

**LAKE SUPERIOR STATE UNIVERSITY**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEARS ENDED  
JUNE 30, 2008 AND 2007**

# LAKE SUPERIOR STATE UNIVERSITY

## TABLE OF CONTENTS

---

|  | <u>PAGE</u> |
|--|-------------|
| <b>University Officers</b>                                 | 1           |
| <b>Management's Discussion and Analysis</b>                | 2-9         |
| <b>Independent Auditors' Report</b>                        | 10          |
| <b>Lake Superior State University</b>                      |             |
| Statements of Net Assets                                   | 11          |
| Statements of Revenues, Expenses and Changes in Net Assets | 12          |
| Statements of Cash Flows                                   | 13-14       |
| <b>Lake Superior State University Foundation</b>           |             |
| Statements of Net Assets                                   | 15          |
| Statements of Activities                                   | 16          |
| <b>Notes to Financial Statements</b>                       | 17-36       |

# Lake Superior State University

## Board of Trustees

Barbara J. Cliff  
Chair  
Term Expires January 27, 2010

Charles J. Schmidt  
Term Expires January 27, 2010

W.W. "Frenchie" LaJoie  
First Vice Chair  
Term Expires January 27, 2012

Cindy N. Dingell  
Term Expires January 27, 2012

E. Gary Toffolo  
Second Vice Chair  
Term Expires January 27, 2014

Jenny L. Kronk  
Term Expires January 27, 2014

Scot Lindemann  
Term Expires January 27, 2016

Patrick Egan  
Term Expires January 27, 2016

## President and Vice Presidents

Dr. Rodney L. Lowman  
President

Dr. Scott J. Amos  
Vice President, Academic Affairs and  
Provost

Joseph F. Herbig  
Vice President, Finance

William T. Eilola  
Vice President, Enrollment Services

William J. Crawford  
Vice President, University Relations  
and Marketing

Dr. Ken Peress  
Vice President, Student Affairs

## Lake Superior State University Foundation

Dr. Thomas G. Robinson  
Acting Chairman and  
Second Vice Chair

Dr. Rodney L. Lowman  
First Vice Chair, Ex-Officio

**Lake Superior State University  
Management's Discussion and Analysis  
Fiscal Years Ended June 30, 2008 and 2007**

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, 2008 and 2007 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 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**

|   | <b>June 30</b>             |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
|   | <b><u>2008</u></b>         | <b><u>2007</u></b>         | <b><u>2006</u></b>         |
| <b>Assets:</b>                                  |                            |                            |                            |
| Current assets                                  | \$ 9,429,056               | \$ 7,598,354               | \$10,587,997               |
| Capital assets                                  | 66,336,827                 | 71,436,692                 | 74,189,197                 |
| Other noncurrent assets                         | <u>10,950,557</u>          | <u>11,831,005</u>          | <u>10,538,925</u>          |
| <b>Total Assets</b>                             | <b><u>\$86,716,440</u></b> | <b><u>\$90,866,051</u></b> | <b><u>\$95,316,119</u></b> |
| <b>Liabilities:</b>                             |                            |                            |                            |
| Current liabilities                             | \$ 4,913,780               | \$ 4,769,068               | \$ 4,251,755               |
| Noncurrent liabilities                          | <u>30,070,156</u>          | <u>31,489,037</u>          | <u>32,510,606</u>          |
| Total liabilities                               | <u>34,983,936</u>          | <u>36,258,105</u>          | <u>36,762,361</u>          |
| <b>Net Assets:</b>                              |                            |                            |                            |
| Invested in capital assets, net of related debt | 38,246,105                 | 42,156,733                 | 45,248,314                 |
| Restricted, nonexpendable                       | 205,327                    | 205,327                    | 205,327                    |
| Restricted, expendable                          | 11,215,596                 | 12,019,596                 | 11,232,662                 |
| Unrestricted                                    | <u>2,065,476</u>           | <u>226,290</u>             | <u>1,867,455</u>           |
| Total net assets                                | <u>51,732,504</u>          | <u>54,607,946</u>          | <u>58,553,758</u>          |
| <b>Total Liabilities and Net Assets</b>         | <b><u>\$86,716,440</u></b> | <b><u>\$90,866,051</u></b> | <b><u>\$95,316,119</u></b> |

**Changes from 2007 to 2008:**

Total current assets increased by \$1.8 million. State appropriations receivable increased by \$1.5 million as the June 30, 2008 receivable included the July 2008 and August 2008 monthly appropriation allocation. The June 30, 2007 receivable included only the July 2007 monthly appropriation due to the delay of the August 2007 appropriation payment. Cash and cash equivalents increased by \$470,000 and accounts receivable decreased by \$100,000. We attribute this shift in current assets to a more stringent enforcement of tuition payment policies; the result was more cash on hand and fewer student accounts receivable.

Capital assets decreased by \$5.1 million as a result of the annual depreciation charge of \$5.4 million, asset additions were \$600,000 and asset deletions were \$300,000 for a net increase of \$300,000.

Other noncurrent assets decreased by \$880,000 due to a decrease in the market value of investments of \$120,000 and a decrease in the market value of endowment investments of \$910,000. Student loan receivables increased by \$150,000 due to the continuing trend of fewer loan consolidations after students graduate.

Total liabilities decreased by \$1.3 million. Long term debt in the amount of \$1.2 million was retired during the current year. Fluctuations of other liabilities were relatively minor and included increases in accounts payable of \$80,000 and deferred revenues of \$80,000 and a decrease of the liability for employee benefits of \$250,000.

Total net assets decreased by \$2.9 million. The University's investment in capital assets decreased by \$3.9 million. Restricted, expendable scholarship net assets decreased by \$780,000. Unrestricted reserves increased by \$1.8 million. The June 30, 2008 unrestricted reserves of \$2,065,000 consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of \$1.1 million.

**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 was 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 consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of \$2.3 million.

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

|                                | <b>Year Ended June 30</b>  |                            |                            |
|--------------------------------|----------------------------|----------------------------|----------------------------|
|                                | <b>2008</b>                | <b>2007</b>                | <b>2006</b>                |
| Total operating revenues       | \$26,558,222               | \$24,804,443               | \$24,786,015               |
| Total operating expenses       | <u>44,040,907</u>          | <u>42,924,040</u>          | <u>41,694,101</u>          |
| Operating loss                 | (17,482,685)               | (18,119,597)               | (16,908,086)               |
| Net nonoperating revenues      | <u>13,963,199</u>          | <u>13,394,162</u>          | <u>14,011,758</u>          |
| Loss before other revenues     | (3,519,486)                | (4,725,435)                | (2,896,328)                |
| Total other revenues           | <u>644,044</u>             | <u>779,623</u>             | <u>894,244</u>             |
| <b>Decrease in net assets</b>  | <b>(2,875,442)</b>         | <b>(3,945,812)</b>         | <b>(2,002,084)</b>         |
| Net assets, beginning of year  | <u>54,607,946</u>          | <u>58,553,758</u>          | <u>60,555,842</u>          |
| <b>Net assets, end of year</b> | <b><u>\$51,732,504</u></b> | <b><u>\$54,607,946</u></b> | <b><u>\$58,553,758</u></b> |

**Changes from 2007 to 2008:**

Operating revenues increased by \$1.8 million. Tuition and fees, net of scholarship allowance, increased by \$1.1 million or 8.6% after a tuition rate increase of 9.3% and an increase in scholarship allowance of \$612,000. Auxiliary revenues increased by \$680,000 or 9.0% after a 4.5% room and board rate increase and increased housing occupancy.

Operating expenses increased by \$1.1 million. Of this amount, salary and benefit costs increased by only \$700,000 or 2.8%. Salary increases were limited to 1%-3% for varying employee groups and changes to health insurance programs, deductibles and employee premium contributions helped offset a significant portion of rising health care costs. Operating supplies increased by \$850,000 primarily in institutional support and auxiliary activities. Utilities increased by \$170,000 or 6.1%. University scholarships increased by \$156,000 or 9.3%. The annual depreciation charge decreased by \$160,000. Other operating expenses decreased by \$600,000; resulting from plant fund expenditures not capitalized decreasing by \$200,000 and an increase in insurance and benefits fund balances of \$400,000.

Net nonoperating revenues increased by \$560,000. State appropriations increased \$2.7 million as the state did satisfy their promise to restore appropriations delayed in the prior fiscal year. Federal Pell grants increased by \$260,000. Investment income decreased by \$2.2 million which reflected the decline of both stocks and bond values throughout the year. Loss on disposal of assets increased by \$240,000 due to the sale of a property that had been gifted to the University.

The net result of operations for the year was a decrease in net assets of \$2.9 million.

**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.

**Lake Superior State University  
Condensed Statements of Cash Flows**

|   | <b>Year Ended June 30</b>  |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
|   | <b>2008</b>                | <b>2007</b>                | <b>2006</b>                |
| Cash provided by (used in):                   |                            |                            |                            |
| Operating activities                          | \$(12,091,223)             | \$(12,613,655)             | \$(11,269,791)             |
| Noncapital financing activities               | 14,859,300                 | 14,773,063                 | 14,446,505                 |
| Capital and related financing activities      | (2,732,260)                | (4,687,508)                | (2,564,121)                |
| Investing activities                          | <u>436,467</u>             | <u>542,720</u>             | <u>130,191</u>             |
| Net change in cash and cash equivalents       | 472,284                    | (1,985,380)                | 742,784                    |
| Cash and cash equivalents, beginning of year  | <u>5,027,755</u>           | <u>7,013,135</u>           | <u>6,270,351</u>           |
| <b>Cash and cash equivalents, end of year</b> | <b><u>\$ 5,500,039</u></b> | <b><u>\$ 5,027,755</u></b> | <b><u>\$ 7,013,135</u></b> |

**Changes from 2007 to 2008:**

Net cash used in operations decreased by \$500,000. Cash received from operations increased by \$1.9 million; this includes sources of cash including tuition and fees, grants and contract awards and auxiliary activities. The most significant increases were cash received from tuition and fees of \$1.5 million and from auxiliary activities of \$700,000. Cash used for operations increased by \$1.4 million for the year; uses of cash include payments to employees, vendors and students. Most significant increases were payments to employees for salaries with an increase of \$1.0 million; payments to vendors increased by \$340,000.

Cash provided by noncapital financing activities increased by \$86,000. Cash received from State appropriations decreased by \$170,000 and cash received for Pell grants increased by \$240,000.



Net cash used in capital and related financing activities decreased by \$1.9 million. Cash received for capital appropriations decreased by \$200,000 and cash received for capital grants and gifts decreased by \$270,000. Cash used for the purchase and construction of capital assets decreased by \$2.4 million. The reason for decreases in these amounts is the lack of capital projects performed during the 2007-08 fiscal year.

Net cash provided by investing activities decreased by \$100,000. Cash provided by sales of investments increased by \$80,000, cash provided from investment income decreased by \$180,000.

Overall, cash and cash equivalents increased by \$470,000 for the year ended June 30, 2008.

#### **Changes from 2006 to 2007:**

Net cash used in operations increased by \$1.3 million. Cash received from operations decreased by \$146,000; 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 \$327,000 with cash received from State appropriations increasing by \$261,000 and cash received for Pell grants increasing by \$57,000.

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 2006-07 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.

#### **A Year in Review...A Look Ahead**

On October 1, 2007, Dr. Rodney L. Lowman began his tenure as the sixth president of Lake Superior State University. Dr. Lowman was most recently Provost and Vice President for Academic Affairs at Alliant, a private university of about 4,000 students.

On April 15, 2008, Dr. Scott J. Amos was appointed as Provost and Vice President of Academic Affairs. Dr. Amos comes to Lake Superior State University from Michigan Technological University where he was most recently serving as the Dean of the School of Technology.

One of the most important projects undertaken by Dr. Lowman and Dr. Amos, along with the campus community, was revision of the University's mission and vision statement, value statement and the development of a strategic plan that will guide the University's direction for the next several years.

## **Mission and Vision Statement**

Our principal mission at Lake Superior State University is to help students develop their full potential. We do this by providing high-quality, academically rigorous programs in an engaged, personal and supportive environment. This combination nurtures potential and sets students on paths to rewarding careers and productive, satisfying lives. We also serve the regional, national and global communities by contributing to the growth, dissemination and application of knowledge.

## **Value Statement**

Our values at Lake Superior State University are to:

- be honest, open, forthright, and courteous
- respect and value each person as an individual
- accept responsibility for our own conduct
- be diligent in carrying out our responsibilities
- welcome diverse perspectives and remain open to change and innovation
- manage resources and facilities responsibly and with environmental sensitivity
- be vigilant about potential threats to health or safety
- work cooperatively in the interest of achieving our common mission.

## **Strategic Plan**

Objective #1: Increase the number of students served by the University

Objective #2: Retain already-enrolled students

Objective #3: Increase revenues from non-tuition income

Objective #4: Increase net revenues through better cost and investment management

The academic year saw relatively level enrollments when compared to the previous academic year. After a year of sharply declining enrollments, this year of level enrollment provided an indication that the enrollment management initiatives started a year ago were beginning to provide the stabilization of enrollment with the future projections of increasing enrollments.

The Board of Trustees approved three new academic programs. A Bachelor of Science in Applied Geographic Information Science and a Bachelor of Science in Fish Health will be introduced in Fall 2008. A Bachelor of Science in Elementary Education-Special Education-Learning Disabilities will be offered starting in Fall 2009.

Edison Sault Electric Company donated a 16,000 square-foot building to Lake Superior State University. The building will allow the Aquatic Research Laboratory (“ARL”) to nearly quintuple its present size and modernize its facilities to enhance undergraduate training and education in freshwater science. The donation will allow the ARL to expand its existing hatchery and add other facilities including a fish disease testing lab, visitor center and children's discovery room, classrooms, and research and teaching labs.

Lake Superior State University began operation of a Prototype Development Center (“PDC”) in conjunction with the School of Engineering and Technology. Supported with funding from the Michigan Economic Development Corporation, the center is a resource for entrepreneurial product development and testing. The PDC will utilize staff, faculty and students to aid industry,

small business and entrepreneurs by bridging the gap from ideas to production for resource limited businesses.

In June 2007 the State of Michigan passed budget balancing legislation that delayed the scheduled August 2007 appropriations payment. This delayed payment was restored in the 2008 state higher education appropriations bill and the payment was received in October 2007. The increase in base appropriations for fiscal year 2007-2008 was only one percent. Lake Superior State University also participated in a distribution of supplemental appropriations to help state universities fund the Native American tuition waiver.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT**

September 25, 2008

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, 2008 and 2007 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, 2008 and 2007 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 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 9 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.

# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF NET ASSETS

| Assets  | June 30              |                      |
|---|----------------------|----------------------|
|   | 2008                 | 2007                 |
| <b>Current assets</b>                             |                      |                      |
| Cash and cash equivalents                         | \$ 5,500,039         | \$ 5,027,755         |
| Accounts receivable, net                          | 1,019,588            | 1,132,757            |
| State appropriations receivable                   | 2,360,344            | 850,868              |
| Inventories                                       | 252,938              | 314,311              |
| Other   | 296,147              | 272,663              |
| <b>Total current assets</b>                       | <b>9,429,056</b>     | <b>7,598,354</b>     |
| <b>Noncurrent assets</b>                          |                      |                      |
| Student loans receivable, net                     | 2,816,886            | 2,671,208            |
| Investments                                       | 908,304              | 1,027,375            |
| Endowment investments                             | 7,225,367            | 8,132,422            |
| Land and art collection                           | 2,550,703            | 2,555,703            |
| Depreciable capital assets, net                   | 63,786,124           | 68,880,989           |
| <b>Total noncurrent assets</b>                    | <b>77,287,384</b>    | <b>83,267,697</b>    |
| <b>Total assets</b>                               | <b>\$ 86,716,440</b> | <b>\$ 90,866,051</b> |
| <b>Liabilities</b>                                |                      |                      |
| <b>Current liabilities</b>                        |                      |                      |
| Accounts payable and accrued expenses             | \$ 2,230,663         | \$ 2,147,986         |
| Unearned revenue                                  | 1,050,742            | 974,036              |
| Deposits  | 161,768              | 156,127              |
| Current portion of long-term debt                 | 1,222,991            | 1,189,237            |
| Current portion of employee benefit programs      | 247,616              | 301,682              |
| <b>Total current liabilities</b>                  | <b>4,913,780</b>     | <b>4,769,068</b>     |
| Interest rate swap liability                      | 839,000              | 839,000              |
| Long-term debt, net of current portion            | 27,940,375           | 29,163,366           |
| Employee benefit programs, net of current portion | 1,290,781            | 1,486,671            |
| <b>Total liabilities</b>                          | <b>34,983,936</b>    | <b>36,258,105</b>    |
| <b>Net assets</b>                                 |                      |                      |
| Invested in capital assets, net of related debt   | 38,246,105           | 42,156,733           |
| Restricted  |                      |                      |
| Nonexpendable                                     |                      |                      |
| Scholarships and research                         | 205,327              | 205,327              |
| Expendable  |                      |                      |
| Scholarships and research                         | 7,856,868            | 8,640,104            |
| Loans   | 3,103,211            | 3,128,992            |
| Capital projects and debt service                 | 255,517              | 250,500              |
| Unrestricted                                      | 2,065,476            | 226,290              |
| <b>Total net assets</b>                           | <b>51,732,504</b>    | <b>54,607,946</b>    |
| <b>Total liabilities and net assets</b>           | <b>\$ 86,716,440</b> | <b>\$ 90,866,051</b> |

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   |                      |
|--|----------------------|----------------------|
|  | 2008                 | 2007                 |
| <b>Operating revenues</b>  |                      |                      |
| Tuition and fees (net of scholarship allowances of \$5,153,957 and \$4,542,183 in 2008 and 2007, respectively) | \$ 13,779,844        | \$ 12,710,623        |
| Federal grants and contracts   | 1,290,546            | 1,445,904            |
| State grants and contracts   | 309,193              | 232,741              |
| Nongovernmental grants and contracts   | 2,252,862            | 2,189,630            |
| Auxiliary activities   | 8,175,905            | 7,497,651            |
| Other  | 749,872              | 727,894              |
| <b>Total operating revenues</b>  | <b>26,558,222</b>    | <b>24,804,443</b>    |
| <b>Operating expenses</b>  |                      |                      |
| Instruction  | 12,383,489           | 11,759,786           |
| Research   | 285,190              | 420,966              |
| Public service   | 804,089              | 641,662              |
| Academic support   | 2,865,634            | 2,616,401            |
| Student services   | 2,486,188            | 2,504,203            |
| Student aid  | 1,819,177            | 1,663,443            |
| Institutional support  | 5,181,963            | 4,873,973            |
| Operation and maintenance of plant   | 4,740,844            | 4,611,074            |
| Auxiliary activities   | 7,884,720            | 7,474,958            |
| Depreciation   | 5,386,085            | 5,545,466            |
| Other  | 203,528              | 812,108              |
| <b>Total operating expenses</b>  | <b>44,040,907</b>    | <b>42,924,040</b>    |
| <b>Operating loss</b>  | <b>(17,482,685)</b>  | <b>(18,119,597)</b>  |
| <b>Nonoperating revenues (expenses)</b>  |                      |                      |
| State appropriations   | 13,993,077           | 11,224,929           |
| Federal Pell grants  | 2,315,937            | 2,059,500            |
| Interest on capital debt and leases  | (1,526,058)          | (1,580,126)          |
| Investment (loss) income, net of investment expenses   | (589,659)            | 1,675,885            |
| (Loss) gain on assets sold or retired  | (230,098)            | 13,974               |
| <b>Net nonoperating revenues</b>   | <b>13,963,199</b>    | <b>13,394,162</b>    |
| <b>Loss before other revenues</b>  | <b>(3,519,486)</b>   | <b>(4,725,435)</b>   |
| <b>Other revenues</b>  |                      |                      |
| Capital grants and gifts   | 586,927              | 572,431              |
| Additions to expendable endowments   | 57,117               | 44,092               |
| Capital appropriations   | -                    | 163,100              |
| <b>Total other revenues</b>  | <b>644,044</b>       | <b>779,623</b>       |
| <b>Decrease in net assets</b>  | <b>(2,875,442)</b>   | <b>(3,945,812)</b>   |
| Net assets, beginning of year  | 54,607,946           | 58,553,758           |
| <b>Net assets, end of year</b>   | <b>\$ 51,732,504</b> | <b>\$ 54,607,946</b> |

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

# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS

|  | Year Ended June 30  |                     |
|--|---------------------|---------------------|
|  | 2008                | 2007                |
| <b>Cash flows from operating activities</b>                      |                     |                     |
| Tuition and fees   | \$ 14,000,999       | \$ 12,518,606       |
| Grants and contracts   | 3,805,804           | 4,058,228           |
| Payments to employees  | (25,951,973)        | (24,928,611)        |
| Payments to vendors  | (11,015,488)        | (10,675,319)        |
| Payments for financial aid                                       | (1,819,177)         | (1,663,443)         |
| Loans issued to students   | (636,469)           | (703,830)           |
| Collections of interest and principal on loans to students       | 490,791             | 544,915             |
| Auxiliary activities   | 8,214,921           | 7,493,502           |
| Other receipts   | 819,369             | 742,297             |
| <b>Net cash used in operating activities</b>                     | <b>(12,091,223)</b> | <b>(12,613,655)</b> |
| <b>Cash flows from noncapital financing activities</b>           |                     |                     |
| State appropriations   | 12,483,601          | 12,651,261          |
| Federal Pell grants  | 2,318,582           | 2,077,710           |
| Gifts for endowments   | 57,117              | 44,092              |
| Federal Direct Lending receipts                                  | 9,219,457           | 8,178,571           |
| Federal Direct Lending disbursements                             | (9,219,457)         | (8,178,571)         |
| <b>Net cash provided by noncapital financing activities</b>      | <b>14,859,300</b>   | <b>14,773,063</b>   |
| <b>Cash flows from capital and related financing activities</b>  |                     |                     |
| Capital appropriations   | -                   | 163,100             |
| Capital grants and gifts received                                | 221,786             | 487,412             |
| Purchases and construction of capital assets                     | (241,177)           | (2,678,748)         |
| Proceeds from disposal of capital assets                         | -                   | 14,399              |
| Principal paid on capital debt and leases                        | (1,189,237)         | (1,088,270)         |
| Interest paid on capital debt and leases                         | (1,523,632)         | (1,585,401)         |
| <b>Net cash used in capital and related financing activities</b> | <b>(2,732,260)</b>  | <b>(4,687,508)</b>  |
| <b>Cash flows from investing activities</b>                      |                     |                     |
| Proceeds from sales and maturities of investments                | 279,566             | 196,146             |
| Purchases of investments   | (210,280)           | (198,507)           |
| Investment income  | 367,181             | 545,081             |
| <b>Net cash provided by investing activities</b>                 | <b>436,467</b>      | <b>542,720</b>      |
| Net increase (decrease) in cash and cash equivalents             | 472,284             | (1,985,380)         |
| Cash and cash equivalents, beginning of year                     | 5,027,755           | 7,013,135           |
| <b>Cash and cash equivalents, end of year</b>                    | <b>\$ 5,500,039</b> | <b>\$ 5,027,755</b> |

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

# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS

(Continued)

|  | Year Ended June 30     |                        |
|--|------------------------|------------------------|
|  | 2008                   | 2007                   |
| <b>Reconciliation of net operating loss to net cash used in operating activities</b> |                        |                        |
| Operating loss   | \$ (17,482,685)        | \$ (18,119,597)        |
| Adjustments to reconcile net loss to net cash used in operating activities           |                        |                        |
| Depreciation   | 5,386,085              | 5,545,466              |
| Change in assets and liabilities:  |                        |                        |
| Accounts receivable, net   | 200,524                | (258,189)              |
| Student loans receivable, net  | (145,678)              | (158,915)              |
| Inventories  | 61,373                 | 61,441                 |
| Other  | (23,484)               | (243,919)              |
| Accounts payable and accrued expenses  | 80,251                 | 128,736                |
| Deferred revenue   | 76,706                 | 214,373                |
| Deposits   | 5,641                  | 52,006                 |
| Employee benefit programs  | (249,956)              | 164,943                |
| <b>Net cash used in operating activities</b>   | <b>\$ (12,091,223)</b> | <b>\$ (12,613,655)</b> |
| <b>Supplemental disclosures of non-cash financing and investing activities</b>       |                        |                        |
| Gifts in-kind received and recorded as capital assets                                | \$ 365,141             | \$ 85,407              |
| Entered into capital lease to purchase capital equipment                             | \$ -                   | \$ 29,232              |

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



# LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

## STATEMENTS OF NET ASSETS

|  | June 30             |                     |
|--|---------------------|---------------------|
|  | 2008                | 2007                |
| <b>Assets</b>  |                     |                     |
| <b>Current assets</b>                                  |                     |                     |
| Cash and cash equivalents                              | \$ 1,190,429        | \$ 1,026,165        |
| Other current assets                                   | 17,389              | 355                 |
| Current portion of unconditional promises to give, net | 13,735              | 19,754              |
| <b>Total current assets</b>                            | <b>1,221,553</b>    | <b>1,046,274</b>    |
| <b>Noncurrent assets</b>                               |                     |                     |
| Investments  | 4,337,367           | 4,686,602           |
| Unconditional promises to give, net of current portion | 127,573             | 150,481             |
| Beneficial interest in charitable remainder trust      | 321,405             | 288,658             |
| <b>Total noncurrent assets</b>                         | <b>4,786,345</b>    | <b>5,125,741</b>    |
| <b>Total assets</b>                                    | <b>\$ 6,007,898</b> | <b>\$ 6,172,015</b> |
| <b>Liabilities</b>                                     |                     |                     |
| <b>Current liabilities</b>                             |                     |                     |
| Accounts payable and accrued expenses                  | \$ 29,798           | \$ 10,409           |
| Employee benefit programs                              | 9,925               | 16,298              |
| <b>Total current liabilities</b>                       | <b>39,723</b>       | <b>26,707</b>       |
| Annuity obligations                                    | 63,279              | 66,091              |
| <b>Total liabilities</b>                               | <b>103,002</b>      | <b>92,798</b>       |
| <b>Net assets</b>                                      |                     |                     |
| Restricted   |                     |                     |
| Nonexpendable  | 4,645,044           | 4,936,631           |
| Expendable   | 1,197,917           | 1,138,323           |
| Unrestricted   | 61,935              | 4,263               |
| <b>Total net assets</b>                                | <b>5,904,896</b>    | <b>6,079,217</b>    |
| <b>Total liabilities and net assets</b>                | <b>\$ 6,007,898</b> | <b>\$ 6,172,015</b> |

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

**LAKE SUPERIOR STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

|   | <b>Year Ended June 30</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2008</b>               | <b>2007</b>         |
| <b>Operating revenues</b>                       |                           |                     |
| Contributions                                   | \$ 1,503,867              | \$ 1,358,255        |
| Change in value of split interest agreements    | 31,610                    | 29,115              |
| <b>Total operating revenues</b>                 | <b>1,535,477</b>          | <b>1,387,370</b>    |
| Operating expenses                              | 407,134                   | 505,351             |
| <b>Operating income</b>                         | <b>1,128,343</b>          | <b>882,019</b>      |
| <b>Nonoperating revenues (expenses)</b>         |                           |                     |
| Investment income                               | 321,029                   | 255,687             |
| Net unrealized (losses) gains on investments    | (628,441)                 | 451,269             |
| Distributions to Lake Superior State University | (995,252)                 | (925,239)           |
| <b>Net nonoperating expenses</b>                | <b>(1,302,664)</b>        | <b>(218,283)</b>    |
| <b>(Decrease) increase in net assets</b>        | <b>(174,321)</b>          | <b>663,736</b>      |
| Net assets, beginning of year                   | 6,079,217                 | 5,415,481           |
| <b>Net assets, end of year</b>                  | <b>\$ 5,904,896</b>       | <b>\$ 6,079,217</b> |

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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO 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 \$995,252 for fiscal 2008 and \$925,239 for fiscal 2007. Support from the University provided to the Foundation amounted to \$297,200 and \$294,800 during fiscal 2008 and 2007, 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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

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.

### **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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

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

| <u>Classification</u>               | <u>Life</u> |
|-------------------------------------|-------------|
| Buildings and building improvements | 40 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, State appropriations and Federal Pell grant revenue are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

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

During fiscal 2008 and 2007 the University received \$23,128,616 and \$21,605,806 (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 \$100,000 in State appropriations for Bay Mills Community College during fiscal 2008 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.

### Unearned Revenue

Unearned 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 2008 or 2007.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

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 statement 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 statement of activities of the Foundation.

### **New Accounting Pronouncement**

GASB Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition, and display of other postretirement benefits (OPEB) and related liabilities, note disclosures and, if applicable, required supplementary information for other plans in which the University participates. This Statement is effective for the University's year ended June 30, 2008, since the University, as a component unit of the State of Michigan, is required to adopt the Statement in the same year it is adopted by the State of Michigan. Adoption of this Statement has had no significant impact to the University's financial statements.

### **Reclassifications**

Federal Pell grants, which were presented in the fiscal 2007 financial statements under operating revenues, have been reclassified to nonoperating revenues to conform with the fiscal 2008 financial statement presentation.

The Foundation's fiscal 2007 financial statements have been reclassified to conform with the fiscal 2008 financial statement presentation in accordance with GASB presentation requirements.

## **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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

may also be made in securities of the U.S. Treasury and federal agencies and in time savings accounts. Short-term investments are stated at fair value.

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

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

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

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

Investment income and realized gains or losses are 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:

|  | <u>2008</u>                | <u>2007</u>                |
|--|----------------------------|----------------------------|
| Disbursement accounts (deposits)       | \$ 3,398,684               | \$ 2,936,242               |
| Money market funds                     | <u>2,101,355</u>           | <u>2,091,513</u>           |
| <b>Total cash and cash equivalents</b> | <b><u>\$ 5,500,039</u></b> | <b><u>\$ 5,027,755</u></b> |

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

|   | <b>2008</b>         | <b>2007</b>         |
|---|---------------------|---------------------|
| <u>University endowment investments</u> |                     |                     |
| Mutual funds                            |                     |                     |
| Equity funds                            | \$ 5,381,780        | \$ 6,434,966        |
| Bond/fixed income funds                 | 1,843,587           | 1,697,456           |
| Total University endowment investments  | 7,225,367           | 8,132,422           |
| <u>University investments</u>           |                     |                     |
| Mutual funds                            |                     |                     |
| Money market funds                      | \$ 1,543            | \$ 2,453            |
| Equity funds                            | 622,471             | 752,321             |
| Bond/fixed income funds                 | 284,290             | 272,601             |
| Total University investments            | 908,304             | 1,027,375           |
| <b>Total investments</b>                | <b>\$ 8,133,671</b> | <b>\$ 9,159,797</b> |

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

As of June 30, 2008, 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 | \$ 2,102,898          | \$ 2,102,898        | \$ -        | \$ -                |
| Mutual bond funds             | 2,127,877             | -                   | -           | 2,127,877           |
| <b>Total debt investments</b> | <b>\$ 4,230,775</b>   | <b>\$ 2,102,898</b> | <b>\$ -</b> | <b>\$ 2,127,877</b> |

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           |
| <b>Total debt investments</b> | <b>\$ 4,064,023</b>   | <b>\$ 2,093,966</b> | <b>\$ -</b> | <b>\$ 1,970,057</b> |



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

**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 \$5,856,606 of the University's bank balance of \$5,956,606 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.

**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, 2008 and 2007, the University held 29,355 and 27,630 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of \$1,336,548 and \$1,430,116, respectively. The University holds no other assets which may be subject to the risks of foreign currency.

No foreign currency risk exists with respect to any holdings under the caption "cash and cash equivalents" in the accompanying statements of net 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 \$685,000 and \$1,932,000 at June 30, 2008 and 2007, respectively. The net appreciation is a component of restricted, expendable net assets.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

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

|  | <u>2008</u>          | <u>2007</u>         |
|--|----------------------|---------------------|
| Interest and dividends                     | 2.4%                 | 2.1%                |
| Net realized and unrealized (losses) gains | <u>(11.7)</u>        | <u>13.8</u>         |
| <b>Total investment (loss) return</b>      | <b><u>(9.3)%</u></b> | <b><u>15.9%</u></b> |

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

### 3. INVESTMENTS - FOUNDATION

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

|                                     | <u>2008</u>                | <u>2007</u>                |
|-------------------------------------|----------------------------|----------------------------|
| Mutual funds                        |                            |                            |
| Money market funds                  | \$ 234                     | \$ 13                      |
| Equity funds                        | 2,959,912                  | 3,423,799                  |
| Bond/fixed income funds             | <u>1,362,828</u>           | <u>1,248,735</u>           |
| Subtotal                            | 4,322,974                  | 4,672,547                  |
| Marketable securities               | <u>14,393</u>              | <u>14,055</u>              |
| <b>Total Foundation investments</b> | <b><u>\$ 4,337,367</u></b> | <b><u>\$ 4,686,602</u></b> |

### 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 and financial aid. These receivables are reported net of an allowance for collection losses in the amount of \$315,849 and \$314,184 at June 30, 2008 and 2007, respectively.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

|                                   | <u>2008</u>                | <u>2007</u>                |
|-----------------------------------|----------------------------|----------------------------|
| Tuition and fees                  | \$ 424,886                 | \$ 584,760                 |
| Auxiliary activities              | 171,969                    | 200,735                    |
| Governmental grants and contracts | 256,710                    | 264,733                    |
| Private grants and contracts      | 30,363                     | 7,082                      |
| Other                             | <u>135,660</u>             | <u>75,447</u>              |
| <b>Accounts receivable, net</b>   | <b><u>\$ 1,019,588</u></b> | <b><u>\$ 1,132,757</u></b> |

In addition, the University has student loans receivable, in the amount of \$2,816,886 and \$2,671,208, which are recorded net of an allowance for uncollectible loans of \$394,825 and \$347,781 as of June 30, 2008 and 2007, 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:

|  | <u>2008</u>              | <u>2007</u>              |
|--|--------------------------|--------------------------|
| Total promises receivable                          | \$ 255,011               | \$ 291,635               |
| Less discounts to net present value at 8%          | <u>110,269</u>           | <u>116,461</u>           |
| Present value of promises receivable               | 144,742                  | 175,174                  |
| Less allowance for uncollectible amounts           | <u>3,434</u>             | <u>4,939</u>             |
| <b>Net promises receivable</b>                     | <b>141,308</b>           | <b>170,235</b>           |
| Less current portion                               | <u>13,735</u>            | <u>19,754</u>            |
| <b>Promises receivable, net of current portion</b> | <b><u>\$ 127,573</u></b> | <b><u>\$ 150,481</u></b> |

### 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2008 and 2007 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 \$321,405 and \$288,658, respectively.

### 7. CAPITAL ASSETS

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

|   | <b>2008</b>                     |                                  |                                |                                  |
|---|---------------------------------|----------------------------------|--------------------------------|----------------------------------|
|   | <b>Balance<br/>July 1, 2007</b> | <b>Additions</b>                 | <b>Reductions</b>              | <b>Balance<br/>June 30, 2008</b> |
| Capital assets not being depreciated            |                                 |                                  |                                |                                  |
| Land - restricted                               | \$ 838,684                      | \$ --                            | \$ --                          | \$ 838,684                       |
| Land  | 1,135,344                       | 25,000                           | (30,000)                       | 1,130,344                        |
| Art collection                                  | <u>581,675</u>                  | <u>--</u>                        | <u>--</u>                      | <u>581,675</u>                   |
| <br>Total capital assets not being depreciated  | <br><u>2,555,703</u>            | <br><u>25,000</u>                | <br><u>(30,000)</u>            | <br><u>2,550,703</u>             |
| Capital assets being depreciated                |                                 |                                  |                                |                                  |
| Land improvements                               | 5,424,733                       | 5,000                            | (34,000)                       | 5,395,733                        |
| Infrastructure                                  | 3,244,705                       | --                               | --                             | 3,244,705                        |
| Building and building improvements              | 114,720,736                     | 69,252                           | (306,960)                      | 114,483,028                      |
| Equipment and other                             | <u>16,940,806</u>               | <u>507,066</u>                   | <u>(62,815)</u>                | <u>17,385,057</u>                |
| <br>Total capital assets being depreciated      | <br>140,330,980                 | <br>581,318                      | <br>(403,775)                  | <br>140,508,523                  |
| Less accumulated depreciation                   | <u>(71,449,991)</u>             | <u>(5,386,085)</u>               | <u>113,677</u>                 | <u>(76,722,399)</u>              |
| <br>Total capital assets being depreciated, net | <br><u>68,880,989</u>           | <br><u>(4,804,767)</u>           | <br><u>(290,098)</u>           | <br><u>63,786,124</u>            |
| <br><b>Total capital assets, net</b>            | <br><b><u>\$ 71,436,692</u></b> | <br><b><u>\$ (4,779,767)</u></b> | <br><b><u>\$ (320,098)</u></b> | <br><b><u>\$ 66,336,827</u></b>  |

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

|   | 2007                                  |                            |                              |  |
|---|---------------------------------------|----------------------------|------------------------------|--|
|   | <u>Balance</u><br><u>July 1, 2006</u> | <u>Additions</u>           | <u>Reductions</u>            | <u>Balance</u><br><u>June 30, 2007</u> |
| 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                    | <u>4,163,505</u>                      | <u>1,703,504</u>           | <u>(5,867,009)</u>           | <u>--</u>                              |
| Total capital assets not being depreciated  | <u>6,680,008</u>                      | <u>1,742,704</u>           | <u>(5,867,009)</u>           | <u>2,555,703</u>                       |
| 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                         | <u>14,160,799</u>                     | <u>3,211,223</u>           | <u>(431,216)</u>             | <u>16,940,806</u>                      |
| Total capital assets being depreciated      | 133,844,505                           | 6,917,691                  | (431,216)                    | 140,330,980                            |
| Less accumulated depreciation               | <u>(66,335,316)</u>                   | <u>(5,545,466)</u>         | <u>430,791</u>               | <u>(71,449,991)</u>                    |
| Total capital assets being depreciated, net | <u>67,509,189</u>                     | <u>1,372,225</u>           | <u>(425)</u>                 | <u>68,880,989</u>                      |
| <b>Total capital assets, net</b>            | <b><u>\$ 74,189,197</u></b>           | <b><u>\$ 3,114,929</u></b> | <b><u>\$ (5,867,434)</u></b> | <b><u>\$ 71,436,692</u></b>            |

At June 30, 2008, there are no projects in construction in progress.

### 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

|  | 2008                       | 2007                       |
|--|----------------------------|----------------------------|
| Accounts payable to vendors                        | \$ 596,003                 | \$ 638,362                 |
| Payroll and payroll taxes                          | 1,281,833                  | 1,120,223                  |
| Interest   | 176,827                    | 174,401                    |
| Workers' compensation claims                       | <u>176,000</u>             | <u>215,000</u>             |
| <b>Total accounts payable and accrued expenses</b> | <b><u>\$ 2,230,663</u></b> | <b><u>\$ 2,147,986</u></b> |

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### 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, 2008 and 2007, 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:

|  | <b>2008</b>       | <b>2007</b>       |
|--|-------------------|-------------------|
| Claims liability at beginning of year  | \$ 215,000        | \$ 145,000        |
| Claims and damages incurred            | 138,171           | 203,884           |
| Claims payments                        | (177,171)         | (133,884)         |
| <b>Claims liability at end of year</b> | <b>\$ 176,000</b> | <b>\$ 215,000</b> |

## 9. LONG-TERM DEBT

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

|   |             |           | 2008                  |              |                     |                      |                    |
|---|-------------|-----------|-----------------------|--------------|---------------------|----------------------|--------------------|
|   |             |           | Outstanding Principal |              |                     | Current<br>Portion   |                    |
|   |             |           | Interest<br>Rate      | Maturity     | July 1<br>2007      |                      | Additions          |
| <b>Bonds payable</b>                          |             |           |                       |              |                     |                      |                    |
| General Revenue                               |             |           |                       |              |                     |                      |                    |
| Bonds, Series 2001                            |             |           |                       |              |                     |                      |                    |
| Series bonds                                  | 4.1%-5.0%   | 2009-2017 | \$ 3,910,000          | \$ --        | \$ 320,000          | \$ 3,590,000         | \$ 330,000         |
| Term bonds                                    | 5.125%-5.5% | 2018-2031 | 16,525,000            | --           | --                  | 16,525,000           | --                 |
| General Revenue                               |             |           |                       |              |                     |                      |                    |
| Bonds, Series 1997                            |             |           |                       |              |                     |                      |                    |
| Series bonds                                  | 5.0%        | 2009      | 1,220,000             | --           | 595,000             | 625,000              | 625,000            |
| Term bonds                                    | 5.0%-5.125% | 2012-2019 | 6,805,000             | --           | --                  | 6,805,000            | --                 |
| <b>Total –bonds payable</b>                   |             |           | <b>28,460,000</b>     | <b>--</b>    | <b>915,000</b>      | <b>27,545,000</b>    | <b>955,000</b>     |
| Capital leases                                |             |           | 1,892,603             | --           | 274,237             | 1,618,366            | 267,991            |
| <b>Total – long-term debt</b>                 |             |           | <b>\$ 30,352,603</b>  | <b>\$ --</b> | <b>\$ 1,189,237</b> | <b>29,163,366</b>    | <b>\$1,222,991</b> |
| Less current portion                          |             |           |                       |              |                     | 1,222,991            |                    |
| <b>Long-term debt, net of current portion</b> |             |           |                       |              |                     | <b>\$ 27,940,375</b> |                    |

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

|   |                      | 2007                         |                             |                         |                            |                             |                           |
|---|----------------------|------------------------------|-----------------------------|-------------------------|----------------------------|-----------------------------|---------------------------|
|   |                      | <u>Outstanding Principal</u> |                             |                         |                            |                             |                           |
|   | <u>Interest Rate</u> | <u>Maturity</u>              | <u>July 1 2006</u>          | <u>Additions</u>        | <u>Reductions</u>          | <u>June 30 2007</u>         | <u>Current Portion</u>    |
| <b>Bonds payable</b>                          |                      |                              |                             |                         |                            |                             |                           |
| General Revenue                               |                      |                              |                             |                         |                            |                             |                           |
| Bonds, Series 2001                            |                      |                              |                             |                         |                            |                             |                           |
| Series bonds                                  | 4.0%-5.0%            | 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                            |                      |                              |                             |                         |                            |                             |                           |
| Series bonds                                  | 5.0%                 | 2008-2009                    | 1,795,000                   | --                      | 575,000                    | 1,220,000                   | 595,000                   |
| Term bonds                                    | 5.0%-5.125%          | 2012-2019                    | <u>6,805,000</u>            | --                      | --                         | <u>6,805,000</u>            | --                        |
| <b>Total –bonds payable</b>                   |                      |                              | <b>29,340,000</b>           | <b>--</b>               | <b>880,000</b>             | <b>28,460,000</b>           | <b>915,000</b>            |
| Capital leases                                |                      |                              | <u>2,071,642</u>            | <u>29,232</u>           | <u>208,271</u>             | <u>1,892,603</u>            | <u>274,237</u>            |
| <b>Total – long-term debt</b>                 |                      |                              | <b><u>\$ 31,411,642</u></b> | <b><u>\$ 29,232</u></b> | <b><u>\$ 1,088,271</u></b> | <b>30,352,603</b>           | <b><u>\$1,189,237</u></b> |
| Less current portion                          |                      |                              |                             |                         |                            | <u>1,189,237</u>            |                           |
| <b>Long-term debt, net of current portion</b> |                      |                              |                             |                         |                            | <b><u>\$ 29,163,366</u></b> |                           |

### ***Bonded Debt***

#### **General Revenue Bonds, Series 2001**

As of June 30, 2008, bonds in the amount of \$20,115,000 are payable from general revenues and consist of \$3,590,000 in serial bonds maturing in varying amounts through November 2017, with interest charged at annual rates ranging from 4.1% to 5.0%. 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 charge 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, 2008, bonds in the amount of \$7,430,000 are payable from general revenues and consist of \$625,000 in serial bonds maturing November 2009, with interest charged at an annual rate of 5.0%. 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 5.0% 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### Debt Service Requirements

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

| <u>Year ending<br/>June 30</u> | <u>Principal</u>           | <u>Interest</u>            | <u>Total</u>               |
|--------------------------------|----------------------------|----------------------------|----------------------------|
| 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                           | 1,155,000                  | 1,187,518                  | 2,342,518                  |
| 2014-2018                      | 5,570,000                  | 5,033,333                  | 10,603,333                 |
| 2019-2023                      | 5,050,000                  | 3,693,308                  | 8,743,308                  |
| 2024-2028                      | 5,825,000                  | 2,315,482                  | 8,140,482                  |
| 2029-2032                      | <u>5,835,000</u>           | <u>631,970</u>             | <u>6,466,970</u>           |
| <b>Total – bonds payable</b>   | <b><u>\$27,545,000</u></b> | <b><u>\$18,137,635</u></b> | <b><u>\$45,682,635</u></b> |

### 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 as of June 30, 2007. During the fiscal year ended June 30, 2008 and subsequent to the November 15, 2007 maturities, the remaining defeased bonds were called. The principal amount of \$5,445,000 was returned and the call premium was \$54,450. In addition, the University paid \$186,541 of interest, which represented the amount the escrow account was short. The escrow agent closed the account as of May 15, 2008.

### 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



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

on the outstanding bonds diverge changing the effective fixed rate of the bonds. As of June 30, 2008, 68% of the one-month LIBOR was 1.68% whereas the BMA rate was 1.40%.

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, 2008 and 2007 under the caption "Investments". Since the University can terminate the swap agreement at its option, 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, 2008 and 2007. As of June 30, 2008, the fair value of the required termination payment is \$1,017,490 which represents the amount that the University would be required to pay as of June 30, 2008 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 \$2,197,717 at June 30, 2008 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, 2008:

| <u>Year ending<br/>June 30</u>   | <u>Amount</u>             |
|--|---------------------------|
| 2009   | \$ 350,295                |
| 2010   | 337,383                   |
| 2011   | 320,717                   |
| 2012   | 217,874                   |
| 2013   | 212,370                   |
| 2014-2015  | <u>455,128</u>            |
| Total minimum payments due   | 1,893,767                 |
| Less amounts representing interest,<br>imputed at annual rates ranging from<br>.0% to 7.0% | <u>275,401</u>            |
| <b>Present value of net minimum<br/>lease payments</b>                                     | <b><u>\$1,618,366</u></b> |

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, 2008 and 2007 are insignificant.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

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

#### Retirement Plans

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

Support personnel represented by the United Steelworkers, Local 9997 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 \$1,439,000 and \$1,326,000 to this plan for the years ended June 30, 2008 and 2007, respectively. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested.

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

MPERS is a noncontributory cost-sharing multiple-employer defined benefit plan administered by the Michigan State Employees' Retirement System. The cost of the MPERS plan allocated to the University was approximately \$620,000, \$650,000 and \$474,000, for the years ended June 30, 2008, 2007 and 2006, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2008 the University is required to contribute 5.66% (5.84% during the period of October 1, 2007 through September 30, 2008) of MPERS covered payroll for normal pension costs and 6.98% (7.29% during the period of October 1, 2007 through September 30, 2008) 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 MPERS covered payroll, cannot be determined. Additional pension data for MPERS is contained in MPERS's comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Systems, 7150 Harris Dr., P. O. Box 30026, Lansing, MI 48901.

The University also contributes to the MPERS healthcare plan, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by MPERS. This plan provides medical benefits to retired employees of participating universities. Participating universities are contractually required to make monthly contributions to the plan at amounts assessed each year by MPERS. The MPERS board of trustees sets the employer contributions based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The University's contributions to the MPERS healthcare plan for the years ended June 30, 2008,

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

2007 and 2006 were approximately \$709,000, \$758,000 and \$780,000, respectively, which equaled the required contributions each year.

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

### **Compensated Absences**

The University 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 Support Staff group hired after December 31, 1989 are not eligible for participation in the program.

### **Deferred Compensation**

The University had a retention incentive agreement for a certain employee which called for the University to issue retention incentive payments upon the fulfillment of certain employment conditions. As of June 30, 2008 the requirements of this retention incentive agreement had been satisfied by the employee and the retention incentive payments were paid in full.

### **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, 2008 and 2007, respectively, amounted to \$97,578 and \$107,279 to reduce the liability and \$10,693 and \$14,281 was recorded as additional salary expense.

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

|  | 2008                |                   |                   |                     |                    |
|--|---------------------|-------------------|-------------------|---------------------|--------------------|
|  | July 1<br>2007      | Additions         | Payments          | June 30<br>2008     | Current<br>Portion |
| Compensated absences                   | \$ 672,848          | \$ 71,028         | \$ 76,723         | \$ 667,153          | \$ 65,000          |
| Accumulated sick leave benefits        | 804,578             | 142,000           | 199,375           | 747,203             | 100,000            |
| Deferred compensation                  | 100,000             | --                | 100,000           | --                  | --                 |
| Early retirement severance program     | 210,927             | 10,693            | 97,578            | 124,042             | 82,616             |
| <b>Total employee benefit programs</b> | <b>\$ 1,788,353</b> | <b>\$ 223,721</b> | <b>\$ 473,676</b> | <b>\$ 1,538,397</b> | <b>\$247,616</b>   |

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

|  | 2007                |                   |                   |                     |                    |
|--|---------------------|-------------------|-------------------|---------------------|--------------------|
|  | July 1<br>2006      | Additions         | Payments          | June 30<br>2007     | Current<br>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             |
| <b>Total employee benefit programs</b> | <b>\$ 1,623,410</b> | <b>\$ 365,489</b> | <b>\$ 200,546</b> | <b>\$ 1,788,353</b> | <b>\$301,682</b>   |

### **Other Post Employment Health Benefits**

The University allows retirees who are not covered by the MPSERS healthcare plan to purchase healthcare benefits at cost and has 10 retirees participating in this health coverage at June 30, 2008. The University segregates these retiree payments and health care expenses separately from current employee costs. The age adjusted premium rates charged to retirees are adjusted on July 1 each year to cover projected health care increases for the next year and any funding deficits. These 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 age adjusted premiums, no post employment health care liability has been recorded in the accompanying financial statements.

## **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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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 \$1,659,849 and \$1,332,121 at June 30, 2008 and 2007, respectively. The workers' compensation claims liability of \$176,000 and \$215,000 at June 30, 2008 and 2007, 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, 2008 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:

| <u>Employee Group</u>              | <u>Union Name</u>   | <u>Contract Expires</u> |
|------------------------------------|---|-------------------------|
| Support Personnel                  | United Steelworkers Local 9997                                    | September 30, 2009      |
| Faculty                            | Michigan Education Association/<br>National Education Association | August 31, 2010         |
| Administrative and<br>Professional | N/A   | N/A                     |

#### 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, 2008 and 2007 the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2008 or 2007. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

position that the University is not responsible for any shortfall in the fund as a result of changes in benefits made by MPSERS.

### 13. NATURAL CLASSIFICATION OF EXPENSES

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

| 2008                            |                                 |                              |                     |                         |                     |                   |                      |
|---------------------------------|---------------------------------|------------------------------|---------------------|-------------------------|---------------------|-------------------|----------------------|
|                                 | Salaries,<br>Wages,<br>Benefits | Supplies<br>and<br>Equipment | Utilities           | Scholarship<br>Expenses | Depreciation        | Other             | Total                |
| Instruction                     | \$ 11,236,566                   | \$ 1,146,923                 | \$ --               | \$ --                   | \$ --               | \$ --             | \$ 12,383,489        |
| Research                        | 222,610                         | 62,580                       | --                  | --                      | --                  | --                | 285,190              |
| Public service                  | 513,893                         | 290,196                      | --                  | --                      | --                  | --                | 804,089              |
| Academic support                | 2,276,569                       | 589,065                      | --                  | --                      | --                  | --                | 2,865,634            |
| Student services                | 2,032,765                       | 453,423                      | --                  | --                      | --                  | --                | 2,486,188            |
| Student aid                     | --                              | --                           | --                  | 1,819,177               | --                  | --                | 1,819,177            |
| Institutional support           | 3,559,096                       | 1,622,867                    | --                  | --                      | --                  | --                | 5,181,963            |
| Plant operations                | 2,328,388                       | 608,486                      | 1,803,970           | --                      | --                  | --                | 4,740,844            |
| Auxiliary activities            | 3,693,739                       | 3,065,779                    | 1,125,202           | --                      | --                  | --                | 7,884,720            |
| Depreciation                    | --                              | --                           | --                  | --                      | 5,386,085           | --                | 5,386,085            |
| Other                           | --                              | --                           | --                  | --                      | --                  | 203,528           | 203,528              |
| <b>Total operating expenses</b> | <b>\$ 25,863,626</b>            | <b>\$ 7,839,319</b>          | <b>\$ 2,929,172</b> | <b>\$ 1,819,177</b>     | <b>\$ 5,386,085</b> | <b>\$ 203,528</b> | <b>\$ 44,040,907</b> |

| 2007                            |                                 |                              |                     |                         |                     |                   |                      |
|---------------------------------|---------------------------------|------------------------------|---------------------|-------------------------|---------------------|-------------------|----------------------|
|                                 | Salaries,<br>Wages,<br>Benefits | Supplies<br>and<br>Equipment | Utilities           | Scholarship<br>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              |
| <b>Total operating expenses</b> | <b>\$ 25,151,339</b>            | <b>\$ 6,992,130</b>          | <b>\$ 2,759,554</b> | <b>\$ 1,663,443</b>     | <b>\$ 5,545,466</b> | <b>\$ 812,108</b> | <b>\$ 42,924,040</b> |

\* \* \* \* \*