,515</b>	<b>\$ 2,196,292</b>	<b>\$ 3,726,397</b>	<b>\$ 749,387</b>	<b>\$ 48,430,869</b>



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 17. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following Statements for future implementation.

*GASB Statement No. 72, Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. The University is currently evaluating the disclosures and impact this Statement will have on the financial statements when adopted.

*GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The requirements of this Statement would be effective for fiscal years beginning after June 15, 2017. The University is currently evaluating the impact this Statement will have on the financial statements when adopted; however, the University believes that the impact will be material.

### 18. SUBSEQUENT EVENT

On September 30, 2015, the University received \$3.4 million from the plan for a plan error requiring excess contributions. This refund reduced the plan's net position and will impact the university's net position and liability as of June 30, 2016.

\* \* \* \* \*

# LAKE SUPERIOR STATE UNIVERSITY

## REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

### Schedule of the University's Proportionate Share of the Net Pension Obligation (amounts determined as of 9/30 of the fiscal year)

	<u>2015</u>
University's proportionate share of the net pension obligation	
As a percentage	2.89703%
As an amount	\$10,866,926
University's covered-employee payroll	\$ 2,259,143
University's proportionate share of the net pension obligation, as a percentage of the University's covered-employee payroll	481.02%
MPSERS fiduciary net position as a percentage of the total pension liability	63.00%

### Schedule of University's Contributions (amounts determined as of 6/30 of the fiscal year)

Statutorily required contribution	\$ 936,883
Contributions in relation to the actuarially determined contractually required contribution	<u>1,720,135</u>
Contribution excess	<u>\$ 783,252</u>
University's covered-employee payroll	\$ 2,259,143
Contributions as a percentage of covered-employee payroll	76.14%

### Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions in 2015.