LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016

LAKE SUPERIOR
STATE UNIVERSITY

LAKE SUPERIOR STATE UNIVERSITY

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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, 2017, 2016 and 2015. 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 a component unit of the State of Michigan (State) since 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.

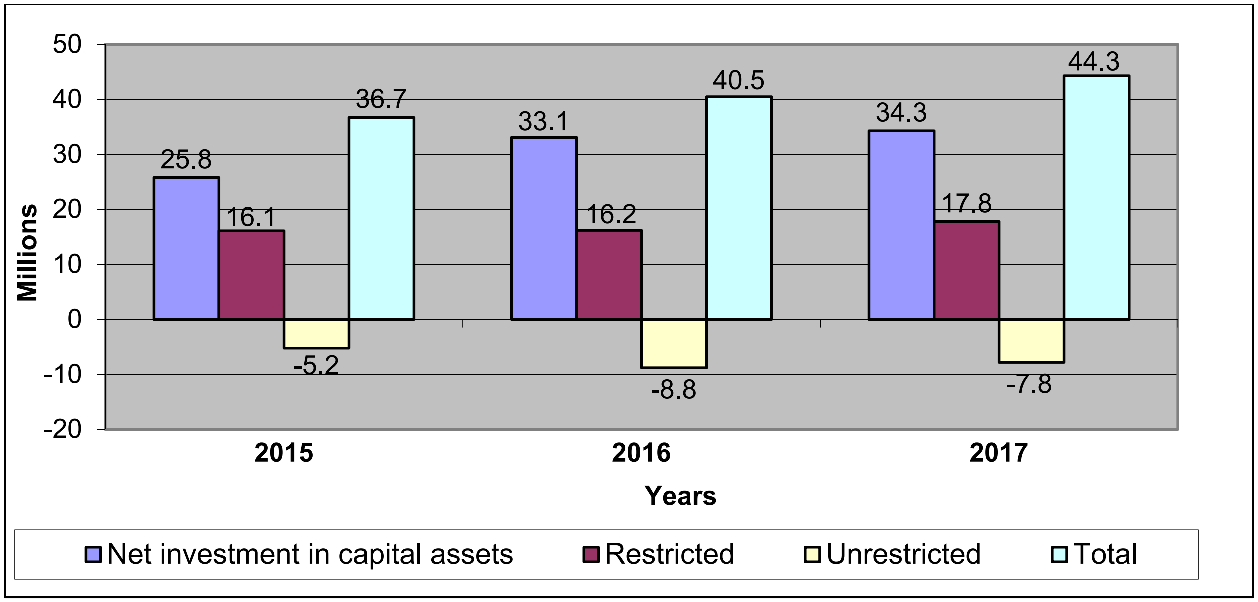
Using the Annual Report

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, 2017. Net position for the year ended June 30, 2017 of approximately \$44.3 million increased by approximately \$3.8 million from the prior year as compared to an increase of approximately \$3.8 million for the year ended June 30, 2016. The deficit in the unrestricted net position of approximately \$7.8 million decreased by approximately \$1 million. The increase in total net position is primarily due to an increase in net investment in capital assets of approximately \$1.3 million, a decrease in other liabilities of approximately \$1.3 million, and the decrease in the unrestricted deficit.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2017, 2016 and 2015:



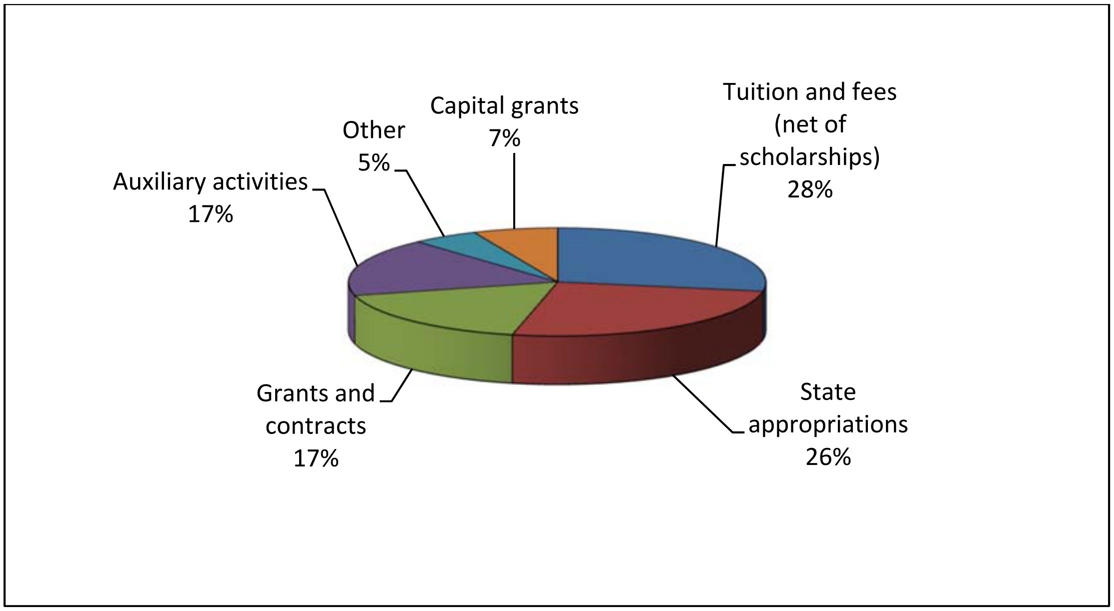
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not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

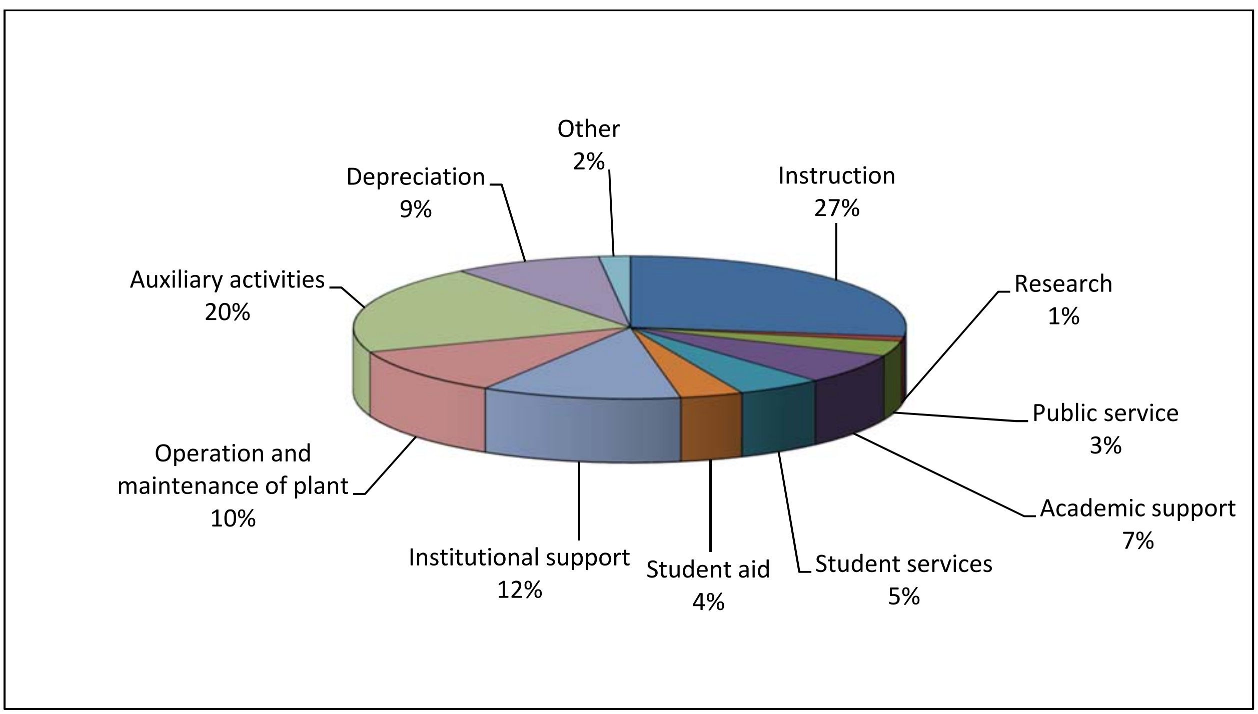
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled approximately $52.9 million for the 2017 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2017:



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 $48.4 million for the 2017 fiscal year. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2017:



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.

	June 30		
	2017	**2016**	**2015**
Assets			
Current assets	$ 18,515,603	$ 17,915,465	$ 15,891,070
Capital assets, net	51,882,913	51,522,664	45,548,030
Other noncurrent assets	13,824,600	12,571,613	12,933,949
Total Assets	**$ 84,223,116**	**$ 82,009,742**	**$ 74,373,049**
Deferred outflows of resources	**$ 1,049,703**	**$ 1,618,941**	**$ 1,168,307**
Liabilities			
Current liabilities	$ 5,134,154	$ 6,232,674	$ 5,977,828
Noncurrent liabilities	18,659,290	19,740,808	20,968,044
Net pension obligation	17,042,144	17,182,038	10,866,926
Total liabilities	$ 40,835,588	$ 43,155,520	$ 37,812,798
Deferred inflows of resources	**$ 104,176**	**$ 6,647**	**$ 1,044,758**
Net position			
Net investment in capital assets	$ 34,377,071	$ 33,057,999	$ 25,841,499
Restricted, nonexpendable	205,657	205,367	205,327
Restricted, expendable	17,565,670	16,015,740	15,881,827
Unrestricted	(7,815,343)	(8,812,590)	(5,244,853)
Total net position	$ 44,333,055	$ 40,466,516	$ 36,683,800
Total Liabilities and Net position	**$ 85,168,643**	**$ 83,622,036**	**$ 74,496,598**

Changes from 2016 to 2017:

Cash, cash equivalents and short-term investments, collectively, increased by approximately $1.2 million to approximately $13 million. Accounts receivable increased by approximately $311,000 from the prior year. Current assets increased approximately $600,000. Management attributes the majority of the increase in current assets to an increase in State appropriations, tuition revenue, and controlled spending.

Net capital assets increased by approximately $360,000 as a result of the annual depreciation charge of approximately $4.2 million and capital asset additions of approximately $4.6 million.

Deferred outflows of resources reflects a decrease of approximately $569,000 from the prior year.

Total liabilities decreased by approximately $2.3 million, primarily due to a decrease of the long-term debt, net of current portion of approximately $1.0 million.

Total net position increased by approximately $3.9 million. The University's net investment in capital assets increased approximately $1.3 million. 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 increased approximately $1.5 million. The deficit in the unrestricted net position decreased by approximately $1 million, primarily due to controlled spending. The June 30, 2017 deficit in the unrestricted net position of approximately $7.8 million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately $1.3 million and the net pension deficit of approximately $12.7 million.

Changes from 2015 to 2016:

Cash and cash equivalents and short-term investments, collectively, increased by approximately $307,000 to approximately $11.7 million. Accounts receivable decreased by approximately $243,000 from the prior year. Current assets increased approximately $2.0 million. Management attributes the majority of the increase in current assets to an increase in State appropriations, other nonoperating revenues and controlled spending.

Net capital assets increased by approximately $6 million as a result of the annual depreciation charge of approximately $3.5 million and asset additions of approximately $9.5 million.

Deferred outflows of resources reflected an increased approximately $451,000 from the prior year.

Total liabilities increased by approximately $5.8 million, primarily due to an increase of the net pension obligation of approximately $6.3 million.

Total net position increased by approximately $3.8 million. The University's net investment in capital assets increased approximately $7.2 million. 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 increased approximately $134,000. Unrestricted net position decreased by approximately ($3.6) million, primarily due to an increase in net pension obligation of approximately $6.3 million. The June 30, 2016 unrestricted net position of approximately ($8.8) million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately ($3.3) million and the net pension obligation of approximately $17.2 million.

<u>The Statements of Revenues, Expenses and Changes in Net Position</u>

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.

	Year Ended June 30		
	2017	2016	2015
Total operating revenues	$ 30,970,748	$ 30,626,612	$ 31,871,543
Total operating expenses	48,424,793	49,801,356	49,643,772
Operating loss	(17,454,045)	(19,174,744)	(17,772,229)
Net nonoperating revenues	17,846,942	16,505,967	16,607,832
Income (loss) before other revenues	392,897	(2,668,777)	(1,164,397)
Total other revenues	3,473,642	6,451,493	1,419,118
Increase in net position	**3,866,539**	**3,782,716**	**254,721**
Net position, beginning of year	40,466,516	36,683,800	47,042,989
Cumulative effect of change in accounting principal	-	-	(10,613,910)
Net position, end of year	**$ 44,333,055**	**$ 40,466,516**	**$ 36,683,800**

Changes from 2016 to 2017:

Operating revenues increased by approximately $344,000. Tuition and fees, net of scholarship allowances, increased by approximately $264,000 or 1.8% after a tuition rate increase of 4.2% and a slight decrease in enrollment. Scholarship allowances increased approximately $2,000 from the prior year. Auxiliary activities, net of scholarship allowances, decreased by approximately $134,000 or 1.4% after a 1.63% room and board rate increase and a slight increase in housing occupancy.

Operating expenses decreased by approximately $1.4 million. Operation and maintenance of plant decreased by approximately $452,000, research expenses decreased by approximately $218,000 and auxiliary activities increased by approximately $453,000 over the prior year.

Net nonoperating revenues increased by approximately $1.3 million. State appropriations increased by approximately $347,000. Investment income, net of investment expenses, increased by approximately $1.4 million from 2016.

The net result of operations for the year was an increase in net position of approximately $3.8 million.

Changes from 2015 to 2016:

Operating revenues decreased by approximately $1.2 million. Tuition and fees, net of scholarship allowances, decreased by approximately $716,000 or 4.72% after a tuition rate increase of 2.67% and a slight decrease in enrollment. Scholarship allowances decreased approximately $705,000 from the prior year. Auxiliary activities, net of scholarship allowances, decreased by approximately $286,000 or 2.97% after a 3.38% room and board rate increase and a slight increase in housing occupancy.

Operating expenses increased by approximately $158,000. Operation and maintenance of plant increased by approximately $262,000, research expenses decreased by approximately $50,000 and auxiliary activities decreased by approximately $157,000 during the year.

Net nonoperating revenues decreased by approximately $102,000. State appropriations increased by approximately $373,000. Investment income, net of investment expenses, decreased by approximately $270,000 from 2015.

The net result of operations for the year was an increase in net position of approximately $3.8 million.

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.

	Year Ended June 30		
	2017	**2016**	**2015**
Cash provided by (used in):			
Operating activities	$ (14,299,093)	$ (10,092,278)	$ (13,039,816)
Noncapital financing activities	16,968,384	17,002,954	16,844,643
Capital and related financing activities	(1,807,749)	(7,110,283)	(3,217,851)
Investing activities	930,102	2,830,836	92,253
Net change in cash and cash equivalents	1,791,644	2,631,229	679,229
Cash and cash equivalents, beginning of year	4,893,938	2,262,709	1,583,480
Cash and cash equivalents, end of year	**$ 6,685,582**	**$ 4,893,938**	**$ 2,262,709**

Changes from 2016 to 2017:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts and the return of excess pension contributions. Net cash used in operating activities for the year ended June 30, 2017 was approximately $14.3 million, increasing significantly 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 $17 million for the year ended June 30, 2017, down approximately $35,000 from 2016. The University received approximately $358,000 more in State appropriations and approximately $324,000 less in Federal Pell grants than in 2016.

Net cash used in capital and related financing activities decreased by approximately $5.3 million from 2016. The University spent approximately $4.5 million on capitalized improvements in 2017 and approximately $9.1 million in 2016.

Cash provided by investing activities decreased by approximately $1.9 million. The decrease is mostly attributable to a decrease of approximately $7.3 million in the proceeds from sales and maturities of investments from 2016.

Overall, cash and cash equivalents increased by approximately $1.8 million for the year ended June 30, 2017.

Changes from 2015 to 2016:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts and the return of excess pension contributions. Net cash used in operating activities for the year ended June 30, 2016 was approximately $10.1 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 $17.0 million for the year ended June 30, 2016, up approximately $158,000 from 2015. The University received approximately $396,000 more in State appropriations and approximately $349,000 less in Federal Pell grants than in 2015.

Net cash used in capital and related financing activities increased by approximately $3.9 million from 2015. The University spent approximately $9.1 million on capitalized improvements in 2016 and approximately $2.3 million in 2015.

Cash provided by investing activities increased by approximately $2.7 million. The increase is mostly attributable to an increase of approximately $3.5 million in the proceeds from sales and maturities of investments over 2015.

Overall, cash and cash equivalents increased by approximately $2.6 million for the year ended June 30, 2016.

Factors That Will Affect the Future

Dr. Tom Pleger passed away unexpectedly in May of 2017, after a very short battle with cancer. The Board of Trustees acted quickly, announcing Dr. David Finley (LSSU Provost) as acting president. On July 1, 2017, the Board appointed Dr. Peter Mitchell as president for a one year term while they conducted a national search for the institution's next president.

Dr. Mitchell has quickly stepped into his role as president, continuing to address issues important to Dr. Pleger, such as increased communication, collaboration, structure, efficiency, and transparency. Mitchell has been very active in the faculty contract negotiation process, the Center for Freshwater Research and Education (CFRE) capital outlay project, as well as initiating a number of changes to address the continued decline in enrollment.

Since Dr. Mitchell's appointment, a number of staffing changes have occurred; each change has been designed to better position LSSU for enrollment growth in FY19. The VP for Student Life, Enrollment, and Marketing position was eliminated. As a result, three new positions were created: Dean of Student Life and Retention (filled by internal candidate, Shelley Wooley), VP for Enrollment Management and Marketing (currently posted and interviewing candidates), and Assistant VP for Enrollment Management. The separation of the previous position into three new roles will allow LSSU to focus on enrollment and retention, two of the most important issues facing the institution. Additionally, Kellie Greener was appointed as the Director of Admission.

Again, all these changes are designed to place individuals with a long-term commitment to, and knowledge of, LSSU into collaborative relationships with new hires who are bringing new ideas to the campus for timely implementation. Finally, a consultant has been hired to work closely with Financial Aid and Admissions to put new practices into place to increase enrollment by at least 100 students by fall 2018.

David Roland Finley, Ph.D., PE was appointed Interim Provost and Vice President for Academic Affairs (VPAA) in January 2016 and continues to serve in that role. Prior to joining LSSU, Finley served as VPAA at Trine University for 7.5 years. Finley continues to serve as Academic Dean - Business and Engineering. To assist with this workload, Finley recently appointed another individual to serve as Associate Dean for the Division of Professional Studies and Outreach. A search to permanently fill the Provost and VPAA role was initiated in spring 2017. However, this search was suspended with Dr. Pleger's passing. As such, Dr. Finley remains in this interim post. It is planned that the search for a permanent Provost will be conducted this academic year, slightly behind that of the search for President, with an anticipated start date of July 1, 2018.

Maurice Walworth was moved from the provost position to the interim CFO position in January of 2016. He was tasked with reducing the FY17 budget by about $2.5 million from FY16, helping manage the South Hall project, and working with the other vice presidents to develop an institutional restructuring plan. LSSU ended FY17 with the General Fund showing an improvement of about $2 million (reducing the deficit from $3.3 million to about $1.35 million). LSSU took possession of South Hall, now called Considine Hall, in January of 2017 and institutional restructuring was completed early in FY17. During FY17, Walworth was appointed VP for Finance and Operations.

Shelley Wooley, Ed.S., was appointed Dean of Student Life and Retention in July of 2017. Ms. Wooley brings significant experience in educational outreach, educational access and first year student success to this position. Before her service as Dean of Student Life and Retention, Ms. Wooley served as Director of Educational Enrichment and Access, preceded by service as the Director of Educational Outreach and Inreach. In both roles, she supported LSSU by providing oversight of the U.S. Dept. of Education Title III – TALK Improving Institutions grant, a $1.86 million first year student success and retention initiative. The grant provided for four major initiatives; creation of a Faculty Center for Teaching, creation of a Student Learning Commons, conversion of the Student Management System to an open source system used by the vast majority of public schools in the State of Michigan, and identification of momentum points in a student's pathway to degree completion based upon LSSU specific data coupled with literature and research from the field as well as any LSSU policy or practice imposed barriers to student completion of the momentum points. These strategies were leveraged to enable a complete overhaul of the advising practice at LSSU. Ms. Wooley holds a B.S. in Business Administration, M.A. in Curriculum and Instruction, ED.S. in Educational Administration and is a doctoral candidate for an Ed.D. in Educational Leadership, having completed all coursework and is in the process of completing her dissertation. Ms. Wooley wrote for and was awarded several other smaller grants over the prior 9 years, all in support of student access and success. With her extensive background in this field, transitioning her to the role of Dean of Student Life and Retention offered a natural fit for her skills and experience as the University moved to increase student success and degree completion.

Academic Initiatives and Highlights:

The restructuring of Academic Affairs last year into two Colleges fostered synergism, realized net efficiencies, and improved service to students. During the summer 2017, a series of physical space moves provided greater opportunities for program stability, growth, and collaboration. The College of Arts and Sciences, formerly sharing space in the Library basement, has established a prominent presence on the main floor of the library building. The Academic Success Center in the Library has been moved to the main floor (ground level) making the student-faculty collaboration and support areas the key feature of this important University space. The School of Education faculty have moved to the Library to increase synergism and collaboration with academic areas across campus, and to participate fully in the activities of the Faculty Center for Teaching. New space has been allocated for the School of Fire Science and Emergency Services, and in the School of Criminal Justice a major upgrade to the Virtra Simulation

System provides students, and local law enforcement agencies who partner with the University, with a state-of-the-art interactive training resource.

The Higher Learning Commission (HLC) is the main institutional accrediting body of the University. The accreditation process provides the University with an opportunity for critical reflection leading to continuous improvement. The HLC establishes a regular cycle for review, confirmation and reaffirmation of the Criteria for Accreditation. As part of our reaffirmation cycle, a team of HLC Peer Reviewers conducted a visit to campus in November 2016 which led to a reaffirmation of the institutional accreditation and a status of "Continued Accreditation". The next scheduled reaffirmation will occur in 2026. The University was noted as having met or exceeded the Criteria for Accreditation in 18 of 21 areas. Concerns noted in the remaining three areas related to program review, assessment of student learning and resources. The University continues to make progress in addressing these areas of concern, and will submit scheduled reports and host a monitoring visit to campus in the spring 2019.

In the areas of programmatic accreditation, the BSN nursing program was accredited through 2024 by the Commission on Collegiate Nursing Education (CCNE). The Michigan Board of Nursing (MBON) approved the Practical Nursing program self-study, effective through 2024. The Emergency Medical Services program was awarded initial accreditation through the Commission on Accreditation of Allied Health Education Programs (CAAHEP). The Engineering Technology Accreditation Commission (ETAC) of ABET awarded initial accreditation to the Electrical Engineering Technology BS program, and reaccreditation to the Manufacturing Engineering Technology BS program, each effective until 2021.

The University is fully utilizing the renovated Considine Hall which was under construction just a year ago. The $13.5 million project located in the heart of the LSSU Campus restored a historic landmark building to modern standards, providing new classroom, meeting, dining, and office space. The Considine building is also the home of the Lukenda School of Business. Planning continues on the Capital Outlay Project to develop the Center for Freshwater Research and Education (CFRE). This approximately $12 million project, which will include renovations of existing space at the Cloverland Hydroelectric Plant will be a phenomenal education and research facility. Located directly on the St. Marys River, near downtown Sault Ste. Marie, the project will continue support for our hatchery and educational programming. The University continues to work to establish the Nursing Simulation Center.

The University has implemented policies to both receive and award students recognized for completing the requirements of the Michigan Transfer Agreement. Students whose transcripts carry the "MTA Satisfied" designation receive 30 credits applicable to the Core Requirements at any of the Michigan Community Colleges and public universities. Our full participation in the MTA program supports students who would transfer to LSSU, but equally important, allows students to begin at LSSU and then complete programs at other institutions in disciplines that are not available at LSSU. The university made a major investment to implement Ellucian Degree Works, a multi-semester project that will result in improved student advising, assist in degree planning, and improve student retention and degree completion.

In the area of Grants, the University was awarded an NSF Major Research Instrumentation grant of approximately $400,000 for a 400MHz Nuclear Magnetic Resonance Spectrophotometer for fundamental research impacting the chemical and biological sciences. The University hired a new full-time programming coordinator in the Office of Sponsored Programs; the position had previously been at part-time.

The University's Title III Strengthening Institutions $1.86 million grant enters its fifth and final year for 2017-2018. The grant has had a major impact in the areas of improving the success rate of LSSU's first-year students, identifying and removing policies and procedures that act as barriers to success, and improving efficiency in the University Learning Management Systems. New grant requests are currently pending to provide continued support for students through the State of Michigan's King-Chavez-Parks Initiative.

Enrollment and Student Affairs:

With the addition of Ms. Wooley to the Student Affairs team and the charge to increase student retention, Student Affairs embarked on a modest reorganization coupled with several retention initiatives. Through reorganization, not only was the Dean of Student Life and Retention added to replace the Vice President of Student Affairs and Enrollment, a new Assistant Director of Housing and Campus Diversity Officer was added to the Student Affairs team. The Dean of Student Life and Retention replaces, in part, the role filled by the Vice President of Student Affairs and Enrollment. The Assistant Director of Housing replaces the Director of Housing, and the campus Diversity Officer position is a new position.

The newly installed Diversity Officer set about establishing a campus Diversity Committee during the first month in his new role. He also helped guide the submission and acceptance of a Diversity Statement and draft of a Diversity Plan. In addition, a Chosen Name policy has been vetted through the campus community and is expected to be adopted in the near future.

With the intent to immediately address student retention, a First Semester Task Force was developed, composed of both faculty and staff, representing critical areas across campus. The task force was charged to increase the percentage of students retained from the fall semester of 2017 to the spring semester of 2018, as compared to the percentage of students retained from the fall to spring semesters of the previous academic year. This group will meet weekly to address student concerns as they arise. The group is small by design in order to enhance the capacity to be responsive and nimble, enabling rapid resolution of student success problems as they arise.

Among the student population least successfully retained to degree completion are the commuter students. Coupled with the Learning Commons, Student Affairs has made several changes to more successfully embrace the needs of commuter students. During the 2017 summer, a Commuter Student Lounge was created in the Learning Commons, complete with a refrigerator, microwave and coffee pot enabling commuter students to bring their lunches and remain on campus between classes. The lounge was assigned a Resident Advisor (R.A.) who will assist students to connect with other residential students and student organizations. In addition, a temporary, overnight housing option was created for commuting students who might otherwise refrain from traveling to campus during inclement weather.

A new program, "Breakfast with the Dean" was initiated in order to help underclassmen meet the Dean of Student Life and Retention and offer suggestions for enhancing their campus experience. Enabling students to develop a sense of belonging has long been recognized as a critical element in supporting student success to degree completion. These overt efforts, coupled with a generalized emphasis on strengthening the student campus experience, as well as student advisor engagement, are expected to help reduce fall to spring semester student departure from LSSU.

Poor campus experience is known to be the primary reason cited for student departure, followed closely by the advising experience. An 8-member team of faculty and staff from LSSU attended the 2017 National Academic Advising Association (NACADA) Summer Institute with the intention of elevating the advising practice at LSSU. The team returned with several initiatives, among them recommendations for common course content for a University seminar class across majors. Additionally, they recommended that the course be made available to all FTIC (First Time in College) and transfer students. This core content is being piloted during the fall of 2017 in a seminar class as well as through a program of Academic Success Coaches in the freshman dormitory Academic Success Center satellite facilities. A

10-member team of faculty is meeting during the fall 2017 semester with members of the Faculty Center for Teaching to further refine the recommended course content. By the end of the academic year, LSSU will have LSSU specific recommendations for first year student programming vetted through the faculty, a pilot program, and the student peer academic coaches.

The advising initiatives outlined above conform with and address concerns raised by the Higher Learning Commission (HLC) during their 2016 visit to LSSU:

> The faculty advising model appears to be of varying quality; students expressed concern about advising both in the student opinion survey sent by HLC and in person. Both students, faculty and staff confirmed inconsistent academic advising which may result in students getting out of course sequence and not graduating on time. Faculty expressed concern about advising loads, which vary by program and average around 30 per faculty member, and indicated little to no advising training. (pp. 24-25)

As previously noted, the Higher Learning Commission (HLC) is the main institutional accrediting body of the University. The accreditation process provides the University with an opportunity for critical reflection leading to continuous improvement. The HLC establishes a regular cycle for review, confirmation and reaffirmation of the Criteria for Accreditation. The advising initiatives described are expected to be well developed and well received through the HLC reaffirmation process.

Institutional:

Unrelated to the passing of Dr. Pleger or any structural changes initiated by Dr. Mitchell, LSSU has experienced two resignations in key areas: Director of Athletics, and Associate VP for Human Resources. Interviews for the Director of Athletics are ongoing and a Human Resources position will be posted soon. Both of these are very important to LSSU. With Division I sports, it is required by the NCAA that this position be filled as soon as possible. The Human Resource position will oversee payroll, risk management, safety, Title IX, and all employment aspects. It is hoped that a highly qualified individual is identified and available to step into this roll before the year end.

The 20 year Master Plan, approved in March 2016, is now being implemented. Signage on campus has started to be replaced (over a five year time period), the CFRE project was approved, electrical upgrades began, and a project in collaboration with the city to move Easterday Avenue from four to two lanes is underway. The Easterday Avenue project is a collaborative project and is an actual component of both LSSU's and the City's Master Plans. It will reduce traffic speeds, provide a new gateway into both the campus and the city, add bike lanes, and make the student crossings safer.

LSSU is one of the seven Michigan public universities in the Michigan Public School Employees Retirement System (MPSERS). Included in the FY16 appropriations budget was funding and the recommendation to enact legislation that will cap universities contribution rate to 25.73%; however, this same language included processes to raise minimum payments made by universities by 3.5% per year, using a basis of 2012. In effect, the state expects that university employment will increase by 3.5% per year. This has not been the case and therefore an increased payment spread across fewer people is making the MSPERS burden significant for the universities. Language approved in the State's 2018 budget indicates that there may be some relief, rolling the rate back to 2%. However, it is unclear at this point if the new rate will be calculated using 2012 as a baseline, or if the 2017 amount will be used.

Enrollment continues to be one of LSSU's greatest concerns. FY18 enrollment is projected to be down significantly from FY17 (maybe as much as 6%). Many offices on campus are reaching out to prospective students to help reduce this shortfall. As previously noted, a number of changes have already occurred to address the continuing enrollment declines, but they are not expected to have much of an effect for FY18.

During FY17, LSSU experienced several power outages due to aging electrical grid infrastructure across campus. A request was made to the State of Michigan to provide some form of financial support to LSSU to address this issue. As a result, $300,000 has been allocated in the State's FY18 budget for allocation to LSSU for electrical upgrades. Some work on the systems began this summer and this work will continue throughout the year.

Dr. Pleger was very committed to securing funding for the campus' infrastructure and spoke often of "asset preservation". He was able to convince the Michigan Association of State Universities (MASU) that this common need among all State institutions was something worth pursuing. As such, MASU has partnered with the Governor's office and the Michigan Agency for Energy to examine ways in which institutional energy waste reduction projects can be submitted from all state institutions to the legislature for review and possible funding during the FY19 budget cycle. In parallel with these efforts, LSSU issued a Request for Quotation (RFQ) and a Request for Proposal (RFP) to identify a partner agency to develop and engage in performance funding contracts. Johnson Controls Inc. (JCI) was selected as the vendor.

In conclusion, budgets and enrollment continue to be challenging. The University remains committed to ensuring a viable future and has begun to take steps as necessary as evidenced by the improvement in the General Fund. With enrollments continuing to decline, the institution must find ways to market its unique programs more successfully in order to maintain and grow enrollment. LSSU has sufficient physical assets in place and is scheduled to increase those assets with the $12 million CFRE project. Funding for performance contracts will allow LSSU to address asset preservation activities while reducing energy consumption cost. LSSU continues to look for efficiencies in our operation, expand our student markets, and to become an integral and essential part of the community, the Eastern Upper Peninsula, and the State of Michigan.

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, 2017 and 2016, 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, 2017 and 2016, 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.

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 14 and the Required Supplementary Information on page 59 (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 December 13, 2017 on our consideration of Lake Superior State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Midland, Michigan
December 13, 2017

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

	As of June 30	
Assets	**2017**	**2016**
Current assets		
Cash and cash equivalents	$ 6,685,582	$ 4,893,938
Short-term investments	6,275,156	6,811,001
Accounts receivable, net	1,443,069	1,131,834
State appropriations receivable	3,618,119	4,542,450
Inventories	380,815	388,517
Other	112,862	147,725
Total current assets	**18,515,603**	**17,915,465**
Noncurrent assets		
Student loans receivable, net	2,371,468	2,260,248
Endowment investments	11,232,030	10,075,523
Unamortized bond insurance costs	221,102	235,842
Land, construction in progress and art collection	2,753,894	12,727,458
Depreciable capital assets, net	49,129,019	38,795,206
Total noncurrent assets	**65,707,513**	**64,094,277**
Total assets	**$ 84,223,116**	**$ 82,009,742**
Deferred outflows of resources	**$ 1,049,703**	**$ 1,618,941**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,931,007	$ 3,903,057
Unearned revenue	655,312	798,318
Deposits	192,613	208,130
Current portion of long-term debt	1,131,047	1,093,169
Current portion of employee benefit programs	224,175	230,000
Total current liabilities	**5,134,154**	**6,232,674**
Long-term debt, net of current portion	17,755,057	18,777,599
Employee benefit programs, net of current portion	904,233	963,209
Net pension obligation	17,042,144	17,182,038
Total liabilities	**$ 40,835,588**	**$ 43,155,520**
Deferred inflows of resources	**$ 104,176**	**$ 6,647**
Net position		
Net investment in capital assets	$ 34,377,071	$ 33,057,999
Restricted		
Nonexpendable		
Scholarships and research	205,657	205,367
Expendable		
Scholarships and research	12,616,805	11,311,674
Loans	3,042,391	3,047,297
Capital projects and debt service	1,906,474	1,656,769
Unrestricted	(7,815,343)	(8,812,590)
Total net position	**$ 44,333,055**	**$ 40,466,516**

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	
	2017	2016
Operating revenues		
Tuition and fees (net of scholarship allowances of $7,659,332 in 2017 and $7,656,870 in 2016)	$ 14,708,760	$ 14,444,282
Federal grants and contracts	1,985,425	1,607,710
State grants and contracts	186,658	147,308
Nongovernmental grants and contracts	3,761,724	4,095,742
Auxiliary activities (net of scholarship allowances of $874,740 in 2017 and $813,692 in 2016)	9,198,511	9,332,536
Other	1,129,670	999,034
Total operating revenues	**30,970,748**	**30,626,612**
Operating expenses		
Instruction	13,108,719	13,971,285
Research	498,824	716,397
Public service	1,659,764	1,669,704
Academic support	3,325,861	3,583,936
Student services	2,440,354	2,815,209
Student aid	1,774,514	1,919,526
Institutional support	5,643,012	6,316,666
Operation and maintenance of plant	5,144,483	5,596,514
Auxiliary activities	9,728,029	9,274,947
Depreciation	4,203,976	3,497,703
Other	897,257	439,469
Total operating expenses	**48,424,793**	**49,801,356**
Operating loss	**(17,454,045)**	**(19,174,744)**
Nonoperating revenues (expenses)		
State appropriations	13,616,368	13,269,782
Federal Pell grants	3,313,758	3,639,364
Interest on capital debt and leases	(662,414)	(673,496)
Amortization of prepaid bond insurance	(14,740)	(14,740)
Investment income, net of investment expenses	1,550,763	118,935
Gifts for endowments	100,856	170,080
Loss on assets sold or retired	(57,649)	(3,958)
Net nonoperating revenues	**17,846,942**	**16,505,967**
Income (loss) before other revenues	**392,897**	**(2,668,777)**
Other revenues		
Capital appropriations	3,162,972	5,452,953
Capital grants and gifts	310,670	998,540
Total other revenues	**3,473,642**	**6,451,493**
Increase in net position	**3,866,539**	**3,782,716**
Net position, beginning of year	**40,466,516**	**36,683,800**
Net position, end of year	**$ 44,333,055**	**$ 40,466,516**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2017	**2016**
Cash flows from operating activities		
Tuition and fees	$ 14,603,363	$ 14,330,316
Grants and contracts	5,859,547	5,810,198
Payments to employees	(28,160,070)	(29,846,269)
Payments to vendors	(14,711,140)	(12,283,000)
Payments for financial aid	(1,774,514)	(1,919,526)
Loans issued to students	(628,748)	(570,606)
Collections of interest and principal on loans to students	517,528	530,480
Auxiliary activities	9,069,550	9,357,672
Return of excess pension contributions	(40,281)	3,479,203
Other receipts	965,672	1,019,254
Net cash from operating activities	**(14,299,093)**	**(10,092,278)**
Cash flows from noncapital financing activities		
State appropriations	13,550,912	13,192,528
Federal Pell grants	3,316,616	3,640,346
Gifts for endowments	100,856	170,080
Federal Direct Lending receipts	9,885,990	10,256,174
Federal Direct Lending disbursements	(9,885,990)	(10,256,174)
Net cash from noncapital financing activities	**16,968,384**	**17,002,954**
Cash flows from capital and related financing activities		
Capital appropriations received	4,152,759	3,311,851
Capital grants and gifts received	230,019	864,928
Purchases and construction of capital assets	(4,544,617)	(9,054,248)
Loan proceeds	150,000	-
Proceeds from disposal of capital assets	3,394	10,721
Principal paid on debt and capital leases	(1,108,823)	(1,541,022)
Interest paid on debt and capital leases	(690,481)	(702,513)
Net cash from capital and related financing activities	**(1,807,749)**	**(7,110,283)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	4,890,007	12,174,960
Purchases of investments	(4,454,839)	(9,738,003)
Investment income, net	494,934	393,879
Net cash from investing activities	**930,102**	**2,830,836**
Net change in cash and cash equivalents	1,791,644	2,631,229
Cash and cash equivalents, beginning of year	4,893,938	2,262,709
Cash and cash equivalents, end of year	**$ 6,685,582**	**$ 4,893,938**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
Reconciliation of operating loss to net cash from operating activities	**2017**	**2016**
Operating loss	$ (17,454,045)	$ (19,174,744)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	4,203,976	3,497,703
Provision for uncollectible accounts and student loans receivables	11,643	74,242
Pension expense adjustment	526,873	4,826,367
Change in assets and liabilities:		
Accounts receivable, net	(300,609)	122,612
Student loans receivable, net	(136,347)	4,893
Inventories	7,702	1,285
Other	34,863	256,871
Accounts payable and accrued expenses	(969,825)	988,318
Unearned revenue	(143,006)	(367,032)
Deposits	(15,517)	15,987
Employee benefit programs	(64,801)	(338,780)
Net cash from operating activities	**$ (14,299,093)**	**$ (10,092,278)**
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	$ 80,651	$ 133,612
Entered into capital leases to purchase capital equipment	$ -	$ 299,156

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2017	**2016**
Assets		
Current assets		
Cash and cash equivalents	$ 299,644	$ 324,721
Short-term investments	2,226,280	1,576,280
Other current assets	16,798	16,798
Current portion of unconditional promises to give, net	51,926	89,303
Total current assets	**2,594,648**	**2,007,102**
Noncurrent assets		
Investments	14,525,952	12,885,098
Unconditional promises to give, net of current portion	34,043	124,905
Property held for sale	257,500	-
Beneficial interest in charitable remainder trust	328,027	346,206
Total noncurrent assets	**15,145,522**	**13,356,209**
Total assets	**$ 17,740,170**	**$ 15,363,311**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 10,419	$ 8,818
Employee benefit programs	18,507	20,788
Total current liabilities	**28,926**	**29,606**
Annuity obligations	36,648	40,964
Total liabilities	**65,574**	**70,570**
Net assets		
Restricted		
Permanently	10,452,812	10,188,507
Temporarily	6,339,869	4,490,099
Unrestricted	881,915	614,135
Total net assets	**17,674,596**	**15,292,741**
Total liabilities and net assets	**$ 17,740,170**	**$ 15,363,311**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2017	2016
Operating revenues		
Contributions	$ 2,166,910	$ 3,141,858
Change in value of split interest agreements	(13,448)	8,561
Total operating revenues	**2,153,462**	**3,150,419**
Operating expenses	534,777	499,365
Operating income	**1,618,685**	**2,651,054**
Nonoperating revenues (expenses)		
Investment income, net	597,759	544,532
Net unrealized gains (losses) on investments	1,077,257	(484,599)
Distributions to Lake Superior State University	(911,846)	(1,598,281)
Net nonoperating revenues (expenses)	**763,170**	**(1,538,348)**
Increase in net assets	**2,381,855**	**1,112,706**
Net assets, beginning of year	15,292,741	14,180,035
Net assets, end of year	**$ 17,674,596**	**$ 15,292,741**

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As required by the Governmental Accounting Standards Board (GASB), the University's financial statements include the financial statements of both the University and its legally separate tax-exempt component unit, the ***Lake Superior State University Foundation*** (Foundation). As a result of a) the Foundation's Board of Trustees being drawn primarily from community representatives, independent from the governance of the University's Board of Trustees and b) restricted resources held by the Foundation being 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 21 & 22 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 $911,846 during 2017 and $1,598,281 during 2016. Support from the University provided to the Foundation amounted to $397,304 during 2017 and $408,451 during 2016.

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.

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, pension liability 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.

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 or, if acquired by gift, at acquired value at the date of acquisition. 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:

Classification	Life
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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of outflows related to the University's multi-employer net pension obligation and totaled $1,049,703 as of June 30, 2017 and $1,618,941 as of June 30, 2016. Deferred inflows of resources consist of inflows related to the University's multi-employer net pension obligation and totaled $104,176 as of June 30, 2017 and $6,647 as of June 30, 2016. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members.

Net Pension Obligation

The calculations for the purpose of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, pension expense, the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS 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.

The University received $66,794,247 during 2017 and $62,980,925 during 2016 (net of a 3.0% administrative fee retained by the University) of State appropriations which were forwarded to 22 charter schools. The University also received $100,000 in State appropriations for Bay Mills Community College during fiscal years 2017 and 2016, 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.

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). Therefore the University is 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 2017 or 2016.

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 2017 or 2016.

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 2013 through 2017 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.

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 5.

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, 2017, the most recent statement of net assets presented herein, through December 13, 2017, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNIVERSITY

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

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

Short-term investment pool - to provide for the preservation of capital. Funds needed for expenditures in less than one year will be considered short-term.

Intermediate investment pool - to provide for preservation of capital and maximization of income without undue exposure to risk. Funds needed for expenditures within one to five years will be considered intermediate-term.

Long-term investment pool - to provide for long-term growth of principal and income without undo 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.

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

	2017	2016
Disbursement accounts	$ 1,164,806	$ 1,776,198
Money market funds	5,520,776	3,117,740
Total cash and cash equivalents	**$ 6,685,582**	**$ 4,893,938**

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

	2017	2016
University short-term investments		
Certificates of deposit	$ 509,673	$ 505,877
Mutual funds		
Bond/fixed income funds	5,765,483	6,305,124
Total University short-term investments	**$ 6,275,156**	**$ 6,811,001**

	2017	2016
University endowment investments		
Mutual funds		
Equity funds	$ 7,597,386	$ 6,372,992
Bond/fixed income funds	2,268,484	2,385,800
Exchange traded funds	1,334,240	1,214,118
Money market funds	31,920	102,613
Total University endowment investments	**$ 11,232,030**	**$ 10,075,523**

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, 2017, the University had the following investments with related maturities:

	Fair Market Value	Maturities (in Years) Less Than 1	1-5	6-10
Money market funds	$ 5,552,696	$ 5,552,696	$ -	$ -
Bond/fixed income funds	8,033,967	5,765,483	-	2,268,484
Total investments	**$ 13,586,663**	**$11,318,179**	**$ -**	**$ 2,268,484**

As of June 30, 2016, the University had the following investments with related maturities:

	Fair Market Value	Maturities (in Years) Less Than 1	1-5	6-10
Money market funds	$ 3,220,353	$ 3,220,353	$ -	$ -
Bond/fixed income funds	8,690,920	6,305,124	-	2,385,796
Total investments	**$11,911,273**	**$ 9,525,477**	**$ -**	**$ 2,385,796**

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, 2017, $6,375,917 of the University's bank balance of $7,076,283 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, 2017, the University held 46,497 and 44,379 units as of June 30, 2016 of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of $2,404,346 as of June 30, 2017 and $1,948,254 as of June 30, 2016. The University holds no other assets which may be subject to the risks of foreign currency.

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

Policies regarding marketable securities in the University endowment investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds or other marketable securities. The University endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the original gift principal. The spending policy is reviewed periodically by the Finance Committee, which recommends changes to the Board of Trustees. The net appreciation on University investments of donor-restricted endowments approximated $2,539,000 as of June 30, 2017 and $2,006,000 as of June 30, 2016. 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:

	2017	2016
Interest and dividends	2.7%	2.4%
Net realized and unrealized (losses) gains	11.2	(3.8)
Total investment gain (loss)	**13.9%**	**(1.4)%**

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. FAIR VALUE MEASUREMENTS – UNIVERSITY INVESTMENTS

The GASB issued GASB Statement No. 72, *Fair Value Measurement and Application,* which provides governments with guidance for determining fair value measurement and applying fair value to certain investments and disclosures related to all fair value measurements. 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. The University performs a detailed analysis of assets and liabilities subject to authoritative guidance and uses valuation techniques that maximize the use of observable, market corroborated inputs (level 1) and minimizes the use of unobservable inputs (level 3). Financial assets and liabilities recorded at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for an asset or liability.

The fair value of the following financial instruments was determined using the methods and assumptions described:

Investments excluding endowment fund investments - These investments are comprised of government notes, commercial paper, and certificates of deposit. The fair value of similar investments can be obtained in the market classifying them as a level 2 valuation.

Endowment investments - These investments are comprised of corporate bonds, corporate convertible bonds, government and agency bonds, bond funds, preferred stock, equities, international equities, and exchange traded funds. The fair value of corporate bonds, corporate convertible bonds, government and agency bonds, and bond funds (collectively bond/fixed income funds and exchange traded funds) are derived from quoted prices for identical assets in active markets classifying them as level 1 valuation. The fair value of preferred stock and equities and international equities (collectively equity funds) are obtained from similar investments obtained in the market classifying them as a level 2 valuation.

4. 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:

	2017	2016
Mutual funds		
Index funds	$ 3,138,451	$ 2,621,718
Growth funds	5,209,904	4,105,498
Bond/fixed income funds	5,726,302	5,104,389
Exchange traded funds	1,847,518	1,669,259
Value funds	799,147	655,786
Money market	5,894	283,796
Subtotal	16,727,216	14,440,446
Marketable securities	25,016	20,932
Total Foundation investments	**$ 16,752,232**	**$ 14,461,378**

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

	2017	2016
Mutual funds		
Index funds	$ 371,794	$ 23,034
Growth funds	629,271	(427,668)
Bond/fixed income funds	(77,756)	15,571
Exchange traded funds	40,766	(40,597)
Value funds	109,098	(56,276)
Subtotal	1,073,173	(485,936)
Marketable securities	4,084	1,337
Total Foundation unrealized gains (losses)	**$ 1,077,257**	**$ (484,599)**

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS

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:

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 8.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 3,138,451	$ -	$ -	$ 3,138,451
Growth funds	5,209,904	-	-	5,209,904
Bond/fixed income funds	5,726,302	-	-	5,726,302
Exchange traded funds	1,847,518	-	-	1,847,518
Value funds	799,147	-	-	799,147
Money market	5,894	-	-	5,894
Marketable securities	25,016	-	-	25,016
Total investments at fair value	**$16,752,232**	**$ -**	**$ -**	**$ 16,752,232**
Beneficial Interest in Charitable Remainder Trust	**$ -**	**$ -**	**$ 328,027**	**$ 328,027**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 2,621,718	$ -	$ -	$ 2,621,718
Growth funds	4,105,498	-	-	4,105,498
Bond/fixed income funds	5,104,389	-	-	5,104,389
Exchange traded funds	1,669,259	-	-	1,669,259
Value funds	655,786	-	-	655,786
Money market	283,796	-	-	283,796
Marketable securities	20,932	-	-	20,932
Total investments at fair value	**$14,461,378**	**$ -**	**$ -**	**$ 14,461,378**
Beneficial Interest in Charitable Remainder Trust	**$ -**	**$ -**	**$ 346,206**	**$ 346,206**

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, 2017:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance, beginning of year	$ -	$ 346,206
Unrealized losses relating to investments held at year end	-	-
Net sales	-	-
Change in value	-	(18,179)
Balance, end of year	**$ -**	**$ 328,027**

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, 2016:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance, beginning of year	$ 552,001	$ 340,335
Unrealized losses relating to investments held at year end	(2,744)	-
Net sales	(549,257)	-
Change in value	-	5,871
Balance, end of year	**$ -**	**$ 346,206**

6. 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 $512,884 as of June 30, 2017 and $582,099 as of June 30, 2016.

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

	2017	2016
Tuition and fees	$ 498,412	$ 411,256
Governmental grants and contracts	476,514	390,728
Auxiliary activities	218,639	180,613
Other	208,731	80,583
Private grants and contracts	40,773	68,654
Accounts receivable, net	**$ 1,443,069**	**$ 1,131,834**

In addition, the University has student loans receivable in the amount of $2,371,468 net of an allowance for uncollectible loans of $533,825 as of June 30, 2017 and $2,260,248, net of an allowance for uncollectible loans of $508,709 as of June 30, 2016. Approximately 81% of student loans receivable are expected to be collected in periods beyond one year.

7. UNCONDITIONAL PROMISES TO GIVE

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

	2017	2016
Unconditional promises due in less than one year	$ 58,283	$ 94,108
Unconditional promises due in one to five years, net of discount to net present value at 1% of $120 and $1,950	23,880	110,050
Unconditional promises due in more than five years, net of discount to net present value at 8% of $22,837 and $22,145	10,163	14,855
Present value of promises to give	92,326	219,013
Less allowance for uncollectible amounts	6,357	4,805
Net unconditional promises to give	**85,969**	**214,208**
Less current portion	51,926	89,303
Unconditional promises to give, net of current portion	**$ 34,043**	**$ 124,905**

8. 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, 2017, 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 $328,027 and $346,206, as of June 30, 2016.

9. CAPITAL ASSETS

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

	2017			
	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ -	$ -	$ 838,684
Land	1,299,679	-	-	1,299,679
Art collection	611,956	3,575	-	615,531
Construction in progress	9,977,139	3,159,509	13,136,648	-
Total capital assets not being depreciated	12,727,458	3,163,084	13,136,648	2,753,894
Capital assets being depreciated				
Land improvements	5,835,503	36,640	-	5,872,143
Infrastructure	3,266,082	-	-	3,266,082
Building and building improvements	117,589,895	12,600,208	49,378	130,140,725
Equipment and other	20,848,734	1,961,984	312,120	22,498,598
Total capital assets being depreciated	147,540,214	14,598,832	361,498	161,777,548
Accumulated depreciation	(108,745,008)	(4,203,976)	300,455	(112,648,529)
Total capital assets being depreciated, net	38,795,206	10,394,856	61,043	49,129,019
Total capital assets, net	**$ 51,522,664**	**$ 13,557,940**	**$ 13,197,691**	**$ 51,882,913**

	2016			
	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ -	$ -	$ 838,684
Land	1,301,179	-	1,500	1,299,679
Art collection	601,997	11,159	1,200	611,956
Construction in progress	1,812,329	8,164,810	-	9,977,139
Total capital assets not being depreciated	4,554,189	8,175,969	2,700	12,727,458
Capital assets being depreciated				
Land improvements	5,835,503	-	-	5,835,503
Infrastructure	3,266,082	-	-	3,266,082
Building and building improvements	117,273,797	316,098	-	117,589,895
Equipment and other	20,262,440	994,950	408,656	20,848,734
Total capital assets being depreciated	146,637,822	1,311,048	408,656	147,540,214
Accumulated depreciation	(105,643,981)	(3,497,703)	396,676	(108,745,008)
Total capital assets being depreciated, net	40,993,841	(2,186,655)	11,980	38,795,206
Total capital assets, net	**$ 45,548,030**	**$ 5,989,314**	**$ 14,680**	**$ 51,522,664**

As of June 30, 2017, construction work performed on the R. W. Considine Hall (formerly South Hall) for the classroom renovation project for the Lukenda School of Business is substantially complete. Remaining project expenditures will be capitalized when incurred. The State Building Authority (SBA) bonding process and creation of the lease with the State of Michigan are anticipated to be complete in fall 2017.

Construction in progress

Estimated cost of construction	$ 13,500,000
Costs incurred through June 30, 2017	13,136,648
Estimated remaining project expenditures	**$ 363,352**

Expected sources of financing:

State of Michigan funds	$ 9,000,000
University funds and other sources	4,500,000
Total	**$ 13,500,000**

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Accounts payable to vendors	$ 1,162,396	$ 2,263,943
Payroll and payroll taxes	1,172,363	1,131,256
Health insurance claims	468,000	363,385
Interest	83,248	85,473
Workers' compensation claims	45,000	59,000
Total accounts payable and accrued expenses	**$ 2,931,007**	**$ 3,903,057**

Workers' Compensation

The University is self-insured for workers' compensation claims up to $550,000 per claim as of June 30, 2017. The accrued workers' compensation obligation represents claims made prior to June 30, 2017 and June 20, 2016, 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.

11. LONG-TERM DEBT

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

2017							
			Outstanding Principal				
	Interest Rate	Maturity	July 1 2016	Additions	Reductions	June 30 2017	Current Portion
Bonds payable							
General Revenue Bonds, Series 2012 Series bonds	2.0%-4.0%	2017-2031	$ 18,585,000	$ -	$ 890,000	$ 17,695,000	$ 910,000
Net premium on bond issuance			413,459	-	25,842	387,617	-
Total bonds payable			**18,998,459**	**-**	**915,842**	**18,082,617**	**910,000**
Capital leases	up to 4.00%	2017-2024	872,309	-	202,022	670,287	191,834
Loan payable	1.85%	2017-2022	-	150,000	16,800	133,200	29,213
Total long-term debt			**$ 19,870,768**	**$ 150,000**	**$ 1,134,664**	**18,886,104**	**$1,131,047**
Less current portion						1,131,047	
Long-term debt, net of current portion						**$ 17,755,057**	

2016							
			Outstanding Principal				
	Interest Rate	Maturity	July 1 2015	Additions	Reductions	June 30 2016	Current Portion
Bonds payable							
General Revenue Bonds, Series 2012 Series bonds	2.0%-4.0%	2016-2031	$ 19,855,000	$ -	$ 1,270,000	$ 18,585,000	$ 890,000
Net premium on bond issuance			439,301	-	25,842	413,459	-
Total bonds payable			**20,294,301**	**-**	**1,295,842**	**18,998,459**	**890,000**
Capital leases	up to 4.00%	2016-2024	844,175	299,156	271,022	872,309	203,169
Total long-term debt			**$ 21,138,476**	**$ 299,156**	**$ 1,566,864**	**19,870,768**	**$1,093,169**
Less current portion						1,093,169	
Long-term debt, net of current portion						**$ 18,777,599**	

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, 2017, serial bonds payable in the amount of $17,695,000 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, 2017 and 2016, 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.

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:

Year Ending June 30	Principal	Interest	Total
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	1,010,000	548,900	1,558,900
2022	1,045,000	513,025	1,558,025
2023-2027	5,800,000	1,974,875	7,774,875
2028-2032	7,020,000	724,600	7,744,600
Total – bonds payable	**$ 17,695,000**	**$ 5,632,538**	**$ 23,327,538**

Obligations Under Capital Leases

The University leases certain equipment with a net book value of $745,890 as of June 30, 2017, under lease agreements which meet the capitalization criteria specified by U.S. generally accepted accounting principles.

The following is a schedule of annual future minimum lease payments required under capitalized lease obligations as of June 30, 2017:

Year Ending June 30	Amount
2018	$ 200,987
2019	116,850
2020	116,850
2021	62,773
2022	62,773
2023-24	125,476
Total minimum payments due	685,709
Less amounts representing interest, imputed at annual rates ranging up to 4.00%	15,422
Present value of net minimum lease payments	**$ 670,287**

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year for the years ended June 30, 2017 and June 30, 2016, are insignificant.

Equipment Loan

On November 15, 2016, the University entered into a Loan Agreement with Central Savings Bank for cash to purchase exercise equipment for the Student Activity Center. The loan was for the amount of $150,000 with a fixed interest rate of 1.850%. Repayment comprises 60 monthly payments in the amount of $2,619 beginning January 1, 2017 and ending November 14, 2021. As of June 30, 2017, the principal remaining on the loan was $133,200.

The following is a schedule of annual future payments for the loan as of June 30, 2017:

Year Ending June 30	Principal	Interest	Total
2018	$ 29,213	$ 2,218	$ 31,431
2019	29,758	1,673	31,431
2020	30,312	1,119	31,431
2021	30,880	551	31,431
2022	13,037	60	13,097
Total – loan payable	**$ 133,200**	**$ 5,621**	**$ 138,821**

12. 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 10.0 percent of administrative and faculty group employees' pay (12.0 percent for those hired before January 1, 2010), and 10.0 percent of MEA employees' pay. The University contributed approximately $1,614,000 for the year ended June 30, 2017 and $1,654,000 for the year ended June 30, 2016. 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.

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:

Fiscal Year Ended	Funded Portion	Unfunded Portion
June 30, 2017	4.30%	18.75%
June 30, 2016	4.87%	20.26%

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 statutorily required contribution was $1,321,334. Its actual and actuarially determined contributions to the plan for the year ended June 30, 2017 were $1,550,979. Contributions include $152,699 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, 2017. The University's required and actual contributions to the plan for the year ended June 30, 2016 were $1,888,294. Contributions included $162,611 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, 2016.

Benefits Provided: Benefit provisions of the defined benefit pension plan are established by State statue, 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.

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, 2016

Total pension liability	$ 1,052,555,585
Plan fiduciary net position	(492,315,440)
Net pension liability	$ 560,240,145
Plan fiduciary net position as a percentage of total pension liability	46.77%
Net pension liability as a percentage of covered-employee payroll	737.82%

MPSERS Net Pension Liability – Seven Universities as of September 30, 2015

Total pension liability	$ 1,043,945,699
Plan fiduciary net position	(495,345,725)
Net pension liability	$ 548,599,974
Plan fiduciary net position as a percentage of total pension liability	47.45%
Net pension liability as a percentage of covered-employee payroll	691.61%

Net Pension Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense: At June 30, 2017, the University reported a liability of $17,042,144 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The University's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. As of September 30, 2016, the University's proportionate share was 3.04194 percent. The University reported a liability of $17,182,038 as of June 30, 2016, and the University's proportionate share was 3.13198 percent as of the September 30, 2015 measurement date.

The University recognized pension expense of $1,595,142 for the year ended June 30, 2017 and $6,098,558 for the year ended June 30, 2016.

At June 30, 2017, 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
Differences between actual and expected experience	$ 27,285	$ -
Changes of assumptions	-	-
Net difference between projected and actual plan investment earnings	165,225	-
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	104,176
University contributions subsequent to the measurement date	857,193	-
	$ 1,049,703	$ 104,176

At June 30, 2016, 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
Differences between actual and expected experience	$ 236,006	$ -
Changes of assumptions	-	-
Net difference between projected and actual plan investment earnings	49,758	-
Changes in proportionate and differences between University contributions and proportionate share of contributions	264,799	6,647
University contributions subsequent to the measurement date	1,068,378	-
	$ 1,618,941	$ 6,647

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
2018	$ (118,268)
2019	(41,378)
2020	232,876
2021	15,104
	$ 88,334

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, 2016 is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures.

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date: ....September 30, 2015

Actuarial Cost Method:...Entry Age, Normal

Wage Inflation Rate: 3.5%

Investment Rate of Return:
- MIP and Basic Plans (Non-Hybrid): 8.0%
- Pension Plus Plan (Hybrid): 7.0%

Projected Salary Increases: ....3.5 - 12.3%, including wage inflation at 3.5%

Cost-of-Living Pension Adjustments: ....3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

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, 2016 and 2015 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate & Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
Total	**100.0%**	

Rate of Return: For the fiscal year ended September 30, 2016, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.91 %. For the fiscal year ended September 30, 2015, the rate was (.02) %. 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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 8.00 %; the municipal bond rate is 4.11 % (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 %.

Discount Rate: A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus Plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Obligation to Changes in the Discount Rate: The following presents Lake Superior State University's proportionate share of the net pension liability calculated using the discount rate of 8.0 %, as well as what Lake Superior State University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 %) or 1.00 percentage point higher (9.00 %) than the current rate:

At June 30, 2017:

1.00 % decrease (7.00 %)	Current Discount Rate (8.00 %)	1.00 % increase (9.00 %)
$19,913,959	$17,042,144	$14,560,049

At June 30, 2016:

1.00 % decrease (7.00 %)	Current Discount Rate (8.00 %)	1.00 % increase (9.00 %)
$20,160,320	$17,182,038	$14,611,329

Payable to the Pension Plan: As of June 30, 2017, the University reported a payable of $-0- and $220,951 as of June 30, 2016, 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.

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:

	2017				
	July 1 2016	**Additions**	**Payments**	**June 30 2017**	**Current Portion**
Compensated absences	$ 621,937	$ 101,658	$ 82,103	$ 641,492	$ 100,000
Accumulated sick leave benefits	571,272	20,000	104,356	486,916	124,175
Total employee benefit programs	**$ 1,193,209**	**$ 121,658**	**$ 186,459**	**$ 1,128,408**	**$ 224,175**

	2016				
	July 1 2015	Additions	Payments	June 30 2016	Current Portion
Compensated absences	$ 768,012	$ 16,262	$ 162,337	$ 621,937	$ 100,000
Accumulated sick leave benefits	763,977	-	192,705	571,272	130,000
Total employee benefit programs	**$ 1,531,989**	**$ 16,262**	**$ 355,042**	**$ 1,193,209**	**$ 230,000**

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 14 retirees participating in this health coverage as of June 30, 2017 and 15 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.

13. 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 as of June 30, 2017 and $80,000 as of June 30, 2017 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 $3,275,745 as of June 30, 2017 and $3,510,789 as of June 30, 2016. The workers' compensation claims liability of $45,000 for the year ending as of June 30, 2017 and $59,000 for the year ending as of June 30, 2016, 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, 2017 were $468,000 and $363,385 as of June 30, 2016, and, accordingly, a related liability has been recorded in the accompanying statements of net position.

14. NET ASSETS CATEGORIES - FOUNDATION

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

	2017	2016
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ -	$ (245)
Board designated	283,706	235,531
Undesignated	598,209	378,849
	$ 881,915	$ 614,135

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

	2017	2016
University programs	$ 2,283,622	$ 1,791,072
Corpus of board restricted endowment funds	135,659	-
Net appreciation on donor-restricted endowment funds	3,920,588	2,699,027
	$ 6,339,869	$ 4,490,099

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

	2017	2016
Remainder interests in split interest agreements	$ 328,027	$ 346,206
Corpus of donor-restricted endowment funds	10,124,785	9,842,301
	$ 10,452,812	$ 10,188,507

Permanently restricted net assets are held in perpetuity, the income from which supports scholarships and fellowships, faculty chairs, and other University programs.
Following is a summary of the changes in the Foundation's net assets for the years ended June 30:

	2017			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Revenue, gains, and other support				
Investment income	$ 33,710	$ 564,049	$ -	$ 597,759
Net realized and unrealized appreciation in investments	4,083	1,073,174	-	1,077,257
Contributions	704,540	1,184,617	277,753	2,166,910
Change in value of split interest agreements	-	-	(13,448)	(13,448)
Net assets released from restrictions	972,070	(972,070)	-	-
Total revenue, gains, and other support	1,714,403	1,849,770	264,305	3,828,478
Expenses				
Operating expenses	(534,777)	-	-	(534,777)
Contributions to the University	(911,846)	-	-	(911,846)
Changes in net assets	**267,780**	**1,849,770**	**264,305**	**2,381,855**
Net assets, beginning of year	614,135	4,490,099	10,188,507	15,292,741
Net assets, end of year	**$ 881,915**	**$ 6,339,869**	**$ 10,452,812**	**$ 17,674,596**

	2016			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Revenue, gains, and other support				
Investment income	$ 32,272	$ 267,762	$ -	$ 300,034
Net realized and unrealized appreciation in investments	1,092	(241,193)	-	(240,101)
Contributions	438,701	799,669	1,903,488	3,141,858
Change in value of split interest agreements	-	-	8,561	8,561
Net assets released from restrictions	1,611,971	(1,611,971)	-	-
Total revenue, gains, and other support	2,084,036	(785,733)	1,912,049	3,210,352
Expenses				
Operating expenses	(499,365)	-	-	(499,365)
Contributions to the University	(1,598,281)	-	-	(1,598,281)
Changes in net assets	**(13,610)**	**(785,733)**	**1,912,049**	**1,112,706**
Net assets, beginning of year	627,745	5,275,832	8,276,458	14,180,035
Net assets, end of year	**$ 614,135**	**$ 4,490,099**	**$ 10,188,507**	**$ 15,292,741**

15. FOUNDATION ENDOWMENT

The Foundation's endowment consists of individual funds, all except one 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:

	2017			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Investment return				
Investment income	$ -	$ 564,049	$ -	$ 564,049
Net appreciation				
(realized and unrealized)	245	1,072,929	-	1,073,174
Total investment return	245	1,636,978	-	1,637,223
Contributions and other revenue	-	135,659	277,753	413,412
Change in value	-	-	(13,448)	(13,448)
Appropriation of endowment assets				
for expenditure	-	(415,417)	-	(415,417)
Changes to endowment net assets	**245**	**1,357,220**	**264,305**	**1,621,770**
Endowment net assets				
Beginning of year	(245)	2,699,027	10,188,507	12,887,289
End of year	**$ -**	**$ 4,056,247**	**$ 10,452,812**	**$ 14,509,059**

	2016			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Investment return				
Investment income	$ -	$ 267,762	$ -	$ 267,762
Net appreciation				
(realized and unrealized)	(245)	(241,193)	-	(241,438)
Total investment return	(245)	26,569	-	26,324
Contributions and other revenue	-	-	1,903,488	1,903,488
Change in value	-	-	8,561	8,561
Appropriation of endowment assets				
for expenditure	-	(357,209)	-	(357,209)
Changes to endowment net assets	**(245)**	**(330,640)**	**1,912,049**	**1,581,164**
Endowment net assets				
Beginning of year	-	3,029,667	8,276,458	11,306,125
End of year	**$ (245)**	**$ 2,699,027**	**$ 10,188,507**	**$ 12,887,289**

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.

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.

16. 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:

Employee Group	Union Name	Contract Expired/Expires
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

Since June 30, 2017, both union contracts have been renegotiated. The employee groups covered and the current expiration of the contracts are as follows:

Employee Group	Union Name	Contract Expired/Expires
Support Personnel	Michigan Education Association/ National Education Association	September 30, 2020
Faculty	Michigan Education Association/ National Education Association	August 31, 2018
Administrative and Professional	N/A	N/A

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 bonding process and creation of the lease with the State of Michigan for the newly renovated R. W. Considine Hall are anticipated to be complete in fall 2017.

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.

17. NATURAL CLASSIFICATION OF EXPENSES

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

2017

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 11,876,405	$ 1,232,314	$ -	$ -	$ -	$ -	$ 13,108,719
Research	386,080	112,744	-	-	-	-	498,824
Public service	923,812	735,952	-	-	-	-	1,659,764
Academic support	2,376,890	948,971	-	-	-	-	3,325,861
Student services	2,055,301	385,053	-	-	-	-	2,440,354
Student aid	-	-	-	1,774,514	-	-	1,774,514
Institutional support	3,598,875	2,044,137	-	-	-	-	5,643,012
Operations and maintenance of plant	2,898,184	739,890	1,506,409	-	-	-	5,144,483
Auxiliary activities	4,587,982	4,156,462	983,585	-	-	-	9,728,029
Depreciation	-	-	-	-	4,203,976	-	4,203,976
Other	-	-	-	-	-	897,257	897,257
Total operating expenses	**$ 28,703,529**	**$ 10,355,523**	**$ 2,489,994**	**$ 1,774,514**	**$ 4,203,976**	**$ 897,257**	**$ 48,424,793**

2016

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 12,592,092	$ 1,379,193	$ -	$ -	$ -	$ -	$ 13,971,285
Research	479,642	236,755	-	-	-	-	716,397
Public service	896,063	773,641	-	-	-	-	1,669,704
Academic support	2,550,704	1,033,232	-	-	-	-	3,583,936
Student services	2,353,490	461,719	-	-	-	-	2,815,209
Student aid	-	-	-	1,919,526	-	-	1,919,526
Institutional support	4,175,297	2,141,369	-	-	-	-	6,316,666
Operations and maintenance of plant	3,389,752	741,817	1,464,945	-	-	-	5,596,514
Auxiliary activities	4,460,940	3,902,337	911,670	-	-	-	9,274,947
Depreciation	-	-	-	-	3,497,703	-	3,497,703
Other	-	-	-	-	-	439,469	439,469
Total operating expenses	**$ 30,897,980**	**$ 10,670,063**	**$ 2,376,615**	**$ 1,919,526**	**$ 3,497,703**	**$ 439,469**	**$ 49,801,356**

18. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

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

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.

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LAKE SUPERIOR STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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

	2017	2016	2015
University's proportionate share of the net pension obligation			
As a percentage	3.04194%	3.13198%	2.89703%
As an amount	$ 17,042,144	$ 17,182,038	$ 10,866,926
University's covered-employee payroll	$ 2,072,352	$ 2,025,982	$ 2,259,143
University's proportionate share of the net pension obligation, as a percentage of the University's covered-employee payroll	822.36%	848.08%	481.02%
MPSERS fiduciary net position as a percentage of the total pension liability	46.77%	47.45%	63.00%

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

	2017	2016	2015
Statutorily required contribution	$ 1,321,334	$ 1,074,692	$ 936,883
Contributions in relation to the actuarially determined contractually required contribution	1,595,142	1,888,294	1,720,135
Contribution excess	$ 273,808	$ 813,602	$ 783,252
University's covered-employee payroll	$ 2,072,352	$ 2,025,982	$ 2,259,143
Contributions as a percentage of covered-employee payroll	76.97%	93.20%	76.14%

Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions in 2017.