LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED
JUNE 30, 2007 AND 2006

LAKE SUPERIOR STATE UNIVERSITY

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Lake Superior State University

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Lake Superior State University
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2007 and 2006

This section of the Lake Superior State University ("University") annual financial report presents management's discussion and analysis of the financial condition of the University as of June 30, 2007 and 2006 and its financial performance during the fiscal years then ended. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Reporting Entity

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

The basic 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 Financial 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.

The Statements of Net Assets include all assets and liabilities. Over time, increases or decreases in net assets (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.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during both years. 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 and grants 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.

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.

Summary of Selected Financial Data

Lake Superior State University
Condensed Statements of Net Assets

	June 30		
	2007	**2006**	**2005**
Assets:			
Current assets	$ 7,598,354	$10,587,997	$10,099,022
Capital assets	71,436,692	74,189,197	76,531,442
Other noncurrent assets	11,831,005	10,538,925	9,745,363
Total Assets	**$90,866,051**	**$95,316,119**	**$96,375,827**
Liabilities:			
Current liabilities	$ 4,769,068	$ 4,251,755	$ 3,936,250
Noncurrent liabilities	31,489,037	32,510,606	31,883,735
Total liabilities	36,258,105	36,762,361	35,819,985
Net Assets:			
Invested in capital assets, net of related debt	42,156,733	45,248,314	48,177,482
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	12,019,596	11,232,662	11,091,742
Unrestricted	226,290	1,867,455	1,081,291
Total net assets	54,607,946	58,553,758	60,555,842
Total Liabilities and Net Assets	**$90,866,051**	**$95,316,119**	**$96,375,827**

Changes from 2006 to 2007:

Total current assets decreased by $3.0 million. The decrease is attributed to a decrease of cash and restricted cash of $2.0 million. This use of cash is principally the result of expenditures for the completion of capital upgrades to the Central Heating Plant and the completion of the multi-year project of replacing the University's administrative software system. Accounts receivable, net of allowance for uncollectible accounts, increased by $200,000. The increase in accounts receivable is due to the increased aging of student tuition and housing receivables less the re-evaluation of the allowance for uncollectible accounts. State appropriations receivable decreased by $1.4 million as the result of the state cutting higher education appropriations in June 2007. For Lake Superior State University an amount of $252,000 was permanently cut from the University's fiscal year 2006-2007 appropriation and another $1.16 million, which would have been the University's entire August 2007 appropriation payment, was delayed until further legislative action is taken to restore the payment.

Capital assets decreased by $2.8 million as a result of the annual depreciation charge of $5.5 million which exceeded the value of new assets placed into service of $2.7 million.

Other noncurrent assets increased by $1.3 million due to an increased market value of investments of $117,000 and increased market value of endowed investments of $1.0 million. Student loans receivable increased by $159,000 as the University saw a decline in loan consolidation activity as interest rates began to rise.

Total liabilities decreased by $500,000. The retirement of $1.0 million of long term debt was offset by increases in accounts payable of $120,000, deferred revenue of $220,000 and employee benefit programs liability of $160,000

Total net assets decreased by $4.0 million. The University's investment in capital assets decreased by $3.0 million. Restricted, expendable scholarship net assets increased by $1.3 million, capital projects and debt service decreased by $400,000 and unrestricted reserves decreased by $1.6 million. The June 30, 2007 unrestricted reserves of $226,000 consisting of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of $2.3 million.

Changes from 2005 to 2006:

Total current assets increased by approximately $500,000. This increase is a result of an increase in cash reserves of $750,000 which reflects an increase of $1.5 million that was secured to finance Central Heating Plant renovations and was offset by $800,000 that was used on several other capital projects. The other capital projects during fiscal 2006 were primarily related to the continued implementation of a new administrative software system, upgrades to the University computer network infrastructure and the replacement of a fifty year old electrical loop that services one half of the University campus. Receivables from the State of Michigan decreased by $200,000 which reflects the lower state appropriations received by the University. Other receivables decreased by $100,000 and reflect an increase to the allowance for uncollectible accounts. Inventories increased by $100,000 which reflects the increased cost of natural gas inventories held by the University.

Capital assets decreased by $2.3 million as a result of the annual depreciation charge of $5.3 million which exceeded the value of new assets placed into service of $3.0 million.

Other noncurrent assets increased by $800,000 due to appreciation of investments of $60,000 and appreciation of endowment investments of $850,000. Student loans receivable decreased by $120,000 because of heavy activity in loan consolidations as interest rates for consolidated student loans remained relatively low throughout most of the year.

Total liabilities increased by $940,000 primarily as a net result of increased debt in the form of capital lease purchase agreements for office equipment and central heating plant renovations amounting to $1.8 million offset by $977,000 of debt retired during the year.

Total net assets decreased by $2.0 million. The University's investment in capital assets, net of related debt decreased by $2.9 million. Restricted, expendable scholarship net assets increased by $740,000, capital projects and debt service net assets decreased by $630,000 and unrestricted reserves increased by $790,000. The June 30, 2006 unrestricted reserves of $1,867,000 consist of designated fund reserves of $734,000, auxiliary fund reserves of $256,000, insurance and benefit reserves of $1,446,000 and a general fund deficit of $569,000.

Lake Superior State University
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30		
	2007	2006	2005
Total operating revenues	$26,863,943	$26,831,052	$26,067,559
Total operating expenses	42,924,040	41,694,101	39,560,111
Operating loss	(16,060,097)	(14,863,049)	(13,492,552)
Net nonoperating revenues	11,334,662	11,966,721	11,787,531
Loss before other revenues	(4,725,435)	(2,896,328)	(1,705,021)
Total other revenues	779,623	894,244	1,063,011
Decrease in net assets	**(3,945,812)**	**(2,002,084)**	**(642,010)**
Net assets, beginning of year	58,553,758	60,555,842	61,197,852
Net assets, end of year	**$54,607,946**	**$58,553,758**	**$60,555,842**

Changes from 2006 to 2007:

Operating revenues were virtually unchanged for the year as a five percent tuition rate increase was offset by a decline in enrollment. Other operating revenues from grants and contracts as well as revenues from auxiliary operations were also level with the previous year.

Operating expenses increased by $1.3 million. Of this amount, $1.2 million was for increases in salaries and benefits due to pay increases, additional position restorations and increased benefit costs. This amounts to only a five percent increase in the overall cost of salaries and benefits. Operating supplies expenses decreased by $400,000, spending for University scholarships increased by $200,000 and the annual depreciation charge increased by $200,000.

Nonoperating revenues decreased by $600,000. Investment income increased by $600,000 due to appreciation of the University investment portfolios. This increase was offset by a reduction in State appropriations of $1.2 million as the State again used higher education appropriation cuts to balance the State's fiscal deficits for the year.

The net result of operations for the year was a decrease in net assets of $3.9 million.

Changes from 2005 to 2006:

Operating revenues increased by $764,000. Revenues from tuition and fees increased by $1.4 million. This is a result of increased tuition rates and level enrollments. Revenues from grants and contracts decreased by $440,000. Auxiliary revenues decreased by $240,000 due to lower occupancy levels in residence halls.

Operating expenses increased overall by $2.1 million. The most significant increase was $900,000 in additional depreciation expense related to the completed Fine Arts Center. Salaries increased by $600,000 as a result of several position restorations and utilities increased by $400,000 due to increasing energy costs.

Nonoperating revenues increased by $180,000 as a result of an increase in investment income of $330,000 offset by a decrease in State appropriations of $170,000.

Lake Superior State University
Condensed Statements of Cash Flows

	Year Ended June 30		
	2007	**2006**	**2005**
Cash provided by (used in):			
Operating activities	$(10,535,945)	$(9,249,464)	$ (9,814,357)
Noncapital financing activities	12,695,353	12,426,178	12,779,744
Capital and related financing activities	(4,687,508)	(2,564,121)	(3,531,175)
Investing activities	542,720	130,191	(565,799)
Net change in cash and cash equivalents	(1,985,380)	742,784	(1,131,587)
Cash and cash equivalents, beginning of year	7,013,135	6,270,351	7,401,938
Cash and cash equivalents, end of year	**$ 5,027,755**	**$ 7,013,135**	**$ 6,270,351**

Changes from 2006 to 2007:

Net cash used in operations increased by $1.3 million. Cash received from operations decreased by $88,000; this includes sources of cash including tuition and fees, grants and contract awards and auxiliary activities. Cash used for operations increased by $1.2 million for the year; uses of cash include payments to employees, vendors and students. Most significant was the increased payments to employees for salaries with an increase of $1.1 million.

Cash provided by noncapital financing activities increased by $269,000 primarily as a result of cash received from State appropriations increasing by $261,000.

Net cash used in capital and related financing activities increased by $2.1 million due to the absence of any funds secured from capital leases ($1.5 million in fiscal year 2006) and the decrease of State funds received for capital projects of $600,000. The reason for decreases in these amounts is the lack of capital projects performed during the current fiscal year.

Net cash provided by investing activities increased by $412,000. Cash provided by sales of investments increased by $196,000 while cash used for the purchase of investments decreased by $262,000.

Overall, cash and cash equivalents decreased by $2.0 million for the year ended June 30, 2007.

Changes from 2005 to 2006:

Net cash used in operations decreased by $570,000. Cash received from operations increased by $770,000; this includes sources of cash including tuition and fees, grants and contract awards and auxiliary activities. Cash used for operations increased by only $200,000 for the year; uses of cash include payments to employees, vendors and students.

Cash provided by noncapital financing activities decreased by $350,000 primarily as a result of cash received from State appropriations decreasing by $210,000 and cash received for endowment gifts decreasing by $140,000.

Cash used in capital and related financing activities decreased by $1.0 million as capital construction payments decreased by $600,000 and cash received from State sources for capital appropriations decreased by $130,000. The University did receive $1.5 million from financing sources to be used for the capital renovations of the Central Heating Plant.

Overall, cash and cash equivalents increased by approximately $740,000 for the year ended June 30, 2006.

A Year in Review…A Look Ahead

Fiscal year 2006-2007 once again found the University faced with several challenges along with accomplishments that keep Lake Superior State University moving forward and focused upon providing quality education to the students who have chosen to pursue higher education at Lake Superior State University.

Both semesters, Fall 2006 and Spring 2007, saw significant enrollment decreases in full time equivalent undergraduate students. The decrease was approximately five percent of our full time equivalent enrollment. The decrease in enrollment comes on the heels of two years of unfortunate circumstances in our pursuit of an experienced enrollment executive. To solidify this critical area, Vice President Bill Eilola was hired and started in July of 2006. Mr. Eilola has several years experience in Admissions and enrollment management, in both public and private universities. With the arrival of Mr. Eilola, several new initiatives were implemented that refocused student recruitment. Efforts are more directly focused on how students select a college or university in today's internet-based world. These initiatives and an increase in recruiting territory are giving positive indications for enrollment stability and growth into the future.

Appropriations to higher education were once again used as a resolution to the State of Michigan budget deficit. During May 2007, an executive order issued by the governor delayed one-half of our monthly appropriations from August 2007 until sometime into the future. In June 2007, budget adjustment legislation delayed the second half of our anticipated August 2007 appropriations payment until sometime into the future. The total of the delayed August 2007 appropriations is $1.16 million. Also in June 2007, budget balancing legislation cut our fiscal year 2006-2007 appropriation by 1.8%, or $252,000. Due to the nature of the delayed payment, and the uncertainty of its restoration in future appropriations legislation, the University is required to remove the anticipated revenue and corresponding receivable from the fiscal year 2006-2007 financial activity. The effect of these actions, which occurred with less than a month remaining in our fiscal year, was to slash revenues at a time that we could do nothing to counter the action. Between the delayed payment and the appropriations cut, the University lost approximately $1.4 million, or about twelve percent of our anticipated appropriations for the year.

As of September 30, 2007, the State of Michigan had not passed any appropriations legislation for the State fiscal year beginning October 1, 2007 and a shutdown of State non-emergency operations was about to take effect. In the very early morning hours of October 1, 2007 the State legislature agreed upon a series of tax increases and budget reductions which allowed the governor to sign a 30-day budget continuation bill which effectively halted the shutdown of State operations. Significantly, within this 30-day continuation budget is the restoration of the August 2007 appropriation payment along with the normal October appropriation payment. Thus, $1.16 million of revenues lost in fiscal year 2006-2007 have been received in October 2007.

During the year the University completed two improvements to the University physical plant. The first project involved the replacement of the number one boiler in our central heating plant and modernization of boiler equipment which will improve the efficiencies of our heating plant. The second major project was the replacement of the main gym floor with a new wall-to-wall hardwood floor. The new floor will improve the performance of team sports (basketball and volleyball), improve safety conditions for athletes and eliminate hundreds of hours of installing and removing the former portable gym floor throughout the year.

In January 2007 the administration was strengthened with the addition of Dr. Ken Peress who fills the position of Vice President for Student Affairs as an experienced executive level student affairs leader. This position had been left vacant for the previous year as a cost savings measure.

Additional changes to the University administration are underway after President Dr. Betty Youngblood and Vice President for Academic Affairs and Provost Dr. Bruce Harger announced their respective retirements. Both administrators were anticipating a June 30, 2007 retirement date but agreed to remain as a presidential search effort was begun immediately. Dr. Harger, however, will retire effective August 31, 2007. Dr. Steven Merrill has been named as Acting Provost and a search for a permanent replacement is anticipated upon arrival of the new president.

On August 23, 2007 the Lake Superior State University Board of Trustees announced the conclusion of the presidential search effort. Dr. Rodney L. Lowman has been selected and has arrived on campus in early October 2007 to begin his tenure as the sixth president of Lake Superior State University.

The Governmental Accounting Standards Board ("GASB") recently issued Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 43 is effective for the University's fiscal year ended June 30, 2008 and will result in additional disclosures regarding an estimated liability for these postemployment benefits. GASB No. 45 is effective for the University's fiscal year ended June 30, 2009 and will result in the University recording the estimated liability for these postemployment benefits. As of June 30, 2007, the University has not determined the possible effect of these new pronouncements.

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INDEPENDENT AUDITORS' REPORT

November 16, 2007

Board of Trustees
Lake Superior State University
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of ***Lake Superior State University ("the University"),*** a component unit of the State of Michigan, as of June 30, 2007 and 2006 and for the years then ended, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of ***Lake Superior State University*** as of June 30, 2007 and 2006 and the respective changes in financial position and cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated October 22, 2007, on our consideration of Lake Superior State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in the University's single audit report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis (MD&A) presented on pages 2 to 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Rehmann Robson

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LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET ASSETS

	June 30	
Assets	**2007**	**2006**
Current assets		
Cash and cash equivalents	$ 5,027,755	$ 5,507,663
Restricted cash and cash equivalents	-	1,505,472
Accounts receivable, net	1,132,757	893,166
State appropriations receivable	850,868	2,277,200
Inventories	314,311	375,752
Other	272,663	28,744
Total current assets	**7,598,354**	**10,587,997**
Noncurrent assets		
Student loans receivable, net	2,671,208	2,512,293
Investments	1,027,375	910,677
Endowment investments	8,132,422	7,115,955
Land and construction in progress	2,555,703	6,680,008
Depreciable capital assets, net	68,880,989	67,509,189
Total noncurrent assets	**83,267,697**	**84,728,122**
Total assets	**$ 90,866,051**	**$ 95,316,119**
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,147,986	$ 2,024,525
Deferred revenue	974,036	759,663
Deposits	156,127	104,121
Current portion of long-term debt	1,189,237	1,085,358
Current portion of employee benefit programs	301,682	278,088
Total current liabilities	**4,769,068**	**4,251,755**
Interest rate swap liability	839,000	839,000
Long-term debt, net of current portion	29,163,366	30,326,284
Employee benefit programs, net of current portion	1,486,671	1,345,322
Total liabilities	**36,258,105**	**36,762,361**
Net assets		
Invested in capital assets, net of related debt	42,156,733	45,248,314
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	8,640,104	7,384,652
Loans	3,128,992	3,159,531
Capital projects and debt service	250,500	688,479
Unrestricted	226,290	1,867,455
Total net assets	**54,607,946**	**58,553,758**
Total liabilities and net assets	**$ 90,866,051**	**$ 95,316,119**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2007	**2006**
Operating revenues		
Tuition and fees (net of scholarship allowances of $4,542,183 and $4,397,885 in 2007 and 2006, respectively)	$ 12,710,623	$ 12,616,887
Federal grants and contracts	3,505,404	3,464,260
State grants and contracts	232,741	215,838
Nongovernmental grants and contracts	2,189,630	2,192,707
Auxiliary activities	7,497,651	7,474,253
Other	727,894	867,107
Total operating revenues	**26,863,943**	**26,831,052**
Operating expenses		
Instruction	11,759,786	11,677,756
Research	420,966	479,409
Public service	641,662	681,907
Academic support	2,616,401	2,500,091
Student services	2,504,203	2,150,274
Student aid	1,663,443	1,489,507
Institutional support	4,873,973	4,743,596
Operation and maintenance of plant	4,611,074	4,339,920
Auxiliary activities	7,474,958	7,449,771
Depreciation	5,545,466	5,349,098
Other	812,108	832,772
Total operating expenses	**42,924,040**	**41,694,101**
Operating loss	**(16,060,097)**	**(14,863,049)**
Nonoperating revenues (expenses)		
State appropriations	11,224,929	12,461,216
Interest on capital debt and leases	(1,580,126)	(1,524,251)
Investment income, net of investment expenses	1,675,885	1,050,227
Gain (loss) on assets sold or retired	13,974	(20,471)
Net nonoperating revenues	**11,334,662**	**11,966,721**
Loss before other revenues	**(4,725,435)**	**(2,896,328)**
Other revenues		
Capital grants and gifts	572,431	422,670
Additions to expendable endowments	44,092	36,100
Capital appropriations	163,100	435,474
Total other revenues	**779,623**	**894,244**
Decrease in net assets	**(3,945,812)**	**(2,002,084)**
Net assets, beginning of year	58,553,758	60,555,842
Net assets, end of year	**$ 54,607,946**	**$ 58,553,758**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2007	**2006**
Cash flows from operating activities		
Tuition and fees	$ 12,518,606	$ 12,604,744
Grants and contracts	6,135,938	5,914,636
Payments to employees	(24,928,611)	(23,821,500)
Payments to vendors	(10,675,319)	(10,947,475)
Payments for financial aid	(1,663,443)	(1,489,507)
Loans issued to students	(703,830)	(515,094)
Collections of interest and principal on loans to students	544,915	641,568
Auxiliary activities	7,493,502	7,401,076
Other receipts	742,297	962,088
Net cash used in operating activities	**(10,535,945)**	**(9,249,464)**
Cash flows from noncapital financing activities		
State appropriations	12,651,261	12,390,078
Gifts for endowments	44,092	36,100
Federal Direct Lending receipts	8,178,571	9,012,902
Federal Direct Lending disbursements	(8,178,571)	(9,012,902)
Net cash provided by noncapital financing activities	**12,695,353**	**12,426,178**
Cash flows from capital and related financing activities		
Capital appropriations	163,100	731,273
Capital grants and gifts received	487,412	410,798
Purchases and construction of capital assets	(2,678,748)	(2,714,240)
Proceeds from capital lease	-	1,500,000
Proceeds from disposal of capital assets	14,399	21,491
Principal paid on capital debt and leases	(1,088,270)	(976,811)
Interest paid on capital debt and leases	(1,585,401)	(1,536,632)
Net cash used in capital and related financing activities	**(4,687,508)**	**(2,564,121)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	196,146	396
Purchases of investments	(198,507)	(460,775)
Investment income	545,081	590,570
Net cash provided by investing activities	**542,720**	**130,191**
Net (decrease) increase in cash and cash equivalents	(1,985,380)	742,784
Cash and cash equivalents, beginning of year	7,013,135	6,270,351
Cash and cash equivalents, end of year	**$ 5,027,755**	**$ 7,013,135**

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
(Continued)

	Year Ended June 30	
Reconciliation of net operating loss to net cash used in operating activities	**2007**	**2006**
Operating loss	$ (16,060,097)	$ (14,863,049)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	5,545,466	5,349,098
Change in assets and liabilities:		
Accounts receivable, net	(239,979)	111,031
Student loans receivable, net	(158,915)	126,474
Inventories	61,441	(106,443)
Other	(243,919)	13,321
Accounts payable and accrued expenses	128,736	290,829
Deferred revenue	214,373	(58,431)
Deposits	52,006	(1,108)
Employee benefit programs	164,943	(111,186)
Net cash used in operating activities	**$ (10,535,945)**	**$ (9,249,464)**
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	$ 85,407	$ 23,110
Entered into capital lease to purchase capital equipment	$ 29,232	$ 311,464
Statements of Net Assets Classification of Cash and cash equivalents		
Cash and cash equivalents	$ 5,027,755	$ 5,507,663
Restricted cash and cash equivalents	-	1,505,472
Cash and cash equivalents, end of year	**$ 5,027,755**	**$ 7,013,135**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF NET ASSETS

	June 30	
	2007	2006
Assets		
Cash and cash equivalents	$ 1,026,165	$ 1,143,718
Investments	4,686,602	3,928,298
Other current assets	355	572
Unconditional promises to give, net	170,235	201,269
Beneficial interest in charitable remainder trust	288,658	263,104
Total assets	**$ 6,172,015**	**$ 5,536,961**
Liabilities		
Accounts payable and accrued expenses	$ 10,409	$ 32,064
Employee benefit programs	16,298	21,961
Annuity obligations	66,091	67,455
Total liabilities	**92,798**	**121,480**
Net assets		
Unrestricted	4,263	988
Temporarily restricted	1,138,323	1,265,760
Permanently restricted	4,936,631	4,148,733
Total net assets	**6,079,217**	**5,415,481**
Total liabilities and net assets	**$ 6,172,015**	**$ 5,536,961**

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30 2007	2006
Revenue and support		
Contributions	$ 1,358,255	$ 1,012,689
Investment income	255,687	223,089
Net unrealized gains on investments	451,269	188,828
Change in value of split interest agreements	29,115	37,537
Total revenue and support	**2,094,326**	**1,462,143**
LSSU distributions and expenses		
Distributions to Lake Superior State University	925,239	612,823
Operating expenses	505,351	449,285
Total LSSU distributions and expenses	**1,430,590**	**1,062,108**
Increase in net assets	**663,736**	**400,035**
Net assets, beginning of year	5,415,481	5,015,446
Net assets, end of year	**$ 6,079,217**	**$ 5,415,481**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lake Superior State University ("the University") is an institution of higher education and is considered a discrete component unit of the State of Michigan 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 of Michigan 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 Governmental Accounting Standards Board Statement No. 39, the University's basic financial statements include the financial statements of both the University and its component unit, the Lake Superior State University Foundation (the "Foundation") which is a legally separate tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors includes members of the University's Board of Trustees, certain officers of the University and other community representatives elected by the Foundation Board. Although the University does not necessarily control the timing or amount of receipts from the Foundation, the majority of its resources or income earned thereon are restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can be used only by, or for the benefit of, the University, the Foundation is considered a component unit of the University. The Foundation financial statements are reported on separate pages to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University. However, the Foundation's financial position and activities are summarized with those of the University in the notes to the financial statements.

Contributions to the University by the Foundation (reported primarily as Other revenues-capital gifts and grants) have been made in the amount of $925,239 for fiscal 2007 and $612,823 for fiscal 2006. Support from the University provided to the Foundation amounted to $294,800 and $230,137 during fiscal 2007 and 2006, respectively.

Basis of Presentation - University

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

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that Use Proprietary Fund Accounting,* the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November

30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

In applying these accounting pronouncements, the University follows the guidance for special purpose governments engaged only in "business type" activities rather than issuing financial statements that focus on accountability of individual funds.

Basis of Presentation - Foundation

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, and FASB Statement No. 117, 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, excluding noncurrent investments, with an original maturity when purchased of three months or less.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consisted of capital lease proceeds that had been placed on deposit with a financial institution that were restricted to use on the Central Heating Plant project.

University Endowment Investments / Investments

University endowment investments and other investments consist primarily of long-term mutual funds and are stated at fair value.

Foundation Investments

Foundation investments consist primarily of long-term mutual funds and are stated at fair value.

Inventories

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

Capital Assets

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

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

Classification	Life
Buildings and building improvements	40 years
Land improvements	20 years
Infrastructure	20 years
Equipment	7 years
Personal computers	3 years
Library books	7 years
Vehicles	7 years

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, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

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

During fiscal 2007 and 2006 the University received $21,605,806 and $18,739,383 (net of a 3% administrative fee retained by the University), respectively, of State appropriations which were forwarded to seven charter schools. The University also received $90,909 in State appropriations for Bay Mills Community College during fiscal 2007 which were forwarded to Bay Mills Community College immediately upon receipt. 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.

Deferred Revenue

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

Income Taxes

The University is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code section 501 (c) (1), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2007 or 2006.

The Foundation is also exempt from federal income taxes under Section 501(c) (3) and qualifies as a nonprofit foundation under Section 509 (a) (1) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts for which the Foundation is a beneficiary. 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 recognized in the statements of activities of the Foundation.

Annuity Obligations Payable

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

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 distributed using an average balance method on accounts designated to receive investment earnings. Unrealized gains or losses are distributed based on cash balances on June 30.

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

	2007	**2006**
Disbursement accounts (deposits)	$ 2,936,242	$ 5,029,815
Money market funds	2,091,513	1,983,320
Total cash and cash equivalents	**$ 5,027,755**	**$ 7,013,135**

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

	2007	**2006**
University endowment investments		
Mutual funds		
Equity funds	$ 6,434,966	$ 5,502,508
Bond/fixed income funds	1,697,456	1,613,447
Total University endowment investments	8,132,422	7,115,955

	2007	2006
University investments		
Mutual funds		
Money market funds	$ 2,453	$ 2,961
Equity funds	752,321	651,358
Bond/fixed income funds	272,601	256,358
Total University investments	1,027,375	910,677
Total investments	**$ 9,159,797**	**$ 8,026,632**

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

As of June 30, 2007, the University had the following debt investments and maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Government money market funds	$ 2,093,966	$ 2,093,966	$ -	$ -
Mutual bond funds	1,970,057	-	-	1,970,057
Total debt investments	**$ 4,064,023**	**$ 2,093,966**	**$ -**	**$1,970,057**

As of June 30, 2006, the University had the following debt investments and maturities:

		Maturities (in Years)		
	Fair Market Value	Less Than 1	1-5	6-10
Government money market funds	$ 1,986,281	$ 1,986,281	$ -	$ -
Mutual bond funds	1,869,805	-	-	1,869,805
Total debt investments	**$ 3,856,086**	**$ 1,986,281**	**$ -**	**$1,869,805**

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

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of year-end $5,715,222 of the University's bank balance of $5,815,222 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 and the University does not 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. None of the investments held by the University exceeds 5 percent of the University's investments.

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 it to invest in these asset types. At June 30, 2007 and 2006, the University held 27,630 and 29,471 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of $1,430,116 and $1,289,344, respectively. The University holds no other assets which may be subject to the risks of foreign currency.

There is no foreign currency risk with any holdings under the caption "cash and cash equivalents" in the accompanying statements of net assets 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 investments of donor-restricted endowments approximated $1,932,000 and $1,173,000 at June 30, 2007 and 2006, respectively. The net appreciation is a component of restricted, expendable net assets. The yields of the University endowment investments were as follows for the year ended June 30:

	2007	**2006**
Interest and dividends	2.1%	4.2 %
Net realized and unrealized gains	13.8	6.8
Total return	**15.9%**	**11.0%**

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

3. INVESTMENTS - FOUNDATION

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

	2007	2006
Mutual funds		
Money market funds	$ 13	$ 18
Equity funds	3,423,799	2,828,313
Bond/fixed income funds	1,248,735	1,090,587
Subtotal	4,672,547	3,918,918
Marketable securities	14,055	9,380
Total Foundation investments	**$ 4,686,602**	**$ 3,928,298**

4. 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, financial aid and State Building Authority ("SBA") revenues. These receivables are reported net of an allowance for collection losses in the amount of $314,184 and $523,935 at June 30, 2007 and 2006, respectively.

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

	2007	2006
Tuition and fees	$ 584,760	$ 278,398
Auxiliary activities	200,735	170,737
Governmental grants and contracts	264,733	397,258
Private grants and contracts	7,082	12,641
Other	75,447	34,132
Accounts receivable, net	**$ 1,132,757**	**$ 893,166**

In addition, the University has student loans receivable, in the amount of $2,671,208 and $2,512,293, which are recorded net of an allowance for uncollectible loans of $347,781and $326,411 as of June 30, 2007 and 2006, respectively. Approximately 80% of student loans receivable are expected to be collected in periods beyond one year.

5. PROMISES RECEIVABLE

The following is a summary of promises receivable for the Foundation as of June 30:

	2007	2006
Total promises receivable	$ 291,635	$ 332,904
Less discounts to net present value at 8%	116,461	122,124
Present value of promises receivable	175,174	210,780
Less allowance for uncollectible amounts	4,939	9,511
Net promises receivable	**$ 170,235**	**$ 201,269**

6. CHARITABLE REMAINDER TRUST

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

At June 30, 2007 and 2006 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 $288,658 and $263,104, respectively.

7. CAPITAL ASSETS

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

	2007			
	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ --	$ --	$ 838,684
Land	1,135,344	--	--	1,135,344
Art collection	542,475	39,200	--	581,675
Construction-in-progress	4,163,505	1,703,504	(5,867,009)	--
Total capital assets not being depreciated	6,680,008	1,742,704	(5,867,009)	2,555,703
Capital assets being depreciated				
Land improvements	5,424,733	--	--	5,424,733
Infrastructure	1,435,510	1,809,195	--	3,244,705
Building and building improvements	112,823,463	1,897,273	--	114,720,736
Equipment and other	14,160,799	3,211,223	(431,216)	16,940,806
Total capital assets being depreciated	133,844,505	6,917,691	(431,216)	140,330,980
Less accumulated depreciation	(66,335,316)	(5,545,466)	430,791	(71,449,991)
Total capital assets being depreciated, net	67,509,189	1,372,225	(425)	68,880,989
Total capital assets, net	**$ 74,189,197**	**$ 3,114,929**	**$ (5,867,434)**	**$ 71,436,692**

	2006			
	Balance July 1, 2005	**Additions**	**Reductions**	**Balance June 30, 2006**
Capital assets not being depreciated				
Land - restricted	$ 838,684	$ --	$ --	$ 838,684
Land	1,164,644	--	(29,300)	1,135,344
Art collection	542,475	--	--	542,475
Construction-in-progress	17,294,570	1,701,111	(14,832,176)	4,163,505
Total capital assets not being depreciated	19,840,373	1,701,111	(14,861,476)	6,680,008
Capital assets being depreciated				
Land improvements	5,424,733	--	--	5,424,733
Infrastructure	1,364,888	70,622	--	1,435,510
Building and building improvements	97,921,092	14,902,371	--	112,823,463
Equipment and other	17,687,047	1,359,160	(4,885,408)	14,160,799
Total capital assets being depreciated	122,397,760	16,332,153	(4,885,408)	133,844,505
Less accumulated depreciation	(65,706,691)	(5,349,098)	4,720,473	(66,335,316)
Total capital assets being depreciated, net	56,691,069	10,983,055	(164,935)	67,509,189
Total capital assets, net	**$ 76,531,442**	**$ 12,684,166**	**$(15,026,411)**	**$ 74,189,197**

At June 30, 2007, there are no projects remaining in construction in progress. The final three projects funded by the 2001 bond issue (Banner software implementation, Network Fiber upgrade and extension, Electrical Loop upgrade) and the 2006 Municipal Loan funded project, Central Heating Plant boiler replacement, are all substantially complete, placed in service and capitalized. Income from invested bond proceeds and the other funds in the amount of $303,324 were applied to the cost over-run in the Central Heating Plant boiler project and to debt service on the 2001 General Revenue Bonds.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2007	2006
Accounts payable to vendors	$ 638,362	$ 632,782
Payroll and payroll taxes	1,120,223	1,067,067
Interest	174,401	179,676
Workers' compensation claims	215,000	145,000
Total accounts payable and accrued expenses	**$ 2,147,986**	**$ 2,024,525**

Worker's Compensation

The University is self-insured for workers' compensation claims up to $500,000 per claim. The accrued workers' compensation obligation represents claims made prior to June 30, 2007 and 2006, 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.

Changes in the workers' compensation claims liability are summarized as follows for the years ended June 30:

	2007	2006
Claims liability at beginning of year	$ 145,000	$ 145,000
Claims and damages incurred	203,884	117,091
Claims payments	(133,884)	(117,091)
Claims liability at end of year	**$ 215,000**	**$ 145,000**

9. LONG-TERM DEBT

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

2007

	Interest Rate	Maturity	July 1 2006	Additions	Reductions	June 30 2007	Current Portion
			Outstanding Principal				
Bonds payable							
General Revenue Bonds, Series 2001							
Serial bonds	4.00%-5.00%	2008-2017	$ 4,215,000	$ --	$ 305,000	$ 3,910,000	$ 320,000
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--
General Revenue Bonds, Series 1997							
Serial bonds	5.00%	2008-2009	1,795,000	--	575,000	1,220,000	595,000
Term bonds	5.00%-5.125%	2012-2019	6,805,000	--	--	6,805,000	--
Total –bonds payable			**29,340,000**	**--**	**880,000**	**28,460,000**	**915,000**
Capital leases			2,071,642	29,232	208,271	1,892,603	274,237
Total – long-term debt			**$ 31,411,642**	**$ 29,232**	**$ 1,088,271**	**30,352,603**	**$1,189,237**
Less current portion						1,189,237	
Long-term debt, net of current portion						**$ 29,163,366**	

2006

	Interest Rate	Maturity	July 1 2005	Additions	Reductions	June 30 2006	Current Portion
			Outstanding Principal				
Bonds payable							
General Revenue Bonds, Series 2001							
Serial bonds	4.00%-5.00%	2007-2017	$ 4,510,000	$ --	$ 295,000	$ 4,215,000	$ 305,000
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--
General Revenue Bonds, Series 1997							
Serial bonds	4.80%-5.00%	2007-2009	2,370,000	--	575,000	1,795,000	575,000
Term bonds	5.00%-5.125%	2012-2019	6,805,000	--	--	6,805,000	--
Total –bonds payable			**30,210,000**	**--**	**870,000**	**29,340,000**	**880,000**
Capital leases			366,989	1,811,464	106,811	2,071,642	205,358
Total – long-term debt			**$ 30,576,989**	**$ 1,811,464**	**$ 976,811**	**31,411,642**	**$1,085,358**
Less current portion						1,085,358	
Long-term debt, net of current portion						**$ 30,326,284**	

Bonded Debt

General Revenue Bonds, Series 2001

As of June 30, 2007, bonds payable in the amount of $20,435,000 are payable from general revenues and consist of $3,910,000 in serial bonds maturing in varying amounts through November 2017, with interest charged at annual rates ranging from 4% to 5%. Also, four term bonds are outstanding in the amounts of $1,170,000, $2,700,000, $5,535,000 and $7,120,000, respectively. The term bonds mature in November 2018, 2021, 2026 and 2031 and accrue interest at 5.125%, 5.5%, 5.125% and 5.25%, respectively. All of the bonds are callable after November 15, 2012. The serial and term bonds were issued under the same official statement dated May 15, 2001.

General Revenue Bonds, Series 1997

As of June 30, 2007, bonds payable in the amount of $8,025,000 are payable from general revenues and consist of $1,220,000 in serial bonds maturing in varying amounts through November 2009, with interest charged at annual rates ranging from 4.8% to 5%. Also, two term bonds are outstanding in the amounts of $2,835,000 and $3,970,000, respectively. The term bonds mature in November 2012 and 2019 and accrue interest at 5.00% and 5.125%, respectively. All the bonds are callable after November 15, 2008. The serial and term bonds were issued under the same official statement dated November 1, 1997.

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
2008	$ 915,000	$ 1,433,669	$ 2,348,669
2009	955,000	1,390,628	2,345,628
2010	1,005,000	1,345,119	2,350,119
2011	1,050,000	1,296,383	2,346,383
2012	1,100,000	1,243,894	2,343,894
2013-2017	5,795,000	5,321,608	11,116,608
2018-2022	4,985,000	3,960,579	8,945,579
2023-2027	5,535,000	2,607,385	8,142,385
2028-2032	7,120,000	972,039	8,092,039
Total – bonds payable	**$28,460,000**	**$19,571,304**	**$48,031,304**

Defeased Bonds

In May 2001, the University issued $21,850,000 of General Revenue Bonds, Series 2001 with yields ranging from 3.1% to 5.43%. A portion of the proceeds were used to refund and defease a portion of the Board's General Revenue Bonds, Series 1997 maturing at varying amounts each November 15 through 2019 in the amount of $8,160,000. The outstanding balance for these defeased bonds was $5,885,000 and $6,310,000 as of June 30, 2007 and 2006, respectively.

Interest Rate Swap

On April 12, 2005, the University entered into a twenty-six year forward-looking basis interest rate swap agreement for a notional amount of $20,115,000. The intention of the swap was to effectively change the fixed interest rate on the University's bonds to a variable rate. The effective date of the swap agreement is May 15, 2008. The stated maturity date of the swap is November 15, 2031.

Under the terms of the swap agreement, the University will pay interest based on the Bond Market Association ("BMA") rate. In return, the University will receive interest calculated at the outstanding notional amount times 68% of the one-month London Interbank Offered Rate ("LIBOR"). Only the net difference in interest payments will be actually exchanged each month. The University will continue to pay interest to the bondholders at the fixed rate on the outstanding bonds. However, during the term of the swap agreement, the University effectively pays a variable rate on the debt based on the economics of the swap agreement. The swap exposes the University to basis risk should the relationship between LIBOR, BMA and the fixed interest rate on the outstanding bonds diverge changing the effective fixed rate of the bonds. As of June 30, 2007, 68% of the one-month LIBOR was 3.62% whereas the BMA rate was 3.73%.

When the swap transaction was initiated, the University received a payment from the issuer in the amount of $839,000, which is included in the accompanying statements of net assets at June 30, 2007 and 2006 under the caption "Investments". Since the University can terminate the swap agreement at its option prior to the effective date, under which circumstance a termination payment would be required, this amount is also included as a liability under the caption "Interest rate swap liability" in the accompanying statements of net assets at June 30, 2007 and 2006. As of June 30, 2007, the fair value of the required termination payment is $655,827 which represents the amount that the University would be required to pay as of June 30, 2007 if the swap was terminated. The University does not intend to terminate the swap agreement.

Obligations Under Capital Leases

The University leases certain equipment with a net book value of $2,257,506 at June 30, 2007 under lease agreements which meet the capitalization criteria specified by generally accepted accounting principles.

The following is a schedule of annual future minimum lease payments required under capitalized leases obligations as of June 30, 2007:

Year ending June 30	**Amount**
2008	$ 363,479
2009	350,295
2010	337,383
2011	320,717
2012	217,874
After 2012	667,498
Total minimum payments due	2,257,246
Less amounts representing interest, imputed at annual rates ranging from .0% to 7.0%	364,643
Present value of net minimum lease payments	**$1,892,603**

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of and for the years ended June 30, 2007 and 2006 are insignificant.

10. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Plan

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

Support personnel represented by the United Steelworkers of America, Local 997 hired after January 1, 1996, faculty and administrative employees are eligible for the TIAA-CREF plan. TIAA-CREF is a defined contribution plan where the University contributes an amount equal to 12.0 percent of administrative and faculty group employees' pay, and 10.0 percent of Steelworkers employees' pay. The University contributed approximately $1,326,000 and $1,253,000 to this plan for the years ended June 30, 2007 and 2006, respectively. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested. All eligible employees hired after January 1, 1996 elected TIAA-CREF.

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

MPSERS is a noncontributory cost-sharing multiple-employer defined benefit plan administered by the Michigan State Employees' Retirement System. The cost of the MPSERS plan allocated to the University was approximately $1,408,000, $1,254,000 and $1,094,000, for the years ended June 30, 2007, 2006 and 2005, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2007 the University is required to contribute 5.84% (6.38% during the period of October 1, 2006 through September 30, 2007) of MPSERS covered payroll for normal pension costs and 7.29% (6.85% during the period of October 1, 2006 through September 30, 2007) for unfunded pension liability. In addition, separately computed supplemental contributions will be required for retiree health care benefits. Future contribution requirements, which depend on the level of MPSERS covered payroll, cannot be determined. Additional pension data for MPSERS is contained in MPSERS's comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Systems, 7150 Harris Dr., P. O. Box 30026, Lansing, MI 48901.

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

Compensated Absences

The University has a policy to pay eligible employees for their unused accumulated vacation, up to a maximum of 288 hours, upon termination of employment with the University.

Accumulated Sick Leave Benefits

The University has a policy to pay eligible employees for their unused accumulated sick leave, 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 Educational Support Personnel group hired after December 31, 1989 are not eligible for participation in the program.

Deferred Compensation

The University has a retention incentive agreement for a certain employee which calls for the University to issue retention incentive payments upon the fulfillment of certain employment conditions. As of June 30, 2007 the requirements of this retention incentive agreement have been satisfied and the employee eligible for retention incentive payments has elected to receive said payments in four equal installments payable on January 2, 2008, 2009, 2010 and 2011.

Early Retirement Severance Program

During the year ended June 30, 2000, twenty-two faculty members elected to participate in a early retirement severance incentive program (the "program") offered by the University. The University is required to make payments to each participant as directed by the contract entered into under the program. The University does not fund the program under a formal plan. However, beginning in January 2000, the University began funding the program with current operating cash or investments. Amounts paid under the terms of the program during the years ended June 30, 2007 and 2006, respectively, amounted to $107,279 and $144,795 to reduce the liability and $14,281 and $16,550 was recorded as additional salary expense.

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

	2007				
	July 1 2006	**Additions**	**Payments**	**June 30 2007**	**Current Portion**
Compensated absences	$ 615,889	$ 109,208	$ 52,249	$ 672,848	$ 60,000
Accumulated sick leave benefits	703,596	142,000	41,018	804,578	120,000
Deferred compensation	--	100,000	--	100,000	25,000
Early retirement severance program	303,925	14,281	107,279	210,927	96,682
Total employee benefit programs	**$ 1,623,410**	**$ 365,489**	**$ 200,546**	**$ 1,788,353**	**$301,682**

	2006				
	July 1 2005	**Additions**	**Payments**	**June 30 2006**	**Current Portion**
Compensated absences	$ 617,510	$ 53,175	$ 54,797	$ 615,889	$ 60,000
Accumulated sick leave benefits	670,824	142,000	109,228	703,596	100,000
Deferred compensation	14,091	--	14,091	--	--
Early retirement severance program	432,171	16,550	144,795	303,925	118,088
Total employee benefit programs	**$ 1,734,596**	**$ 211,725**	**$ 322,911**	**$ 1,623,410**	**$ 278,088**

Post Employment Health Benefits

The University provides post-retirement health benefits, per the requirements of the University's personnel policy and union contracts. Retirees are required to pay all monthly premiums. As the University is self-insured (see Note 11), the University provides coverage for up to a maximum of $75,000 for each health insurance claim and purchases commercial insurance for health insurance claims in excess of coverage provided. At June 30, 2007, 25 retirees were receiving post-employment health benefits. Benefit payments made for the years ended June 30, 2007 and 2006 were $219,583 and $247,995, respectively.

11. 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 $500,000 for each workers' compensation claim and $75,000 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 assets for health and maintenance reserves and records a liability for workers' compensation insurance. These reserves are determined by MUSIC for losses relating to catastrophes. These reserves amounted to $1,332,121 and $1,446,213 at June 30, 2007 and 2006, respectively. The workers' compensation claims liability of $215,000 and $145,000 at June 30, 2007 and 2006, respectively, which is included in accounts payable and accrued expenses, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Health insurance claims incurred but not reported at June 30, 2007 were not significant and, accordingly, a related liability has not been recorded in the accompanying financial statements.

12. CONTINGENCIES AND COMMITMENTS

Union Contracts

The University has three groups of employees, two of which are covered under union collective bargaining agreements. The employee groups covered and the expiration of the contracts are as follows:

Employee Group	Union Name	Contract Expires
Support Personnel	United Steelworkers of America	September 30, 2009
Faculty	Michigan Education Association/ National Education Association	August 31, 2007
Administrative and Professional	N/A	N/A

In August 2007, the University and the LSSU Faculty Association reached a tentative agreement for a new collective bargaining agreement. The tentative agreement is subject to ratification by the membership of the Faculty Association and the University Board of Trustees.

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.

MPSERS Unfunded Liability

Certain employees of the University are covered under the MPSERS retirement plan. As of June 30, 2007 and 2006 the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2007 or 2006. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's position that the University is not responsible for any shortfall in the fund as a result of changes in benefits made by MPSERS.

13. SUBSEQUENT EVENT

In May 2007 the State of Michigan, via Senate Bill 436, effectively canceled the University's August 2007 state appropriation in the amount of $1.16 million. In accordance with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University did not record a receivable as of June 30, 2007 since the state was not obligated to make this appropriation during its fiscal year ended September 30, 2007. In October 2007, Senate Bill 772 was passed resulting in a re-appropriation of the August payment which was received by the University on October 16, 2007.

14. NATURAL CLASSIFICATION OF EXPENSES

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

2007

	Salaries, Wages, Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 10,564,033	$ 1,195,753	$ --	$ --	$ --	$ --	$ 11,759,786
Research	326,658	94,308	--	--	--	--	420,966
Public service	395,033	246,629	--	--	--	--	641,662
Academic support	2,169,117	447,284	--	--	--	--	2,616,401
Student services	2,043,547	460,656	--	--	--	--	2,504,203
Student aid	--	--	--	1,663,443	--	--	1,663,443
Institutional support	3,531,322	1,342,651	--	--	--	--	4,873,973
Plant operations	2,440,032	559,284	1,611,758	--	--	--	4,611,074
Auxiliary activities	3,681,597	2,645,565	1,147,796	--	--	--	7,474,958
Depreciation	--	--	--	--	5,545,466	--	5,545,466
Other	--	--	--	--	--	812,108	812,108
Total operating expenses	**$ 25,151,339**	**$ 6,992,130**	**$ 2,759,554**	**$ 1,663,443**	**$ 5,545,466**	**$ 812,108**	**$ 42,924,040**

2006

	Salaries, Wages, Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	$ 10,629,594	1,048,162	$ --	$ --	$ --	$ --	$ 11,677,756
Research	330,199	149,210	--	--	--	--	479,409
Public service	360,486	321,421	--	--	--	--	681,907
Academic support	1,975,462	524,629	--	--	--	--	2,500,091
Student services	1,751,312	398,962	--	--	--	--	2,150,274
Student aid	--	--	--	1,489,507	--	--	1,489,507
Institutional support	3,107,997	1,635,599	--	--	--	--	4,743,596
Plant operations	2,254,989	563,365	1,521,566	--	--	--	4,339,920
Auxiliary activities	3,550,654	2,709,293	1,189,824	--	--	--	7,449,771
Depreciation	--	--	--	--	5,349,098	--	5,349,098
Other	--	--	--	--	--	832,772	832,772
Total operating expenses	**$ 23,960,693**	**$ 7,350,641**	**$ 2,711,390**	**$ 1,489,507**	**$ 5,349,098**	**$ 832,772**	**$ 41,694,101**

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