LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017

LAKE SUPERIOR
STATE UNIVERSITY

LAKE SUPERIOR STATE UNIVERSITY

TABLE OF CONTENTS

Lake Superior State University

University Officers

Board of Trustees

President and Vice Presidents

Lake Superior State University Foundation

Lake Superior State University
Management's Discussion and Analysis

This discussion and analysis section of Lake Superior State University's (University) annual financial report provides an overview of our financial activities during the years ended June 30, 2018, 2017 and 2016. 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). 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.

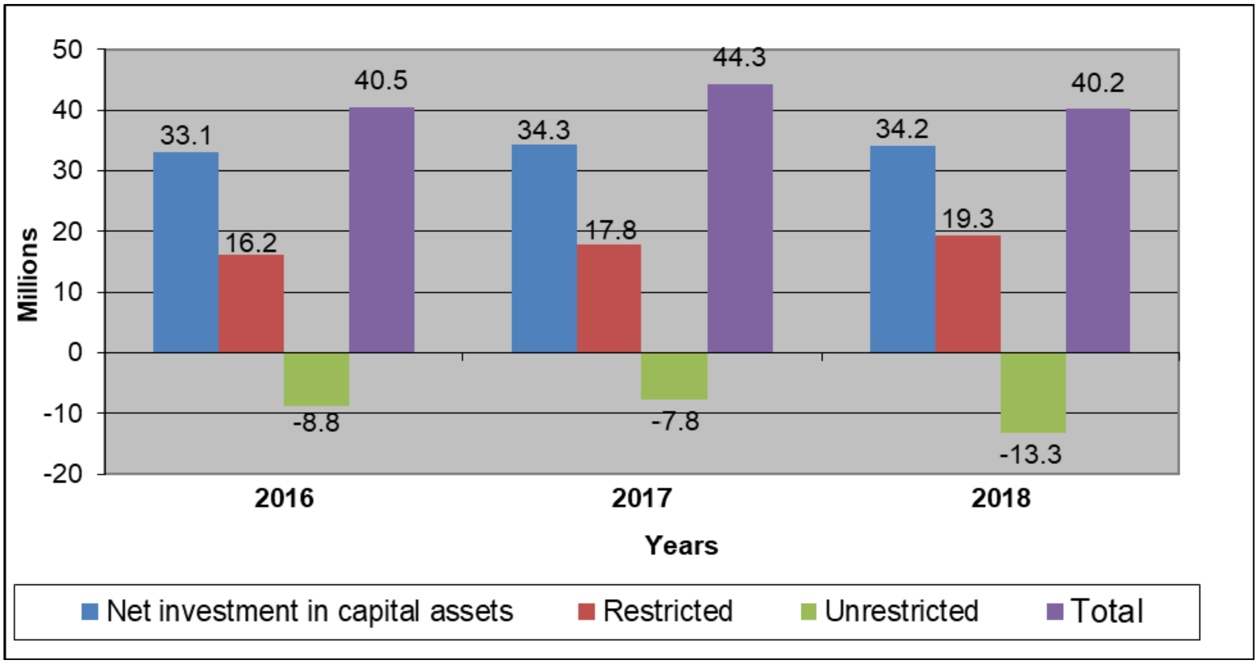
Using the Annual Report

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, 2018. Net position for the year ended June 30, 2018 of approximately $40.2 million decreased by approximately $4.1 million from the prior year as compared to an increase of approximately $3.8 million for the year ended June 30, 2017. The deficit in the unrestricted net position of approximately $13.3 million increased by approximately $5.5 million. The decrease in total net position is largely due to recording $4.5 million in long-term liabilities of Other Postemployment Benefits required by GASB Statement No. 75.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2018, 2017 and 2016:



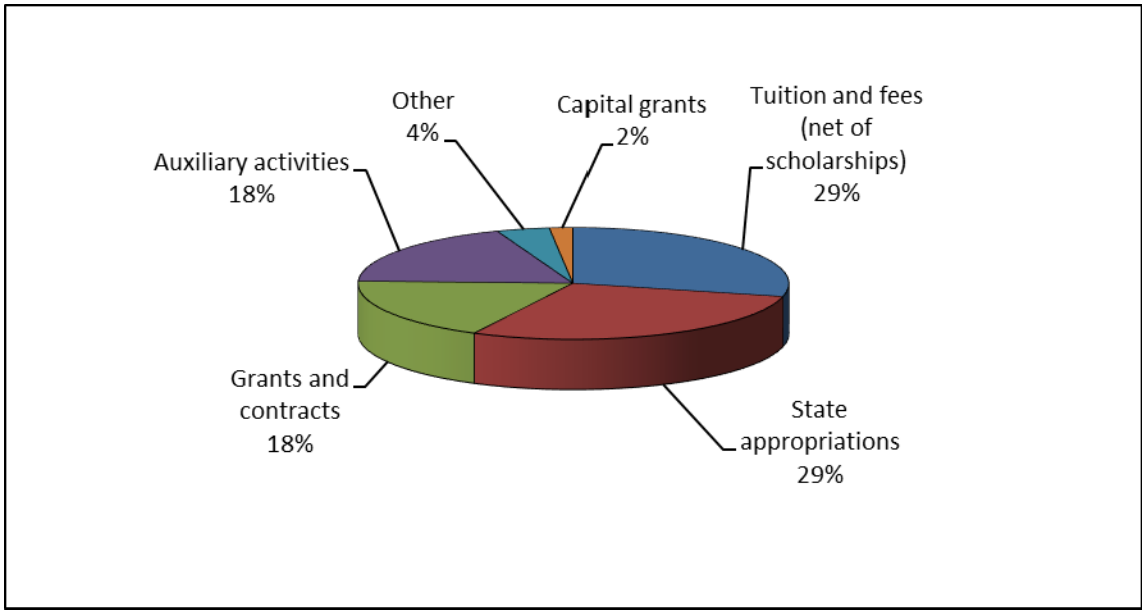
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not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

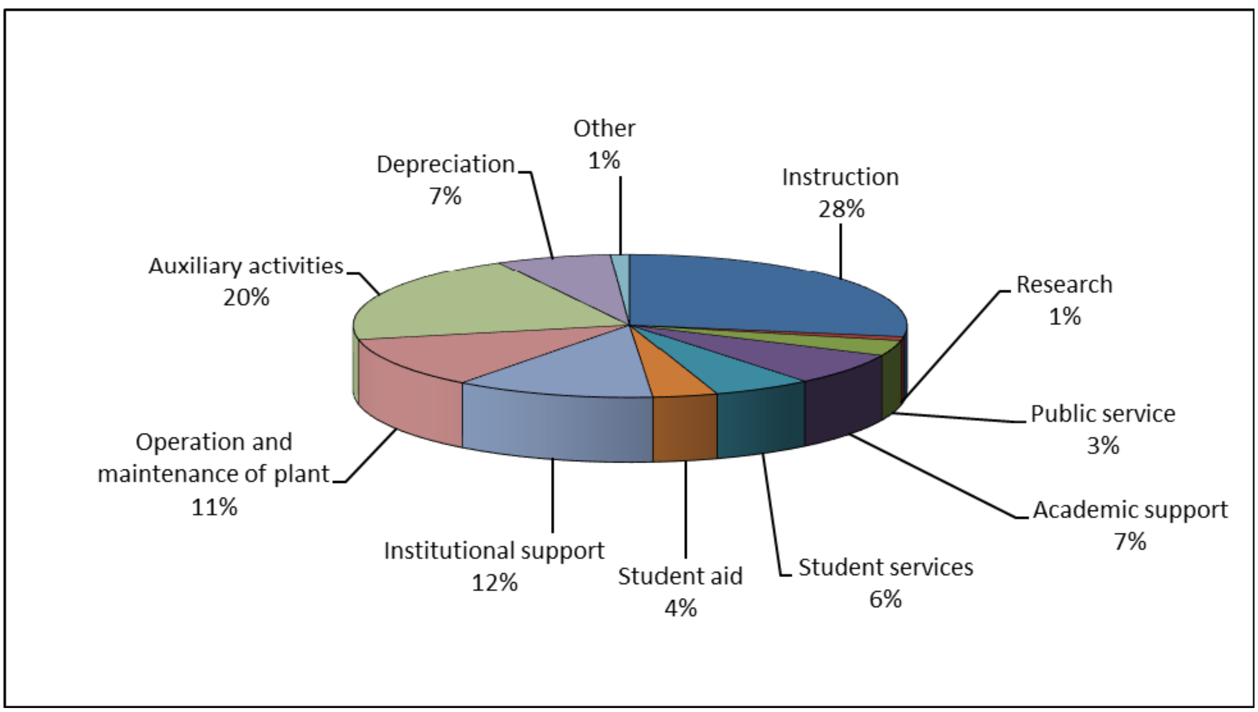
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled approximately $48.5 million for the 2018 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2018:



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 $48.1 million for the 2018 fiscal year. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2018:



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		
	2018	2017	2016
Assets			
Current assets	$ 18,685,904	$ 18,515,603	$ 17,915,465
Capital assets, net	50,847,193	51,882,913	51,522,664
Other noncurrent assets	14,631,422	13,824,600	12,571,613
Total Assets	**$ 84,164,519**	**$ 84,223,116**	**$ 82,009,742**
Deferred outflows of resources	**$ 1,280,160**	**$ 1,049,703**	**$ 1,618,941**
Liabilities			
Current liabilities	$ 5,112,277	$ 5,134,154	$ 6,232,674
Noncurrent liabilities	17,585,603	18,659,290	19,740,808
Net pension and OPEB liability	21,813,096	17,042,144	17,182,038
Total liabilities	**$ 44,510,976**	**$ 40,835,588**	**$ 43,155,520**
Deferred inflows of resources	**$ 749,332**	**$ 104,176**	**$ 6,647**
Net position			
Net investment in capital assets	$ 34,197,765	$ 34,377,071	$ 33,057,999
Restricted, nonexpendable	205,827	205,657	205,367
Restricted, expendable	19,082,641	17,565,670	16,015,740
Unrestricted	(13,301,862)	(7,815,343)	(8,812,590)
Total net position	$ 40,184,371	$ 44,333,055	$ 40,446,516
Total Liabilities and Net position	**$ 84,695,347**	**$ 85,168,643**	**$ 83,622,036**

Changes from 2017 to 2018:

Cash, cash equivalents and short-term investments, collectively, increased by approximately $1.0 million to approximately $14.0 million since 2017. Accounts receivable increased by approximately $275,000 from the prior year. Current assets increased approximately $170,000. Management attributes the majority of the increase in current assets to an increase in State appropriations and controlled spending.

Net capital assets decreased by approximately $1.0 million as a result of the annual depreciation charge of approximately $3.2 million and net capital asset retirements of $406,000 exceeding capital asset additions of approximately $2.6 million.

Deferred outflows of resources reflects an increase of approximately $230,000 from the prior year.

Total liabilities increased by approximately $3.7 million, primarily due to an increase of long-term net pension and other postemployment benefits.

Total net position decreased by approximately $4.1 million. The University's net investment in capital assets decreased approximately $179,000, resulting from net capital asset acquisitions and payments on long-term debt being less than the depreciation charge. Restricted, expendable net position increased approximately $1.5 million. The deficit in the unrestricted net position increased by approximately $5.5 million, primarily due to recording long-term liabilities of Other Postemployment Benefits, related to the adoption of GASB 75, resulting in a cumulative effect of change in accounting principle. The June 30, 2018 deficit in the unrestricted net position of approximately $13.3 million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately $928,000 and the net pension and other postemployment benefits deficit of approximately $17.8 million.

Changes from 2016 to 2017:

Cash, cash equivalents and short-term investments, collectively, increased by approximately $1.2 million to approximately $13.0 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 $1.0 million primarily due to controlled spending. The June 30, 2017 deficit in 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.

The Statements of Revenues, Expenses and Changes in Net Position

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

	Year Ended June 30		
	2018	2017	2016
Total operating revenues	$ 29,674,898	$ 30,970,748	$ 30,626,612
Total operating expenses	48,095,964	48,424,793	49,801,356
Operating loss	(18,421,066)	(17,454,045)	(19,174,744)
Net nonoperating revenues	17,665,149	17,846,942	16,505,967
Income (loss) before other revenues	(755,917)	392,897	(2,668,777)
Total other revenues	1,164,015	3,473,642	6,451,493
Increase in net position	**408,098**	**3,866,539**	**3,782,716**
Net position, beginning of year	44,333,055	40,466,516	36,683,800
Cumulative effect of change in accounting principle	(4,556,782)	-	-
Net position, end of year	**$ 40,184,371**	**$ 44,333,055**	**$ 40,466,516**

Changes from 2017 to 2018:

Operating revenues decreased by approximately $1.3 million. Tuition and fees, net of scholarship allowances, decreased by approximately $919,000 or 6% after a tuition rate increase of 3.8% and a decrease in enrollment. Scholarship allowances increased approximately $423,000 from 2017. Auxiliary activities, net of scholarship allowances, decreased by approximately $266,000 or 3% after a 1.6% room and board rate increase and a slight decrease in housing occupancy.

Operating expenses decreased by approximately $329,000. Operation and maintenance of plant increased by approximately $374,000, research expenses decreased by approximately $70,000 and auxiliary activities increased by approximately $61,000 over the prior year.

Net nonoperating revenues decreased by approximately $182,000. State appropriations increased by approximately $139,000. Investment income, net of investment expenses, decreased by approximately $414,000 from 2017.

The net result of operations for the year was an increase in net position of approximately $408,000. Fiscal Year 2018 is the first year that a long-term liability for Other Postemployment Benefits was recorded on the Balance Sheet due to GASB Statement No. 75. The result is a cumulative effect of change in accounting principle reducing the beginning net position by $4.6 million, and ending 2018 with a net position of $40.2 million.

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.

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		
	2018	**2017**	**2016**
Cash provided by (used in):			
Operating activities	$ (14,995,648)	$ (14,299,093)	$ (10,092,278)
Noncapital financing activities	17,249,801	16,968,384	17,002,954
Capital and related financing activities	(1,647,916)	(1,807,749)	(7,110,283)
Investing activities	800,709	930,102	2,830,836
Net change in cash and cash equivalents	1,406,946	1,791,644	2,631,229
Cash and cash equivalents, beginning of year	6,685,582	4,893,938	2,262,709
Cash and cash equivalents, end of year	**$ 8,092,528**	**$ 6,685,582**	**$ 4,893,938**

Changes from 2017 to 2018:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities and grants and contracts. Net cash used in operating activities for the year ended June 30, 2018 was approximately $15 million, increasing by $697,000 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 $17.2 million for the year ended June 30, 2018, up approximately $281,000 from 2017. The University received approximately $320,000 more in State appropriations and approximately $5,000 less in Federal Pell grants than in 2017.

Net cash used in capital and related financing activities decreased by approximately $160,000 from 2017. The University spent approximately $2.2 million on capitalized improvements in 2018 and approximately $4.5 million in 2017.

Cash provided by investing activities decreased by approximately $129,000. The decrease is mostly attributable to a decrease of approximately $106,000 in investment income from 2017.

Overall, cash and cash equivalents increased by approximately $1.4 million for the year ended June 30, 2018.

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.

Factors That Will Affect the Future

After Dr. Pleger's unexpected death in May of 2017, the Board appointed Dr. Peter Mitchell as President for a one-year term ending June 30, 2018.

During the fiscal year, Interim Provost Dr. David Finley announced his resignation from LSSU to accept a presidency at North Central Michigan Community College. The Vice-President for Student Life, Enrollment, and Marketing position was eliminated and broken into several positions to better address enrollment and retention issues. The Director of Athletics left LSSU after accepting the Great Lakes Intercollegiate Athletic Conference (GLIAC) Commissioner position. The Director of Human Resources left to pursue a similar position at another institution. Shelley Wooley was appointed Dean of Student Life and Retention. At this time, all upper-level positions have been filled.

Dr. Rodney Hanley assumed the role as President in June of 2018. Dr. Lynn Gillette assumed the role as Provost and Vice-President for Academic Affairs in July of 2018. John Kawauchi assumed the role of Vice-President for Enrollment Management, Marketing, and Information Technologies in June of 2018. A new Director of Athletics (Dr. David Paitson) was hired in September of 2017 and Wendy Beach was appointed Director of Human Resources in January of 2018. Morrie Walworth continues his role as Vice-President for Finance and Operations.

Under Dr. Mitchell's leadership, resources were allocated to address declining enrollment. External consultants and assistance from student recruitment firms resulted in substantial increases in prospective student applications and student admissions. Additionally, resources were allocated to retention efforts.

As a result, the fall 2018 freshman class is larger than last year's class and freshmen retention rates appear to be approximately 5% better than last year.

Dr. Mitchell also led the Capital Outlay process and secured state funding for a $13.2 million Center for Freshwater Research and Education facility. The facility will allow LSSU to enhance its research activities, provide outreach and educational opportunities for the community, and continue to support the Atlantic Salmon Hatchery for the Great Lakes.

Funding ($650,000) was also secured to develop a nursing simulation center, set to open in September of 2018, and ($450,000) to renovate the LSSU Atlantic Salmon Hatchery.

Given these positive moves, the new President and leadership team are very excited about LSSU's future.

Dr. Rodney Hanley:
Prior to coming to LSSU, Dr. Hanley was Provost and Vice President for Academic Affairs at Fisk University in Nashville, Tennessee; Provost and Vice-President (Academic) at Lakehead University in Thunder Bay, Ontario, Canada; Dean of Science at the University of Winnipeg; and a faculty member and chair of the Department of Earth System Science and Policy at the University of North Dakota.

Dr. Hanley's career in academia spans more than 30 years, including experience as a professor, department chair, dean, and provost. He earned degrees from the University of Kansas (Ph.D., Biology), the University of Cambridge (M.St., Sustainability Leadership), and Eastern Illinois University (M.S. and B.S., Environmental Biology). Dr. Hanley's teaching experience includes courses both at the undergraduate and graduate levels, including various entomology courses, environmental science, biology, environmental communication, and biogeography. Dr. Hanley has more than 100 peer-reviewed publications and professional presentations, and he has obtained more than $120 million in research grants, fundraising awards, and donations.

Dr. Hanley has extensive research and administrative experience in a wide variety of areas, including ecology, evolutionary biology, sustainability, social justice, and diversity within higher education. Some of Dr. Hanley's projects include the operation of a NASA research jet that flew around the globe collecting measurements associated with ozone depletion, climate change, and extreme weather patterns; the engineering and installation of a custom built camera onto the International Space Station that provides near-to-real-time images to growers to aid in precision farming practices; the planning and development of the massive Richardson College for the Environment and Science Complex for the University of Winnipeg; and the development of the first new law school in Ontario in over 43 years at Lakehead University.

Dr. Hanley is from Decatur, Illinois and is a military veteran having served in the Persian Gulf War as part of the U.S. Army and the Illinois Army National Guard.

Dr. Lynn Gillette:
Dr. Lynn Gillette joined Lake Superior State University on July 1, 2018 as the Provost and Vice President for Academic Affairs. At LSSU, he is working with the faculty to develop new, innovative programs and to increase student success and retention. Prior to joining LSSU, he served as Provost and Vice President for Academic Affairs at Nicholls State University. He worked with faculty and staff to create and implement multiple new initiatives to increase student success and retention. In three years, freshmen retention increased by 11 percentage points. He also worked with the faculty to add new programs that helped to increase enrollment. Prior to joining Nicholls, he was President of Sierra Nevada College (SNC). Working with everyone on campus, large historic operating deficits were eliminated and the College achieved unprecedented financial stability. He worked with the faculty to transform SNC from a

culture of disengaged students to active learning in every class, undergraduate research in every major, service learning required for all interdisciplinary majors, and student academic competitions and symposiums. Dr. Gillette is a recognized expert in innovative teaching techniques that engage students in their learning, and he has received 13 outstanding teaching awards. He has given over 60 presentations at professional conferences on active learning, student success, and change management. He received a B.A. in Economics from the University of Richmond, a Ph.D. in Economics from Texas A&M University, and he is a graduate of the Management Development Program at Harvard University.

John Kawauchi:
John Kawauchi was appointed VP of Enrollment Management, Marketing and Information Technologies in June of 2018. Mr. Kawauchi brings an extensive amount of senior management expertise in marketing, product management, sales process, relationship management and organizational change management from the financial services industry where he has spent most of his career. He has worked for firms such as Merrill Lynch, T. Rowe Price, Jackson National Life, Nationwide Financial, and JPMorgan Chase. Higher education is rapidly adopting many of the same marketing strategies and methodologies as the business world, particularly with respect to marketing technologies and data analytics capabilities that have been slow to develop at smaller universities.

Most recently, Mr. Kawauchi has spent the past 3.5 years as the VP of Marketing and Enrollment at a similar small rural public university (Western State Colorado University), where he managed the Admissions, Recruitment, Marketing Communications, Financial Aid, Alumni Relations, and Career Services departments. While at Western, Mr. Kawauchi engineered a complete overhaul of their marketing strategies and operating capabilities, while continuing to grow enrollment. Mr. Kawauchi holds a B.S. in Applied Economics and Business Management from Cornell University and an MBA in Marketing and Finance from the University of Chicago.

Wendy Beach:
Wendy Beach was appointed Director of Human Resources, Risk and Safety, and Title IX Coordinator at Lake Superior State University on January 1, 2018. Prior to the appointment of Director, Ms. Beach served as the Safety and Risk Manager, which also included Title IX investigation and Public Safety Director duties. She has over 10 years of experience in workplace safety, workers compensation, and employee relations and human resources compliance support. Ms. Beach is a Lake Superior State University Alum with a B.S. in Fire Science.

Ms. Beach brings with her a Lean certification from the University of Michigan. With this knowledge, she will work with her team to streamline processes and update University policies. Her priorities are to reduce healthcare costs, implement payroll automation, review/develop safety policies and procedures to meet compliance standards, and provide Title IX education, awareness, and resources to students, faculty, and staff.

Dr. David Paitson:
Dr. David Paitson began his role as Director of Athletics in September, 2017. A dynamic and creative leader with over 25 years of comprehensive management and executive marketing success with intercollegiate, minor and major league sports franchises, including the Columbus Blue Jackets (NHL), Indiana Pacers (NBA) and Sam Houston State University (NCAA DI FCS). Dr. Paitson is charged with rebuilding the Laker athletic program, driving external revenues (corporate sales, ticket sales, fundraising, etc.), stewarding the athletic brand, and raising the profile of the University through athletics. Dr. Paitson intends to operate Lakers athletics with three objectives in mind – to educate and graduate the student-athlete, to represent the University and community with integrity and excellence, and to build a winning tradition on the field of play, in the classroom, and in the community.

Dr. Shelley Wooley:
Shelley Wooley, Ed.D., was appointed Dean of Student Life and Retention on an interim basis in July of 2017. Dr. Wooley has spent the previous 10 years at LSSU directing grant work supportive of Student Access, Educational Outreach, and First Year Student Success, as well as Institutional Improvement in areas of Teaching and Advising. Dr. Wooley was able to leverage her prior work, knowledge of the institution, awareness of access issues, community outreach and first year student success to facilitate several new initiatives in support of student retention as well as leading the entire menu of responsibilities within the Department of Student Affairs. Initiatives that Dr. Wooley brought into her prior role included creation of a faculty center for teaching, student learning commons, peer mentor program, conversion of the student management system to one most commonly used by graduating seniors in the State of Michigan (Moodle), and institutional research into LSSU experienced momentum points in a student's pathway to degree completion. LSSU identified momentum points were examined for institutionally based barriers and remediation suggested to the administration. During her first year in the Dean of Students role, Dr. Wooley led several retention initiatives designed to recognize students where they were and provide supports that could enable them to follow up with success. Among the new retention initiatives were:

- Creation of a Retention Task Force which evolved into a retention committee – a small, nimble, and responsive cross-departmental committee empowered to recognize and remove barriers to student success.
- Initiation of the Laker Success Peer Coach support program for residential students – a residentially based program for freshman students to guide them through the initial year of college knowledge and student skills acquisition.
- Complete overhaul of the program of Orientation to recognize the unique needs of prospective students and families.
- Initiation of an extended Laker (move-in) week to include activities to support development of a student's sense of belonging as well as First Year Experience workshops to assist student in acquiring college knowledge.
- Support in developing a rationale for and later adoption of a first semester transitional support major-specific course for all Freshmen.

Dr. Wooley holds a B.S. in Business Administration, M. A. in Curriculum and Instruction, Ed.S. in Educational Administration, and a Doctorate in Educational Leadership. Dr. Wooley's extensive knowledge in the fields of access and success made her a natural fit for the 2017 interim Dean of Students position.

Morrie Walworth:
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, Mr. Walworth was appointed VP for Finance and Operations.

Mr. Walworth worked with members of senior management to implement a $23.6 million performance contract with Johnson Controls Inc. which would address sustainability efforts, reduce energy consumption, and upgrade security systems, safety systems, and infrastructure on campus. The initiative began in July of 2018 and implementation will continue through 2019. Savings from energy reduction are expected to provide the financing for the debt service ($21.9 million).

Academic Initiatives and Highlights:

The University celebrated a ground-breaking for the Center for Freshwater Research and Education (CFRE). This approximately $12 million project, which will occupy a new building adjacent to the University's Hatchery in the historic Cloverland Hydroelectric Plant, will be a premier education and research facility. Located directly on the St. Mary's River, near downtown Sault Ste. Marie, the project will continue support for our hatchery and educational programming, and be the base for world-class research into freshwater systems. The University has dedicated new staff lines effective for fall 2018 to support the programming and research activities of the CFRE. Construction is expected to be completed by spring 2020.

The University partnered with War Memorial Hospital to establish the International Health Sciences Simulation Center using renovated space on the main campus. Serving as a regional hub for allied health training, the Center will feature high-fidelity simulations and provide training across a wide range of health care systems and functions. The Center will share space in the Arts Center, prominently located at the foot of the International Bridge to Canada.

The University continues to be a leader in development of articulation and transfer agreements with our educational partners in Michigan and Canada. LSSU 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. A similar agreement supports transfer students from Sault College in our sister-city Sault Ste Marie, Ontario.

The University continues to build on its commitment and support of student learning and achievement. LSSU's Title III Strengthening Institutions $1.86 million grant entered its fifth and final year for 2017-2018, with activities ending in fall 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. Many of the initiatives of this project have now been institutionalized. New grant requests in summer 2018 brought continued support for students through the State of Michigan's King-Chavez-Parks Initiative through the 4S program, the Select Student Support Services program.

Enrollment Initiatives:

The Enrollment Management and Marketing team is implementing a five-pronged, multi-year strategy to improve across-the-board capabilities. Marketing has changed more in the past 5 years than the previous 500 years, largely due to smartphones and inexpensive broadband. Strategically, there are no "magic bullets" for small schools. LSSU must do a lot of things well on an integrated basis (i.e., not in siloes or one-size-fits-all) since marketing is now an on-going, dynamic process that spans across many years and different markets, segments, intermediaries, competitors, and media.

Overall, the Enrollment Management and Marketing team seeks to work smarter through data, analytics, technology, process, and targeting. Due to a slower growing marketplace, improving yield (i.e., productivity) throughout the admissions process will be key to bottom line results, not necessarily greater mass marketing activity.

LSSU's five-pronged enrollment management and marketing strategy is as follows:

1. Build brand from ground up as top-down branding becomes less effective for regional schools:
   a. Build brand through increased programmatic marketing (i.e., magnet programs that can attract good students from anywhere)
   b. Align/invest marketing spend to increase digital components versus more expensive traditional print/mail
2. Improve yield through increasing and optimizing targeted reach:
   a. Better know our markets, customers, and competitors – to drive strategies and tactics
   b. Implementation of Customer Relationship Management (CRM) system and utilization of data analytics
   c. Recruiter territory management to optimize our coverage and reach
   d. Improve out-of-state recruitment via technologies and third-party platforms
3. Implement financial aid (i.e., pricing) optimization modeling to better impact enrollment and net revenue yield
4. Implement up-to-date marketing and technology-based capabilities in order to build customization and scalability in all enrollment, marketing, and recruitment efforts
5. Engage the campus, community, and alumni since marketing is not just the responsibility of the Marketing department

Student Affairs:

Dr. Shelley Wooley accepted the interim role of Dean of Student Life and Retention as the Fall 2017 semester opened, with a charge to increase student retention over the prior year.

Dr. Wooley responded with several new initiatives during the year, built in part on her prior experience directing LSSU educational outreach and access activities with students in regional schools. Additionally, Dr. Wooley coupled work performed while directing a $1.9 million institutional improvement grant (focused on advising and retention) with the Fiscal Year 2018 retention efforts. An entire team culture intent on supporting retention evolved throughout student affairs. Significant increases in retention were reported as the fall 2018 semester opened with FTIC (First Time in College) retention reported at over 72% and increase of 5% over the prior year. Retention of first-generation students also showed a significant increase at 68%, 17% over the prior year and for non-first-generation students a 10% increase over the prior year was reported – 78%.

Initiatives which led to this single year increase in retention included the establishment of a Retention Task force which met once a week during the first semester. The task force included representation from numerous departments and from across the campus. Through the task force, both staff and faculty met with the intention of facilitating rapid response to student issues as they emerged. Thus, if a student had a unique issue which was reported to one work area, it was introduced to the committee and with representatives from affected campus work centers available, the issue was addressed rapidly. Through this committee, a capacity was developed to address student attendance and performance issues as well. The committee recognized the first 3 and 4 weeks as critical to a student's success and assisted in communicating with students who were not attending class or who had experienced other challenges which impaired success.

In addition to operating as a nimble and responsive task force, the committee looked at longer term, often policy-based issues. Policy changes were suggested to the administration and typically acted on. Among the initiatives suggested and adopted was a policy to push the drop period back later into the semester in order to allow students to view mid-term grades, meet with their advisor, and then determine if they wanted to continue in the class. The committee asked for Provost support in encouraging faculty to report mid-term grades to students.

The committee also recommended a policy of academic forgiveness. This policy allows a student to petition to have selected semester grades considered as if they were transfer grades – conveying credit or no credit rather than a grade. The committee found that some students, who had prior academic work that may have called for academic dismissal or probation, often grew more mature with time. When these students' academic status is based on their current level of maturity, enthusiasm, and academic effort, the students are far more likely to complete their studies.

Prior to the 2018-19 academic year, a new program of orientation was designed and delivered to students and their families. Notable changes included the opportunity for students to access placement testing and communicate with targeted offices prior to attending Orientation. This relieved them of the need to arrive before lunch. Thus, orientation could begin with lunch, allowing students and families to travel to the University and back in the same day. This drive can be significant as many students live as much as 6 hours away. With nearly half of our students Pell eligible, the prospect of removing the cost of an overnight stay from their college burden illustrated another initiative taken to meet students where they were. The Orientation program was built around the theme of Affirm * Connect * Succeed and offered parents an opportunity to participate in fireside chats with the institutional President and Dean of Students as well as representatives of various offices that would assist their student when transitioning to the campus, such as housing, human resources, the Health Care Center, etc.

The 2018-19 academic year also saw the rollout of a new and amplified Laker Week. Freshman students arrived on campus two days earlier than had historically been the case. Numerous activities to support student sense of connection to the campus were rolled out as was a program of first year experience workshops for students intent on helping them acquire facets of college knowledge such as financial aid awareness, Title IX training, service-learning projects, meetings in major areas, etc. The newly crafted Laker Week was built around a theme of Affirm * Connect * Succeed. The culminating event of the initial week was a candlelight convocation which encouraged students to view themselves as Lakers with all the special attributes and expectations of an LSSU Laker.

Laker Week was then followed by the opportunity for all freshman students to participate in a special transition class (USEM) – designed to support the student's transition to college, acquisition of college knowledge, and major-specific information. The USEM class was an initiative born out of a collaboration with the Faculty Center for Teaching and crafted with the support of the Dean of Student Life and Retention.

Other initiatives included the creation of a commuter lounge and specific peer mentor supports to commuter students. Commuter students tend to be the group of students most challenged to successfully complete their degree. Thus, this initiative was another of the efforts to meet students where they were. Residential students received added support through a program of grant funded resident success coaches – peers positioned in the residence halls and responsible for supporting new students as they learn various aspects of college knowledge and time management. The program of resident success coaches provided workshops and academic activities to complement those offered through the Academic Success Center's IPASS and Peer Mentoring programs. The Resident Success Coaches also hosted registration parties to assist students in registering for the coming term and through that effort reminded the students of the need to work with advisors for proper academic planning.

Dr. Wooley remains as the interim Dean of Student Life and Retention for Academic Year 2018-19 with additional initiatives scheduled for the coming year that include a reorganization of student support services to include intentional and intrusive success resources. Additionally, the facility for this evolved Laker Success Program has been moved into the Student Engagement and Organization Center – a hub of student organizational engagement. Recognizing the importance of student involvement and sense of connectedness as well as sense of belonging, this relocation was made to position student traffic through areas of student engagement with the goal of supporting casual collisions between students involved on campus and students who have shown a hesitancy to be involved on campus.

During the prior year, a campus Diversity Officer was appointed, who also served as the Assistant Director of Housing. He worked with the Director of the Native American Center to introduce and support indigenous focused programming. He also led the charge on establishing a chosen name policy, allowing students to select the name and gender by which they could be identified.

With the opening of the 2018-19 academic year, the Diversity Officer has established three program based initiatives: Be Unique – intended to affirm individual identify, Laker Pride – intended to facilitate group identity and sense of belonging, and Go Blue/Go Yellow – intended to support programs of environmental sustainability. Additional efforts include monthly celebrations of identity and programming to help students become familiar with the different lenses of identity.

The deliberate actions taken over the course of the past year to recognize and meet students where they are affirms students and positions them for developing a sense of connection to the institution. With the sharp increases in retention rates reported earlier, the programs and initiatives intent on affirming students, connecting them to the campus, and positioning them for success have appeared to accomplish just that.

Institutional:

Work on the 20 year Master Plan, approved in March 2016, continues. Wayfinding signage is being expanded on campus, $500,000 upgrades to the aging electrical power distribution system occurred, and a collaborative project with the city to move Easterday Avenue from four to two lanes was completed. The Easterday Avenue project was 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.

A firm was hired to develop a Housing Master Plan in alignment with LSSU's Master Plan. The firm, Reith Jones Advisors (RJA), met with on- and off-campus constituents, reviewed the local housing market, and reviewed peer institutional housing information to produce a Housing Master Plan. The LSSU administration and Board of Trustees will review the plan and determine next steps.

LSSU issued an RFQ and RFP to identify a partner agency to develop and engage in performance funding contracts. Johnson Controls Inc. (JCI) was selected as the vendor. Over the year, LSSU worked with JCI to develop a $23.6 million performance contract to address campus sustainability, reduce energy consumption, improve campus safety and security, and address some infrastructure issues. As a result, $21.9 million in bonds were issued to finance a 30-year performance contract. Savings from energy use reductions are expected to provide funds for the debt service payments.

The Center for Freshwater Research and Education (CFRE) capital outlay project was approved for construction by the State of Michigan. The $13.2 million project will receive $8.85 million in support from the State with the remainder to be funded by LSSU. Fundraising efforts are underway.

Enrollment continues to be challenging for LSSU. Significant resources were allocated to admission and retention efforts during the year, yielding more new students for the fall of 2018. Freshman enrollment is up about 10%, but several years of decreasing freshmen enrollment has yielded smaller than normal junior and senior counts. Overall, enrollment is up about 1% when compared to fiscal year 2017-2018. LSSU will need to sustain the increased enrollment for the next 2-3 years in order to see significant increases overall. The increase in this year's new students is a big move in the right direction.

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake Superior State University and its discretely presented component unit, Lake Superior State University Foundation, as of June 30, 2018 and 2017, and the respective changes in financial position and Lake Superior State University cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 12 to the financial statements, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the University to report its net postemployment obligation and associated deferred outflows of resources, deferred inflows of resources, and postemployment expense. The University has restated its July 1, 2017 net position accordingly. Our opinion is not modified with respect to this matter.

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 16 and the Required Supplementary Information on pages 67 and 68 (related to pension and postemployment benefits and Notes to Required Supplementary Information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018 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 solely 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 effectiveness of the University's 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
November 8, 2018

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

	As of June 30	
Assets	**2018**	**2017**
Current assets		
Cash and cash equivalents	$ 8,092,528	$ 6,685,582
Short-term investments	5,894,523	6,275,156
Accounts receivable, net	1,718,517	1,443,069
State appropriations receivable	2,504,542	3,618,119
Inventories	383,345	380,815
Other	92,449	112,862
Total current assets	**18,685,904**	**18,515,603**
Noncurrent assets		
Student loans receivable, net	2,476,479	2,371,468
Endowment investments	11,948,581	11,232,030
Unamortized bond insurance costs	206,362	221,102
Land, construction in progress and art collection	3,191,029	2,753,894
Depreciable capital assets, net	47,656,164	49,129,019
Total noncurrent assets	**65,478,615**	**65,707,513**
Total assets	**$ 84,164,519**	**$ 84,223,116**
Deferred outflows of resources	**$ 1,280,160**	**$ 1,049,703**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,694,768	$ 2,931,007
Unearned revenue	757,710	655,312
Deposits	293,115	192,613
Current portion of long-term debt	1,142,509	1,131,047
Current portion of employee benefit programs	224,175	224,175
Total current liabilities	**5,112,277**	**5,134,154**
Long-term debt, net of current portion	16,861,339	17,755,057
Employee benefit programs, net of current portion	724,264	904,233
Net pension and other post employment benefits liability	21,813,096	17,042,144
Total liabilities	**$ 44,510,976**	**$ 40,835,588**
Deferred inflows of resources	**$ 749,332**	**$ 104,176**
Net position		
Net investment in capital assets	$ 34,197,765	$ 34,377,071
Restricted		
Nonexpendable		
Scholarships and research	205,827	205,657
Expendable		
Scholarships and research	13,469,057	12,616,805
Loans	3,066,460	3,042,391
Capital projects and debt service	2,547,124	1,906,474
Unrestricted	(13,301,862)	(7,815,343)
Total net position	**$ 40,184,371**	**$ 44,333,055**

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	
	2018	2017
Operating revenues		
Tuition and fees (net of scholarship allowances of $8,082,308 in 2018 and $7,659,332 in 2017)	$ 13,790,107	$ 14,708,760
Federal grants and contracts	1,097,843	1,985,425
State grants and contracts	532,135	186,658
Nongovernmental grants and contracts	3,660,935	3,761,724
Auxiliary activities (net of scholarship allowances of $1,131,364 in 2018 and $874,740 in 2017)	8,932,112	9,198,511
Other	1,661,766	1,129,670
Total operating revenues	**29,674,898**	**30,970,748**
Operating expenses		
Instruction	13,261,651	13,108,719
Research	428,783	498,824
Public service	1,655,232	1,659,764
Academic support	3,495,834	3,325,861
Student services	2,777,274	2,440,354
Student aid	1,780,260	1,774,514
Institutional support	5,606,363	5,643,012
Operation and maintenance of plant	5,518,732	5,144,483
Auxiliary activities	9,788,714	9,728,029
Depreciation	3,249,932	4,203,976
Other	533,189	897,257
Total operating expenses	**48,095,964**	**48,424,793**
Operating loss	**(18,421,066)**	**(17,454,045)**
Nonoperating revenues (expenses)		
State appropriations	13,755,539	13,616,368
Federal Pell grants	3,334,571	3,313,758
Interest on capital debt and leases	(638,707)	(662,414)
Amortization of prepaid bond insurance	(14,740)	(14,740)
Investment income, net of investment expenses	1,136,628	1,550,763
Gifts for endowments	67,370	100,856
Gain (loss) on assets sold or retired	24,488	(57,649)
Net nonoperating revenues	**17,665,149**	**17,846,942**
Income (loss) before other revenues	**(755,917)**	**392,897**
Other revenues		
Capital appropriations	324,408	3,162,972
Capital grants and gifts	839,607	310,670
Total other revenues	**1,164,015**	**3,473,642**
Increase in net position	**408,098**	**3,866,539**
Net position, beginning of year	44,333,055	40,466,516
Cumulative effect of change in accounting principle	(4,556,782)	-
Net position, beginning of year - restated	**39,776,273**	**40,466,516**
Net position, end of year	**$ 40,184,371**	**$ 44,333,055**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2018	2017
Cash flows from operating activities		
Tuition and fees	$ 13,798,087	$ 14,603,363
Grants and contracts	5,292,030	5,859,547
Payments to employees	(28,827,469)	(28,160,070)
Payments to vendors	(14,158,308)	(14,711,140)
Payments for financial aid	(1,780,260)	(1,774,514)
Loans issued to students	(564,409)	(628,748)
Collections of interest and principal on loans to students	459,398	517,528
Auxiliary activities	8,986,354	9,069,550
Return of excess pension contributions	-	(40,281)
Other receipts	1,798,929	965,672
Net cash from operating activities	**(14,995,648)**	**(14,299,093)**
Cash flows from noncapital financing activities		
State appropriations	13,870,910	13,550,912
Federal Pell grants	3,311,521	3,316,616
Gifts for endowments	67,370	100,856
Federal Direct Lending receipts	8,835,448	9,885,990
Federal Direct Lending disbursements	(8,835,448)	(9,885,990)
Net cash from noncapital financing activities	**17,249,801**	**16,968,384**
Cash flows from capital and related financing activities		
Capital appropriations received	1,475,723	4,152,759
Capital grants and gifts received	542,291	230,019
Purchases and construction of capital assets	(2,223,359)	(4,544,617)
Loan proceeds	-	150,000
Proceeds from disposal of capital assets	430,550	3,394
Principal paid on debt and capital leases	(1,206,012)	(1,108,823)
Interest paid on debt and capital leases	(667,109)	(690,481)
Net cash from capital and related financing activities	**(1,647,916)**	**(1,807,749)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,822,244	4,890,007
Purchases of investments	(2,410,118)	(4,454,839)
Investment income, net	388,583	494,934
Net cash from investing activities	**800,709**	**930,102**
Net change in cash and cash equivalents	1,406,946	1,791,644
Cash and cash equivalents, beginning of year	6,685,582	4,893,938
Cash and cash equivalents, end of year	**$ 8,092,528**	**$ 6,685,582**

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	**2018**	**2017**
Operating loss	$ (18,421,066)	$ (17,454,045)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,249,932	4,203,976
Provision for uncollectible accounts and student loans receivables	134,937	11,643
Pension and OPEB expense adjustment	475,760	526,873
Change in assets and liabilities:		
Accounts receivable, net	(133,485)	(300,609)
Student loans receivable, net	(108,861)	(136,347)
Inventories	(2,530)	7,702
Other	20,413	34,863
Accounts payable and accrued expenses	(233,679)	(969,825)
Unearned revenue	102,398	(143,006)
Deposits	100,502	(15,517)
Employee benefit programs	(179,969)	(64,801)
Net cash from operating activities	**$ (14,995,648)**	**$ (14,299,093)**
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	$ 47,317	$ 80,651
Entered into capital leases to purchase capital equipment	$ 349,598	$ -

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 417,716	$ 299,644
Short-term investments	2,626,280	2,226,280
Other current assets	16,304	16,798
Current portion of unconditional promises to give, net	863,923	51,926
Total current assets	**3,924,223**	**2,594,648**
Noncurrent assets		
Investments	15,922,564	14,525,952
Unconditional promises to give, net of current portion	216,245	34,043
Property held for sale or conveyance	485,500	257,500
Beneficial interest in charitable remainder trust	347,689	328,027
Total noncurrent assets	**16,971,998**	**15,145,522**
Total assets	**$ 20,896,221**	**$ 17,740,170**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 19,431	$ 10,419
Employee benefit programs	18,784	18,507
Total current liabilities	**38,215**	**28,926**
Annuity obligations	32,075	36,648
Total liabilities	**70,290**	**65,574**
Net assets		
Restricted		
Permanently	10,824,381	10,452,812
Temporarily	9,140,771	6,339,869
Unrestricted	860,779	881,915
Total net assets	**20,825,931**	**17,674,596**
Total liabilities and net assets	**$ 20,896,221**	**$ 17,740,170**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2018	**2017**
Operating revenues		
Contributions	$ 3,496,608	$ 2,166,910
Change in value of split interest agreements	26,290	(13,448)
Total operating revenues	**3,522,898**	**2,153,462**
Operating expenses	466,953	534,777
Operating income	**3,055,945**	**1,618,685**
Nonoperating revenues (expenses)		
Investment income, net	814,027	597,759
Net unrealized gains (losses) on investments	622,329	1,077,257
Distributions to Lake Superior State University	(1,340,966)	(911,846)
Net nonoperating revenues (expenses)	**95,390**	**763,170**
Increase in net assets	**3,151,335**	**2,381,855**
Net assets, beginning of year	17,674,596	15,292,741
Net assets, end of year	**$ 20,825,931**	**$ 17,674,596**

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 23 & 24 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 $1,340,966 during 2018 and $911,846 during 2017. Support from the University provided to the Foundation amounted to $413,719 during 2018 and $397,304 during 2017.

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.

Change in Accounting Principle - University

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* Statement No. 75 requires the University to recognize their unfunded postemployment benefits other than pension obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. In accordance with the GASB Statement, the University has reported a net Other Postemployment Benefits (OPEB) liability of $4,556,782 as a cumulative effect of a change in accounting principle adjustment to unrestricted net position as of July 1, 2017.

Basis of Presentation - Foundation

The Foundation is a not-for-profit 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 and OPEB 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 OPEB and totaled $1,280,160 as of June 30, 2018 and $1,049,703 as of June 30, 2017. Deferred inflows of resources consist of inflows related to the University's multi-employer net pension obligation and OPEB and totaled $749,332 as of June 30, 2018 and $104,176 as of June 30, 2017. Net pension obligation and OPEB 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.

Postemployment Benefits Other Than Pensions (OEPB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. 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 $66,442,595 during 2018 and $66,794,247 during 2017 (net of a 3.0% administrative fee retained by the University) of State appropriations which were forwarded to 21 charter schools. The University also received $100,000 in State appropriations for Bay Mills Community College during fiscal years 2018 and 2017, 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 2018 or 2017.

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 2018 or 2017.

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 2014 through 2018 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, 2018, the most recent statement of net assets presented herein, through November 8, 2018, 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:

	2018	2017
Disbursement accounts	$ 1,940,188	$ 1,164,806
Money market funds	6,152,340	5,520,776
Total cash and cash equivalents	**$ 8,092,528**	**$ 6,685,582**

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

	2018	2017
University short-term investments		
Certificates of deposit	$ 515,008	$ 509,673
Mutual funds		
Bond/fixed income funds	5,379,515	5,765,483
Total University short-term investments	**$ 5,894,523**	**$ 6,275,156**

	2018	2017
University endowment investments		
Mutual funds		
Equity funds	$ 8,135,875	$ 7,597,386
Bond/fixed income funds	2,914,788	2,268,484
Exchange traded funds	891,940	1,334,240
Money market funds	5,978	31,920
Total University endowment investments	**$ 11,948,581**	**$ 11,232,030**

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, 2018, the University had the following investments with related maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Money market funds	$ 6,158,318	$ 6,158,318	$ -	$ -
Bond/fixed income funds	8,294,303	5,379,515	-	2,914,788
Total investments	**$ 14,452,621**	**$11,537,833**	**$ -**	**$ 2,914,788**

As of June 30, 2017, the University had the following investments with related maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Money market funds	$ 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**

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, 2018, $7,689,244 of the University's bank balance of $8,271,539 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, 2018, the University held 43,172 units of the EuroPacific Growth Fund Class F3 (Security identifier: FEUPX) with a fair value of $2,312,313. As of June 30, 2017, the University held 46,497 units of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of $2,404,346 as of June 30, 2017. 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 $2,724,000 as of June 30, 2018 and $2,539,000 as of June 30, 2017. 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:

	2018	2017
Interest and dividends	1.8%	2.7%
Net realized and unrealized gains	8.0	11.2
Total investment gain	**9.8%**	**13.9%**

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:

	2018	2017
Mutual funds		
Index funds	$ 3,426,347	$ 3,138,451
Growth funds	5,626,788	5,209,904
Bond/fixed income funds	6,610,625	5,726,302
Exchange traded funds	1,322,927	1,847,518
Value funds	919,109	799,147
Public natural resources funds	610,065	-
Money market	3,671	5,894
Subtotal	18,519,532	16,727,216
Marketable securities	29,312	25,016
Total Foundation investments	**$ 18,548,844**	**$ 16,752,232**

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

	2018	2017
Mutual funds		
Index funds	$ 291,505	$ 371,794
Growth funds	94,988	629,271
Bond/fixed income funds	(82,560)	(77,756)
Exchange traded funds	251,422	40,766
Public natural resources funds	(8,513)	-
Value funds	73,282	109,098
Subtotal	620,124	1,073,173
Marketable securities	2,205	4,084
Total Foundation unrealized gains (losses)	**$ 622,329**	**$ 1,077,257**

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, 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 funds 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, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Index funds	$ 3,426,347	$ -	$ -	$ 3,426,347
Growth funds	5,626,788	-	-	5,626,788
Bond/fixed income funds	6,610,625	-	-	6,610,625
Exchange traded funds	1,322,927	-	-	1,322,927
Value funds	919,109	-	-	919,109
Public natural resources funds	610,065	-	-	610,065
Money market	3,671	-	-	3,671
Marketable securities	29,312	-	-	29,312
Total investments at fair value	**$18,548,844**	**$ -**	**$ -**	**$ 18,548,844**
Beneficial Interest in Charitable Remainder Trust	**$ -**	**$ -**	**$ 347,689**	**$ 347,689**

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 a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2018:

	Bond/Fixed Income Fund	Beneficial Interest in Charitable Remainder Trust
Balance, beginning of year	$ -	$ 328,027
Change in value	-	19,662
Balance, end of year	**$ -**	**$ 347,689**

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
Change in value	-	(18,179)
Balance, end of year	**$ -**	**$ 328,027**

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 $587,288 as of June 30, 2018 and $512,884 as of June 30, 2017.

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

	2018	2017
Tuition and fees	$ 496,948	$ 498,412
Governmental grants and contracts	586,970	476,514
Auxiliary activities	190,883	218,639
Other	429,240	208,731
Private grants and contracts	14,476	40,773
Accounts receivable, net	**$ 1,718,517**	**$ 1,443,069**

In addition, the University has student loans receivable in the amount of $2,476,479, net of an allowance for uncollectible loans of $537,425, as of June 30, 2018 and $2,371,468, net of an allowance for uncollectible loans of $533,825, as of June 30, 2017. 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:

	2018	2017
Unconditional promises due in less than one year	$ 866,295	$ 58,283
Unconditional promises due in one to five years, net of discount to net present value at 1% of $2,448 and $120	207,369	23,880
Unconditional promises due in more than five years, net of discount to net present value at 8% of $23,124 and $22,837	8,876	10,163
Present value of promises to give	1,082,540	92,326
Less allowance for uncollectible amounts	2,372	6,357
Net unconditional promises to give	**1,080,168**	**85,969**
Less current portion	863,923	51,926
Unconditional promises to give, net of current portion	**$ 216,245**	**$ 34,043**

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, 2018, 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 $347,689 and $328,027, as of June 30, 2017.

9. CAPITAL ASSETS

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

	2018			
	Balance July 1, 2017	**Additions**	**Reductions**	**Balance June 30, 2018**
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ -	$ -	$ 838,684
Land	1,299,679	-	25,000	1,274,679
Art collection	615,531	-	-	615,531
Construction in progress	-	462,135	-	462,135
Total capital assets not being depreciated	2,753,894	462,135	25,000	3,191,029
Capital assets being depreciated				
Land improvements	5,872,143	124,556	-	5,996,699
Infrastructure	3,266,082	510,701	-	3,776,783
Building and building improvements	130,140,725	442,422	377,119	130,206,028
Equipment and other	22,498,598	1,080,460	792,316	22,786,742
Total capital assets being depreciated	161,777,548	2,158,139	1,169,435	162,766,252
Accumulated depreciation	(112,648,529)	(3,249,932)	788,373	(115,110,088)
Total capital assets being depreciated, net	49,129,019	(1,091,793)	381,062	47,656,164
Total capital assets, net	**$ 51,882,913**	**$ (629,658)**	**$ 406,062**	**$ 50,847,193**

Changes in the components of capital assets are as follows for the year 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**

As of June 30, 2018, construction work performed on the R. W. Considine Hall (formerly South Hall) for the classroom renovation project for the Lukenda School of Business is complete. The State Building Authority (SBA) bonding process and creation of the lease with the State of Michigan was complete in fall 2017.

Two new projects are in process as of June 30, 2018, the Center for Freshwater Research and Education (CFRE) and the Nursing Simulation Lab (SIMLAB).

On June 29, 2016, the State of Michigan passed Enrolled House Bill No. 5294 in which the State authorized the planning for the Center for Freshwater Research and Education with an estimated total cost of $11,800,000 and the state’s share of the capital outlay at 75% or $8,850,000. The project has evolved and the new facility will be located to the east of the Cloverland Hydroelectric Building as approved by the State of Michigan on June 22, 2018. In the process, the estimated total cost has increased to $13,800,000. The ground breaking ceremony was held on July 20, 2018, and construction is expected to begin sometime in fiscal year 2019 with completion planned for 2020.

Lake Superior State University and War Memorial Hospital entered into an agreement to create the Nursing Simulation Laboratory on the first floor of the Arts Center. Renovation work began in April 2018 and is expected to be complete in September 2018. The renovation is budgeted at $625,000 which includes support from War Memorial Hospital of $500,000.

Construction in progress

	CFRE	SIMLAB
Estimated cost of construction	$ 13,800,000	$ 625,000
Costs incurred through June 30, 2018	234,434	227,701
Estimated cost to complete	**$ 13,565,566**	**$ 397,299**
Expected sources of financing:		
State of Michigan funds	$ 8,850,000	$ -
University funds and other sources	4,950,000	625,000
Total sources of financing	**$ 13,800,000**	**$ 625,000**

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2018	2017
Accounts payable to vendors	$ 908,157	$ 1,162,396
Payroll and payroll taxes	1,177,623	1,172,363
Health insurance claims	490,000	468,000
Interest	80,688	83,248
Workers' compensation claims	38,300	45,000
Total accounts payable and accrued expenses	**$ 2,694,768**	**$ 2,931,007**

Workers' Compensation

The University is self-insured for workers' compensation claims up to $550,000 per claim as of June 30, 2018. The accrued workers' compensation obligation represents claims made prior to June 30, 2018 and June 20, 2017, 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:

2018

	Interest Rate	Maturity	July 1 2017	Additions	Reductions	June 30 2018	Current Portion
			Outstanding Principal				
Bonds payable							
General Revenue Bonds, Series 2012 Series bonds	2.0%-4.0%	2018-2031	$ 17,695,000	$ -	$ 910,000	$ 16,785,000	$ 935,000
Net premium on bond issuance			387,617	-	25,842	361,775	-
Total bonds payable			**18,082,617**	**-**	**935,842**	**17,146,775**	**935,000**
Capital leases	up to 4.00%	2018-2024	670,287	349,598	266,799	753,086	177,751
Loan payable	1.85%	2018-2022	133,200	-	29,213	103,987	29,758
Total long-term debt			**$ 18,886,104**	**$ 349,598**	**$ 1,231,854**	**18,003,848**	**$1,142,509**
Less current portion						1,142,509	
Long-term debt, net of current portion						**$ 16,861,339**	

2017

	Interest Rate	Maturity	July 1 2016	Additions	Reductions	June 30 2017	Current Portion
			Outstanding Principal				
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**	

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, 2018, serial bonds payable in the amount of $16,785,000 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, 2018 and 2017, 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
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	1,080,000	480,475	1,560,475
2024-2028	6,015,000	1,749,300	7,764,300
2029-2032	5,725,000	469,700	6,194,700
Total – bonds payable	**$ 16,785,000**	**$ 4,976,800**	**$ 21,761,800**

Obligations Under Capital Leases

The University leases certain equipment with a net book value of $893,422 as of June 30, 2018, 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, 2018:

Year Ending June 30	Amount
2019	$ 191,815
2020	191,815
2021	137,738
2022	137,738
2023	62,773
2024	62,703
Total minimum payments due	784,582
Less amounts representing interest, imputed at annual rates ranging up to 4.00%	31,496
Present value of net minimum lease payments	**$ 753,086**

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, 2018 and June 30, 2017, 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, 2018, the principal remaining on the loan was $103,987.

The following is a schedule of annual future payments for the loan as of June 30, 2018:

Year Ending June 30	Principal	Interest	Total
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	**$ 103,987**	**$ 3,403**	**$ 107,390**

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 $1,569,000 for the year ended June 30, 2018 and $1,614,000 for the year ended June 30, 2017. 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 postemployment 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 postemployment 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, 2018	4.87%	20.26%
June 30, 2017	4.30%	18.75%

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 $1,423,206. Its actual and actuarially determined contributions to the plan for the year ended June 30, 2018 were $1,480,554. Contributions include $179,494 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, 2018. The University's required and actual contributions to the plan for the year ended June 30, 2017 were $1,550,979. Contributions included $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.

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, 2017

Total pension liability	$ 1,094,077,095
Plan fiduciary net position	(518,815,498)
Net pension liability	$ 575,261,597
Plan fiduciary net position as a percentage of total pension liability	47.42%
Net pension liability as a percentage of covered payroll	271.62%

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 payroll	737.82%

Net Pension Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense: At June 30, 2018, the University reported a liability of $17,455,598 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. 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, 2017, the University's proportionate share was 3.03438 percent. The University reported a liability of $17,042,144 as of June 30, 2017, and the University's proportionate share was 3.04194 percent as of the September 30, 2016 measurement date.

The University recognized pension expense of $2,147,711 for the year ended June 30, 2018 and $1,595,142 for the year ended June 30, 2017.

At June 30, 2018, 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	$ -	$ 18,770
Changes of assumptions	147,336	-
Net difference between projected and actual plan investment earnings	-	388,115
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	9,779
University contributions subsequent to the measurement date	909,868	153,109
	$ 1,057,204	$ 569,773

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

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
2019	$ (71,039)
2020	83,746
2021	(133,485)
2022	(148,550)
	$ (269,328)

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, 2017 is based on the results of an actuarial valuation date of September 30, 2016, 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, 2016

Actuarial Cost Method:..Entry Age, Normal

Wage Inflation Rate:..3.5%

Investment Rate of Return:
- MIP and Basic Plans (Non-Hybrid): 7.5%
- 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 are summarized in the following table as of September 30:

		2017	2016
Investment Category	**Target Allocation**	**Long-term Expected Real Rate of Return**	**Long-term Expected Real Rate of Return**
Domestic Equity Pools	28.0%	5.6%	5.9%
Private Equity Pools	18.0	8.7	9.2
International Equity Pools	16.0	7.2	7.2
Fixed Income Pools	10.5	(0.1)	0.9
Real Estate & Infrastructure Pools	10.0	4.2	4.3
Absolute Return Pools	15.5	5.0	6.0
Short Term Investment Pools	2.0	(0.9)	0.0
Total	**100.0%**		

Rate of Return: For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. For the fiscal year ended September 30, 2016, the rate was 5.91%. 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 7.5% and the resulting single discount rate is 7.5%.

Discount Rate: A discount rate of 7.5% 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 7.5% (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 7.5% for the current fiscal year, 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 one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

At June 30, 2018:

1.0% decrease (6.5%)	Current Discount Rate (7.5%)	1.00 % increase (8.5%)
$20,480,335	$17,455,598	$14,844,838

At June 30, 2017:

1.0% decrease (7.0%)	Current Discount Rate (8.0%)	1.0% increase (9.0%)
$19,913,959	$17,042,144	$14,560,049

Payable to the Pension Plan: The University reported a payable of $ -0- as of June 30, 2018, and 2017 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.

MPSERS – Postemployment Benefits Other Than Pensions (OPEB)

Plan Description: The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members—eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental, and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided: Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions: Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	Member	Employer
		University
Premium subsidy	3.00%	7.36%
Personal Healthcare Fund (PHF)	0.00%	6.98%

Required contributions to the OPEB plan from LSSU were $509,244 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2018, LSSU reported a liability of $4,357,498 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. LSSU's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, LSSU's proportion was 3.06215937 percent, which was the same as the percent from its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, LSSU recognized OPEB expense of $227,460. At June 30, 2018, LSSU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 32,811
Changes of assumptions	-	-
Net difference between projected and actual OPEB plan investment earnings	-	141,363
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	5,385
University contributions subsequent to the measurement date	222,956	-
	$ 222,956	$ 179,559

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2019	$ (73,537)
2020	(35,341)
2021	(35,341)
2022	(35,340)
	$ (179,559)

Actuarial Assumptions: 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.

Valuation Date: ....September 30, 2016

Actuarial Cost Method:..Entry Age, Normal

Wage Inflation Rate: 3.5%

Investment Rate of Return:..................................7.5%

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

Healthcare Cost Trend Rate:.................................7.5% Year 1 graded to 3.5% Year 12

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.

Other assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.
Coverage election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- 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. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for OPEB liabilities is the average of the expected remaining service lives of all employees which in years is 1.4186.
- Recognition period for OPEB assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets: The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0	8.7
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate & Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
Total	**100.0%**	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate: A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of LSSU's proportionate share of the net OPEB liability to changes in the discount rate: The following presents LSSU's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what LSSU's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage higher:

At June 30, 2018:

1.0% decrease (6.5%)	Current Discount Rate (7.5%)	1.0% increase (8.5%)
$5,080,088	$4,357,498	$3,735,125

Sensitivity of LSSU's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate: The following presents LSSU's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what LSSU's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

At June 30, 2018:

1.0% decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% increase (8.5%)
$3,688,555	$4,357,498	$5,115,299

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan: As of June 30, 2018, the University reported a payable of $-0- for the outstanding amount of contributions to the defined benefit OPEB plan required for the year then ended for the statutorily required OPEB 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:

	2018				
	July 1 2017	**Additions**	**Payments**	**June 30 2018**	**Current Portion**
Compensated absences	$ 641,492	$ 55,596	$ 132,098	$ 564,990	$ 100,000
Accumulated sick leave benefits	486,916	20,000	123,467	383,449	124,175
Total employee benefit programs	**$ 1,128,408**	**$ 75,596**	**$ 255,565**	**$ 948,439**	**$ 224,175**

	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**

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 13 retirees participating in this health coverage as of June 30, 2018 and 14 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, 2018 and $80,000 as of June 30, 2018 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 $3,814,363 as of June 30, 2018 and $3,275,745 as of June 30, 2017. The workers' compensation claims liability of $38,300 for the year ending as of June 30, 2018 and $45,000 for the year ending as of June 30, 2017, 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, 2018 were $490,000 and $468,000 as of June 30, 2017, 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:

	2018	2017
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	$ (366)	$ -
Board designated	206,245	283,706
Undesignated	654,900	598,209
	$ 860,779	$ 881,915

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

	2018	2017
University programs	$ 4,177,909	$ 2,283,622
Corpus of board restricted endowment funds	159,737	135,659
Net appreciation on donor-restricted endowment funds	4,803,125	3,920,588
	$ 9,140,771	$ 6,339,869

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

	2018	2017
Remainder interests in split interest agreements	$ 347,689	$ 328,027
Corpus of donor-restricted endowment funds	10,476,692	10,124,785
	$ 10,824,381	$ 10,452,812

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:

	2018			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Revenue, gains, and other support				
Investment income	$ 41,192	$ 772,835	$ -	$ 814,027
Net realized and unrealized appreciation in investments	2,205	620,124	-	622,329
Contributions	513,720	2,637,609	345,279	3,496,608
Change in value of split interest agreements	-	-	26,290	26,290
Net assets released from restrictions	1,229,666	(1,229,666)	-	-
Total revenue, gains, and other support	1,786,783	2,800,902	371,569	4,959,254
Expenses				
Operating expenses	(466,953)	-	-	(466,953)
Contributions to the University	(1,340,966)	-	-	(1,340,966)
Changes in net assets	**(21,136)**	**2,800,902**	**371,569**	**3,151,335**
Net assets, beginning of year	881,915	6,339,869	10,452,812	17,674,596
Net assets, end of year	**$ 860,779**	**$ 9,140,771**	**$ 10,824,381**	**$ 20,825,931**

	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**

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:

	2018			
		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Investment return				
Investment income	$ -	$ 290,148	$ -	$ 290,148
Net appreciation				
(realized and unrealized)	(366)	1,103,177	-	1,102,811
Total investment return	(366)	1,393,325	-	1,392,959
Contributions and other revenue	-	11,145	345,279	356,424
Change in value	-	-	26,290	26,290
Appropriation of endowment assets				
for expenditure	-	(497,855)	-	(497,855)
Changes to endowment net assets	**(366)**	**906,615**	**371,569**	**1,277,818**
Endowment net assets				
Beginning of year	-	4,056,247	10,452,812	14,509,059
End of year	**$ (366)**	**$ 4,962,862**	**$ 10,824,381**	**$ 15,786,877**

	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**

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 13, 2017. The Faculty Association contract was ratified effective September 1, 2017. 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, 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 was completed 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:

2018

	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 11,944,871	$ 1,316,780	$ -	$ -	$ -	$ -	$ 13,261,651
Research	357,014	71,769	-	-	-	-	428,783
Public service	910,251	744,981	-	-	-	-	1,655,232
Academic support	2,646,506	849,328	-	-	-	-	3,495,834
Student services	2,126,854	650,420	-	-	-	-	2,777,274
Student aid	-	-	-	1,780,260	-	-	1,780,260
Institutional support	3,578,576	2,027,787	-	-	-	-	5,606,363
Operations and maintenance of plant	3,033,475	959,976	1,525,281	-	-	-	5,518,732
Auxiliary activities	4,530,973	4,262,513	995,228	-	-	-	9,788,714
Depreciation	-	-	-	-	3,249,932	-	3,249,932
Other	-	-	-	-	-	533,189	533,189
Total operating expenses	**$ 29,128,520**	**$ 10,883,554**	**$ 2,520,509**	**$ 1,780,260**	**$ 3,249,932**	**$ 533,189**	**$ 48,095,964**

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**

18. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement would be effective for fiscal years beginning after December 15, 2019. 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 immaterial.

The Foundation's financial statements are affected by Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB). The following standard will affect the way the Foundation reports and explains their finances to donors and other interested parties.

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*

Financial statement changes. The primary change revises the current framework for reporting net assets from a three-level approach to a two-level approach. Under this model, net assets would be classified as "*with donor restrictions*" or "*without donor restrictions*."

Disclosure changes. Other changes include additional disclosures about the organization's liquidity, financial performance, board designations of net assets, and information about donor restrictions.

This standard will be implemented for the fiscal year ending June 30, 2019 and is expected to have an impact on the presentation of the Foundation's financial statements.

19. SUBSEQUENT EVENT

In August 2018, the University authorized the issuance of its $21,910,000 General Revenue Bonds, Series 2018. Interest from 4.0% - 5.0% on the bonds are payable on each January 15 and July 15 beginning January 15, 2019. Principal payments on the bonds begin in 2026 with a final maturity in 2050. The purpose of the bonds is to pay for a portion of campus-wide construction and renovation of University buildings and facilities, including projects for energy savings, water conservation, safety and security, and other projects.

LAKE SUPERIOR STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

	2018	2017	2016	2015
University's proportionate share of the net pension liability				
As a percentage	3.03438%	3.04194%	3.13198%	2.89703%
As an amount	$ 17,455,598	$ 17,042,144	$ 17,182,038	$ 10,866,926
University's covered payroll	$ 6,484,275	$ 6,265,000	$ 2,025,982	$ 2,259,143
University's proportionate share of the net pension liability, as a percentage of the University's covered payroll	269.20%	272.02%	848.08%	481.02%
MPSERS fiduciary net position as a percentage ofthe total pension liability	47.42%	46.77%	47.45%	63.00%

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

	2018	2017	2016	2015
Statutorily required pension contribution	$ 1,423,206	$ 1,321,334	$ 1,074,692	$ 936,883
Pension contributions in relation to the actuarially determined contractually required contribution	1,480,554	1,550,979	1,888,294	1,720,135
Pension contribution excess	$ 57,348	$ 229,645	$ 813,602	$ 783,252
University's covered payroll	$ 6,413,500	$ 6,265,000	$ 2,025,982	$ 2,259,143
Pension contributions as a percentage of covered payroll	23.08%	24.76%	93.20%	76.14%

Notes to Required Pension Supplementary Information

There were no changes of benefit terms in 2018. The assumed rate of return was lowered from 8.0 percent to 7.5 percent, beginning with the September 30, 2017 actual valuation.

LAKE SUPERIOR STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

	2018
University's proportionate share of the net OPEB liability	
As a percentage	3.06216%
As an amount	$ 4,357,498
University's covered payroll	$ 6,484,275
University's proportionate share of the net OPEB liability, as a percentage of the University's covered payroll	67.20%
MPSERS fiduciary net position as a percentage of the total OPEB liability	44.11%

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

	2018
Statutorily required OPEB contribution	$ 509,244
OPEB contributions in relation to the actuarially determined contractually required contribution	227,460
OPEB contribution deficiency	$ 281,784
University's covered payroll	$ 6,413,500
OPEB contributions as a percentage of covered payroll	3.55%

Notes to Required OPEB Supplementary Information

There were no changes of benefit terms in 2018. The assumed rate of return was lowered from 8.0 percent to 7.5 percent, beginning with the September 30, 2017 actual valuation.