

**LAKE SUPERIOR STATE UNIVERSITY**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEARS ENDED  
JUNE 30, 2010 AND 2009**

# LAKE SUPERIOR STATE UNIVERSITY

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# Lake Superior State University

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Term Expires January 27, 2012

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Term Expires January 27, 2018

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## **Lake Superior State University Management's Discussion and Analysis**

This discussion and analysis section of the Lake Superior State University (the "University") annual financial report provides an overview of our financial activities during the years ended June 30, 2010, 2009, and 2008. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Lake Superior State University Foundation whenever appropriate. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with University management.

### **Reporting Entity**

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

The 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.

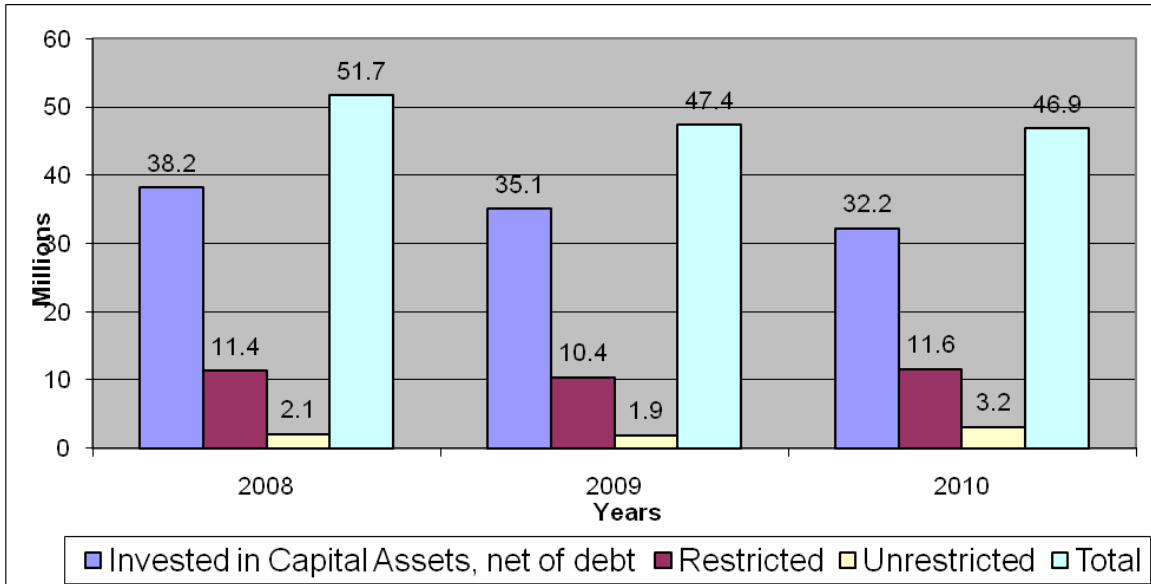
### **Using the Annual Report**

This annual report includes financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The accompanying financial statements, which focus on the financial condition, results of operations and cash flows of the University as a whole, present financial information in a form similar to that used by commercial enterprises. The financial statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

### **Financial Highlights**

The University's financial position was stable at June 30, 2010. Net assets for the year ended June 30, 2010 of \$46.9 million decreased by \$454,000 from the prior year as compared to a decrease of \$4.3 million the previous year. Unrestricted net assets increased by \$1.2 million as the University was able to maintain a balanced budget prior to depreciation expense and benefit from positive market adjustments.

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2010, 2009, and 2008.



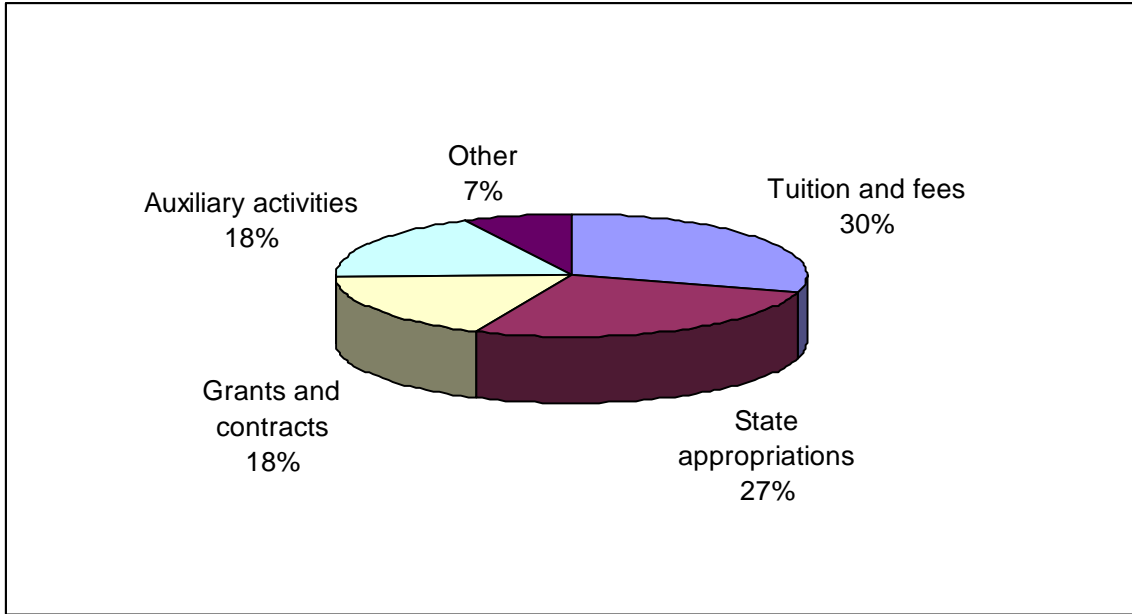
Operating revenues include all transactions that result in the revenue for services and/or receipts from goods and services such as tuition and fees, housing and other rental and sales activities. In addition, certain federal, state and private grants and contracts are considered operating if they are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

Nonoperating revenues consist primarily of State appropriations, investment income, and grants and contracts that do not require any service to be performed. Annual appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Revenue of the University consists of four main categories: tuition, State appropriations, auxiliary activities and grants.

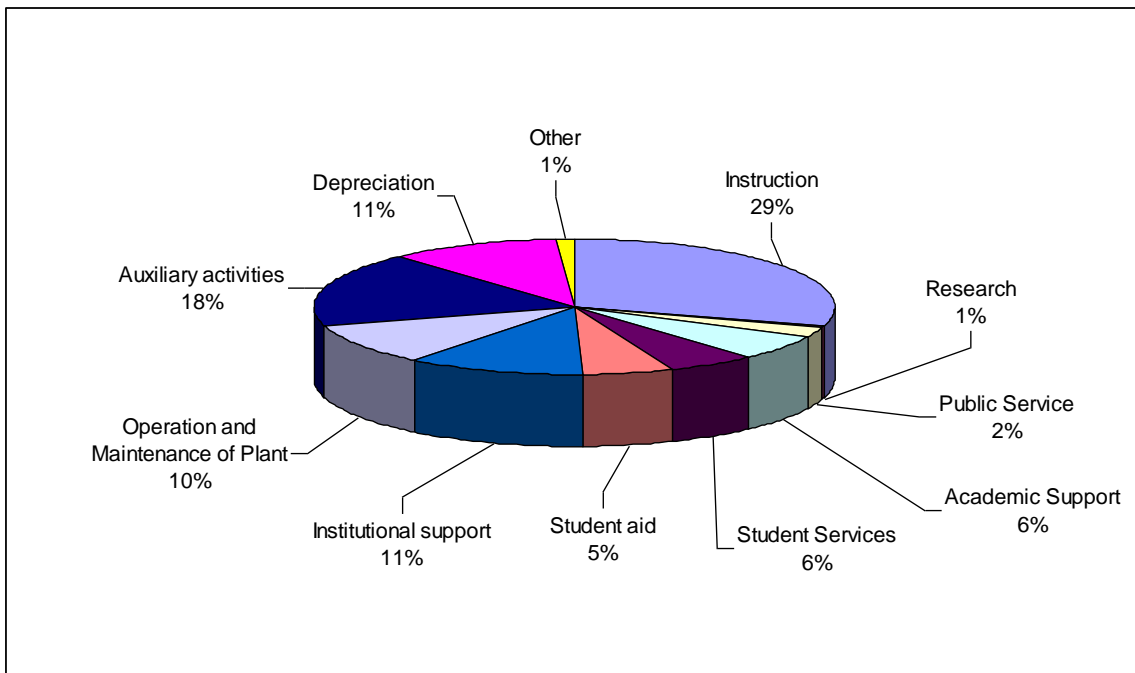
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes grants, contracts, investment income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

The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2010:



Operating expenses are all of the costs necessary to perform and conduct the programs and purposes of the University. Universities traditionally use functional classifications of expenses to represent the types of programs and services they provide.

The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2010:



## The Statement of Net Assets

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.

	<b>June 30</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets:</b>			
Current assets	\$ 11,722,435	\$ 10,039,795	\$ 9,429,056
Capital assets	57,849,540	61,974,321	66,336,827
Other noncurrent assets	<u>10,581,756</u>	<u>9,527,741</u>	<u>10,950,557</u>
<b>Total Assets</b>	<b><u>\$ 80,153,731</u></b>	<b><u>\$ 81,541,857</u></b>	<b><u>\$ 86,716,440</u></b>
<b>Liabilities:</b>			
Current liabilities	\$ 5,744,131	\$ 5,256,292	\$ 4,913,780
Noncurrent liabilities	<u>27,475,063</u>	<u>28,896,680</u>	<u>30,070,156</u>
Total liabilities	<u>33,219,194</u>	<u>34,152,972</u>	<u>34,983,936</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	32,182,038	35,111,872	38,246,105
Restricted, nonexpendable	205,327	205,327	205,327
Restricted, expendable	11,404,290	10,169,842	11,215,596
Unrestricted	<u>3,142,882</u>	<u>1,901,844</u>	<u>2,065,476</u>
Total net assets	<u>46,934,537</u>	<u>47,388,885</u>	<u>51,732,504</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 80,153,731</u></b>	<b><u>\$ 81,541,857</u></b>	<b><u>\$ 86,716,440</u></b>

### **Changes from 2009 to 2010:**

Cash and investments, collectively, increased by \$1.7 million to \$7.6 million which accounted for the entire increase in total current assets. State appropriations receivable and accounts receivable had almost no change from the prior year. We attribute the increase in current assets to continuing stringent enforcement of tuition payment policies and controlled spending; the result was more cash on hand.

Capital assets decreased by \$4.1 million as a result of the annual depreciation charge of \$5 million and asset additions of \$900,000.

Other noncurrent assets increased by \$1.1 million due to an increase in the market value of endowment investments. Student loan receivables decreased slightly to \$2.7 million.

Total liabilities decreased by \$934,000. Long term debt in the amount of \$1.3 million was paid down during the current year. Fluctuations of other liabilities include increases in accounts payable of \$363,000 and the liability for employee benefits of \$94,000.

Total net assets decreased by \$454,000. The University's investment in capital assets, net of related debt, decreased by \$2.9 million. This is the result of the depreciation charge being greater than capital asset acquisitions. Restricted, expendable scholarship net assets increased by \$969,000. Unrestricted reserves increased by \$1.2 million. The June 30, 2010 unrestricted reserves of \$3.1 million consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of \$1.1 million.

**Changes from 2008 to 2009:**

Total current assets increased by \$610,000. State appropriations receivable had almost no change from the prior year. Cash and cash equivalents increased by \$425,000 and accounts receivable increased by \$95,000.

Capital assets decreased by \$4.3 million as a result of the annual depreciation charge of \$5.4 million and asset additions of \$1.1 million.

Other noncurrent assets decreased by \$1.4 million due to a decrease in the market value of endowment investments. Student loan receivables held steady at \$2.8 million.

Total liabilities decreased by \$830,000. Long term debt in the amount of \$1.3 million was retired during the current year. Fluctuations of other liabilities include increases in accounts payable of \$365,000 and the liability for employee benefits of \$75,000 and a decrease of deferred revenues of \$40,000.

Total net assets decreased by \$4.3 million. The University's investment in capital assets decreased by \$3.1 million. Restricted, expendable scholarship net assets decreased by \$1.0 million. Unrestricted reserves decreased by \$150,000. The June 30, 2009 unrestricted reserves of \$1,900,000 consist of reserves in designated funds, auxiliary funds, insurance and benefit reserves and a general fund deficit of \$1.3 million.

**The Statement of Revenues, Expenses and Changes in Net Assets**

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

	<b>Year Ended June 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total operating revenues	\$ 28,791,501	\$ 29,001,379	\$ 26,558,222
Total operating expenses	<u>46,935,907</u>	<u>47,056,405</u>	<u>44,040,907</u>
Operating loss	(18,144,406)	(18,055,026)	(17,482,685)
Net nonoperating revenues	<u>17,366,548</u>	<u>13,289,098</u>	<u>14,020,316</u>



	<b>Year Ended June 30</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss before other revenues	\$ (777,858)	\$ (4,765,928)	\$ (3,462,369)
Total other revenues	<u>323,510</u>	<u>422,309</u>	<u>586,927</u>
<b>Decrease in net assets</b>	<b>(454,348)</b>	<b>(4,343,619)</b>	<b>(2,875,442)</b>
Net assets, beginning of year	<u>47,388,885</u>	<u>51,732,504</u>	<u>54,607,946</u>
<b>Net assets, end of year</b>	<b><u>\$ 46,934,537</u></b>	<b><u>\$ 47,388,885</u></b>	<b><u>\$ 51,732,504</u></b>

**Changes from 2009 to 2010:**

Operating revenues decreased by \$210,000. Tuition and fees, net of scholarship allowance, decreased by \$540,000 or 3.7% after a tuition rate increase of 4.6% with a 2.3% decline in enrollment and an increase in scholarship allowance of \$882,000. Auxiliary revenues decreased by \$242,000 or 2.7% after a 4.7% room and board rate increase and decreased housing occupancy.

Operating expenses decreased by \$120,000. Of this amount, salary and benefit costs decreased slightly. There were no salary increases during the year. Operating supplies increased by 2.3% and utilities decreased by about 15% due to an unusually mild winter. University scholarships increased by \$104,000 or 2.9%. There was no change in or other operating expenses.

Net nonoperating revenues increased by \$4.1 million. State appropriations decreased \$718,000 which was partially offset with \$478,000 from the American Recovery and Reinvestment Act (“ARRA”) stimulus funds. Federal Pell grants increased by \$1.2 million. Investment income increased by \$2.8 million which reflected the market increases of both stock and bond fund values throughout the year.

The net result of operations for the year was a decrease in net assets of \$454,000.

**Changes from 2008 to 2009:**

Operating revenues increased by \$2.4 million. Tuition and fees, net of scholarship allowance, increased by \$820,000 or 6% after a tuition rate increase of 9% and an increase in scholarship allowance of \$660,000. Auxiliary revenues increased by \$760,000 or 9.3% after a 5.5% room and board rate increase and increased housing occupancy.

Operating expenses increased by \$3 million. Of this amount, salary and benefit costs increased by \$1.7 million primarily due to new hires and increased benefit costs. Salary increases were limited to 1%-2% for varying employee groups. Operating supplies and utilities increased by less than 1%. University scholarships increased by \$117,000 or 3.3%. There was no significant change in the annual depreciation charge or other operating expenses.

Net nonoperating revenues decreased by \$731,000. The State appropriations decrease is due to a delay of fiscal year 2007 appropriations to fiscal year 2008, otherwise appropriations were flat. Federal Pell grants increased by \$680,000. Investment income decreased by \$820,000 which reflected the decline of both stock and bond fund values throughout the year. There were insignificant gains or losses on assets sold or retired.

The net result of operations for the year was a decrease in net assets of \$4.3 million.

### **The Statement of Cash Flows**

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and help measure the University's ability to meet its financial obligations as they mature.

	<b>Year Ended June 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash provided by (used in):			
Operating activities	\$ (12,898,919)	\$ (12,441,057)	\$ (12,091,223)
Noncapital financing activities	17,514,578	16,206,251	14,859,300
Capital and related financing activities	(3,148,994)	(3,348,308)	(2,732,260)
Investing activities	<u>(785,746)</u>	<u>8,859</u>	<u>436,467</u>
Net change in cash and cash equivalents	680,919	425,745	472,284
Cash and cash equivalents, beginning of year	<u>5,925,784</u>	<u>5,500,039</u>	<u>5,027,755</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 6,606,703</u></b>	<b><u>\$ 5,925,784</u></b>	<b><u>\$ 5,500,039</u></b>

### **Changes from 2009 to 2010:**

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts. Net cash used in operating activities for the year ended June 30, 2010 was \$12.9 million as compared to \$12.4 million in 2009. The net cash received from noncapital financing activities, which consisted primarily of State appropriations, the ARRA stimulus funds and Federal Pell grants, was \$17.5 million for the year ended June 30, 2010 as compared to \$16.2 million in 2009. Cash used for operations increased by \$533,000 for the year; uses of cash include payments to employees, vendors and students. Most significant was the increase of \$453,000 paid to students for financial aid.

Net cash used in capital and related financing activities decreased by \$199,000. Cash received for capital grants and gifts decreased by \$175,000. Cash used for the purchase and construction of capital assets decreased by \$317,000. In addition, the amount paid for debt service was slightly less and the University received a little more on the disposal of capital assets.

Net cash provided by investing activities decreased by \$795,000. Investments of \$1 million were acquired during the year. Investment income increased by \$427,000.

Overall, cash and cash equivalents increased by \$681,000 for the year ended June 30, 2010.

**Changes from 2008 to 2009:**

Net cash used in operations increased by \$350,000. Cash received from operations increased by \$1.5 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 \$600,000 and from auxiliary activities of \$700,000. Cash used for operations increased by \$1.9 million for the year; uses of cash include payments to employees, vendors and students. The most significant increases were payments to employees for salaries with an increase of \$1.7 million and payments for financial aid which increased by \$300,000.

Cash provided by noncapital financing activities increased by \$1.4 million. Cash received from State appropriations increased by \$650,000 and cash received for Pell grants increased by \$675,000. The cash increase from State appropriations is a reflection of the timing of receipts from the State rather than an increase in funding.

Net cash used in capital and related financing activities increased by \$600,000. Cash received for capital grants and gifts increased by \$180,000. Cash used for the purchase and construction of capital assets increased by \$740,000 as there was a slight increase in capital project activity during the 2008-09 fiscal year.

Net cash provided by investing activities decreased by \$425,000. Cash provided by sales of investments decreased by \$135,000, cash provided from investment income decreased by \$290,000.

Overall, cash and cash equivalents increased by \$426,000 for the year ended June 30, 2009.

**Factors that Will Affect the Future**

An almost year long presidential search was concluded with the hiring of Dr. Tony McLain in June 2009. This action had a stabilizing effect on the University as Dr. McLain had been appointed as the interim President just prior to the beginning of the fiscal year and had already made much progress and gained acceptance as the University's next leader. Further stabilizing the administrative team, Maurice Walworth was named Provost & Vice President for Academic Affairs replacing Dr. Anthony Blose, who was serving in that capacity as an interim. Walworth, who was the Dean of the College of Engineering, Technology and Economic Development as well as the director of Intellectual Property prior to accepting the Provost position, is well respected on campus and in the community.

The Shared Governance process has taken hold and is gaining momentum in shaping inclusive processes and measured accountability. The strategic plan is evolving into the working document that is necessary to ensure actions are taken to achieve agreed upon goals to carry out the mission of the University and achieve visionary successes. Shared Governance committees are helping to prioritize the University's scarce resources that will fund strategic initiatives.

The University is gearing up for its Higher Learning Commission (HLC) Accreditation and is in the process of writing the self study report. This offers both challenges and opportunities as the University self-evaluates and articulates a condensed summary of the last ten years of processes and activities that the University has been involved with using a prescribed set of criterion. Strengths and weaknesses are identified creating opportunities to build on strengths and improve weaknesses. It is a time of renewed awareness of the mission and vision of the University encompassing all constituents which allows for constructive feedback as to whether or not the constituents feel the University is on the right path. Observable energy, focus, and collaboration occurs as students, faculty, staff, alumni, community and other friends of the University come together for the good of the University as a whole.

The University will be offering classes in the fall of 2010 at its newly established regional site, in partnership with Henry Ford Community College at the Dearborn University Consortium Center (DUCC) located on the campus of Advanced Technology Academy, an LSSU Charter School. The University will incorporate the Ford Partnerships for Advanced Studies curriculum at the DUCC to provide students with 21st century skills. The University's participation in this next generation learning center will bring its unique programs to the Detroit metro area broadening options to students.

The University's Product Development Center (PDC) offers mechanical, electrical and manufacturing services as well as a \$1 million robotics facility to entrepreneurs and businesses throughout the State. Lake Superior State University is the smallest university in Michigan but has something big to offer inventors and entrepreneurs – the opportunity to confidentially use students, staff, equipment and other resources to bring big business designs and ideas to the marketplace. The PDC currently has served about 200 clients in its short three year existence, and the number is growing. The first project the PDC can openly publicize is its work with a client to create “Skate Fenders”, molded plastic skate shields that are worn by several professional hockey teams and are produced with the LSSU logo on the package. The PDC works hand-in-hand with a newly organized SmartZone named Sault Ste. Marie Advanced Resources and Technology, Inc. (SSMart).

SSMart is a collaborative partnership between the City of Sault Ste. Marie, Lake Superior State University (LSSU), the Michigan Economic Development Corporation (MEDC), and the Michigan Small Business and Technology Development Centers (MI-SBTDC). It helps move an entrepreneur's product from the inception stage to commercialization. The PDC is well equipped to help an entrepreneur or a small business take an idea or design from conception, to prototype, and on towards commercialization. The University's School of Business assists with business plans, market research, market plans, and other business services, including helping businesses understand the global economy by incorporating its International Business programs. SSMart is optimistic that they will be undertaking final design and specifications of a new Breeder Facility with construction taking place in the summer of 2011. The Breeder Facility will provide economical office space, meeting rooms, manufacturing equipment, software, and other necessary resources for assisting clients in production.

Lake Superior State University has been recognized by GI Jobs Magazine as a Military Friendly School. That means that LSSU is considered in the top 15% of all schools nationwide. The University has signed agreements with both the Michigan National Guard and the U.S Coast Guard that are designed to encourage servicemen and women to take university courses. We are proud to offer a special educational benefit to the men and women who serve our country.

The LSSU Foundation has undergone its own transformation during the year. Two key positions were filled with two talented individuals who are no strangers to the University. Thomas Coates, the new Executive Director, has been involved with fundraising for the University for many years as the past Assistant Athletics Director. A new Director of Development position was filled by Virginia Zinser, who had previously been employed by the Foundation and returned to take on this active role.

The Foundation recently announced a \$5 million expansion of its Norris Center complex. The project is completely privately financed; however, LSSU will conduct a personalized “Brick Campaign” for the plaza area, and there will be several naming opportunities in specific areas to further support LSSU through the LSSU Foundation. The Norris Center will remain in use throughout the project, which will be constructed/renovated in two phases. The Hockey Center, Laker Club and academic center are scheduled for completion in 2012 and the Student Activity Center addition, atrium, and athletic offices are scheduled to be wrapped up in 2013. Details and progress on this project can be found at [norriscenterproject.com](http://norriscenterproject.com).

**INDEPENDENT AUDITORS' REPORT**

October 20, 2010

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, 2010 and 2009 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, 2010 and 2009 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 audit.

The Management's Discussion and Analysis (MD&A) presented on pages 2 to 11 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	
	2010	2009
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,606,703	\$ 5,925,784
Short-term investments	1,012,334	-
Accounts receivable, net	1,142,680	1,113,136
State appropriations receivable	2,287,569	2,383,942
Inventories	292,995	284,465
Other	380,154	332,468
<b>Total current assets</b>	<b>11,722,435</b>	<b>10,039,795</b>
<b>Noncurrent assets</b>		
Student loans receivable, net	2,702,984	2,812,157
Investments	1,001,725	873,928
Endowment investments	6,877,047	5,841,656
Land and art collection	2,522,103	2,549,203
Depreciable capital assets, net	55,327,437	59,425,118
<b>Total noncurrent assets</b>	<b>68,431,296</b>	<b>71,502,062</b>
<b>Total assets</b>	<b>\$ 80,153,731</b>	<b>\$ 81,541,857</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,957,807	\$ 2,594,511
Unearned revenue	957,960	1,009,617
Deposits	167,722	163,576
Current portion of long-term debt	1,358,242	1,279,939
Current portion of employee benefit programs	302,400	208,649
<b>Total current liabilities</b>	<b>5,744,131</b>	<b>5,256,292</b>
Interest rate swap liability	839,000	839,000
Long-term debt, net of current portion	25,381,904	26,655,155
Employee benefit programs, net of current portion	1,254,159	1,402,525
<b>Total liabilities</b>	<b>33,219,194</b>	<b>34,152,972</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	32,182,038	35,111,872
Restricted		
Nonexpendable		
Scholarships and research	205,327	205,327
Expendable		
Scholarships and research	7,533,270	6,564,594
Loans	3,054,857	3,168,294
Capital projects and debt service	816,163	436,954
Unrestricted	3,142,882	1,901,844
<b>Total net assets</b>	<b>46,934,537</b>	<b>47,388,885</b>
<b>Total liabilities and net assets</b>	<b>\$ 80,153,731</b>	<b>\$ 81,541,857</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	
	2010	2009
<b>Operating revenues</b>		
Tuition and fees (net of scholarship allowances of \$6,694,941 and \$5,812,986 in 2010 and 2009, respectively)	\$ 14,060,741	\$ 14,600,870
Federal grants and contracts	1,286,128	1,331,647
State grants and contracts	204,891	501,362
Nongovernmental grants and contracts	2,778,116	2,366,166
Auxiliary activities	8,693,791	8,936,201
Other	1,767,834	1,265,133
<b>Total operating revenues</b>	<b>28,791,501</b>	<b>29,001,379</b>
<b>Operating expenses</b>		
Instruction	13,756,478	13,330,739
Research	351,990	334,860
Public service	999,336	861,322
Academic support	2,886,747	2,755,065
Student services	2,641,628	2,579,010
Student aid	2,560,368	2,107,541
Institutional support	5,243,750	6,073,429
Operation and maintenance of plant	4,672,823	4,857,051
Auxiliary activities	8,303,789	8,190,745
Depreciation	4,959,535	5,373,016
Other	559,463	593,627
<b>Total operating expenses</b>	<b>46,935,907</b>	<b>47,056,405</b>
<b>Operating loss</b>	<b>(18,144,406)</b>	<b>(18,055,026)</b>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	12,457,279	13,175,727
State appropriations - ARRA	477,600	-
Federal Pell grants	4,208,795	2,995,386
Interest on capital debt and leases	(1,422,228)	(1,542,887)
Investment income (loss), net of investment expenses	1,389,776	(1,409,228)
Gifts for expendable endowments	269,964	61,300
(Loss) gain on assets sold or retired	(14,638)	8,800
<b>Net nonoperating revenues</b>	<b>17,366,548</b>	<b>13,289,098</b>
<b>Loss before other revenues</b>	<b>(777,858)</b>	<b>(4,765,928)</b>
<b>Other revenues</b>		
Capital grants and gifts	323,510	422,309
<b>Decrease in net assets</b>	<b>(454,348)</b>	<b>(4,343,619)</b>
Net assets, beginning of year	47,388,885	51,732,504
<b>Net assets, end of year</b>	<b>\$ 46,934,537</b>	<b>\$ 47,388,885</b>

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



# LAKE SUPERIOR STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2010	2009
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 14,025,131	\$ 14,576,475
Grants and contracts	4,276,339	4,140,170
Payments to employees	(28,046,567)	(27,675,411)
Payments to vendors	(11,227,036)	(11,526,063)
Payments for financial aid	(2,560,368)	(2,107,541)
Loans issued to students	(437,851)	(429,527)
Collections of interest and principal on loans to students	547,024	434,256
Auxiliary activities	8,697,994	8,916,768
Other receipts	1,826,415	1,229,816
<b>Net cash used in operating activities</b>	<b>(12,898,919)</b>	<b>(12,441,057)</b>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	12,553,652	13,152,129
State appropriations - ARRA	477,600	-
Federal Pell grants	4,213,362	2,992,822
Gifts for expendable endowments	269,964	61,300
Federal Direct Lending receipts	13,541,795	12,312,716
Federal Direct Lending disbursements	(13,541,795)	(12,312,716)
<b>Net cash provided by noncapital financing activities</b>	<b>17,514,578</b>	<b>16,206,251</b>
<b>Cash flows from capital and related financing activities</b>		
Capital grants and gifts received	223,526	398,965
Purchases and construction of capital assets	(663,587)	(980,817)
Proceeds from disposal of capital assets	39,493	10,300
Principal paid on debt and capital leases	(1,320,262)	(1,228,272)
Interest paid on debt and capital leases	(1,428,164)	(1,548,484)
<b>Net cash used in capital and related financing activities</b>	<b>(3,148,994)</b>	<b>(3,348,308)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	20,000	225,000
Purchases of investments	(1,310,027)	(293,729)
Investment income	504,281	77,588
<b>Net cash (used) provided by investing activities</b>	<b>(785,746)</b>	<b>8,859</b>
Net increase in cash and cash equivalents	680,919	425,745
Cash and cash equivalents, beginning of year	5,925,784	5,500,039
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,606,703</b>	<b>\$ 5,925,784</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	
	2010	2009
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (18,144,406)	\$ (18,055,026)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	4,959,535	5,373,016
Provision for uncollectible accounts and student loans receivables	122,721	122,721
Change in assets and liabilities:		
Accounts receivable	(118,906)	(183,628)
Student loans receivable	71,247	(33,197)
Inventories	(8,530)	(31,527)
Other	(47,686)	(36,321)
Accounts payable and accrued expenses	369,232	369,445
Unearned revenue	(51,657)	(41,125)
Deposits	4,146	1,808
Employee benefit programs	(54,615)	72,777
<b>Net cash used in operating activities</b>	<b>\$ (12,898,919)</b>	<b>\$ (12,441,057)</b>
<b>Supplemental disclosures of non-cash financing and investing activities</b>		
Gifts in-kind received and recorded as capital assets	\$ 99,983	\$ 31,194
Financed purchase of equipment through a capital lease	\$ 125,314	\$ -

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

## LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

### STATEMENTS OF NET ASSETS

	June 30	
	2010	2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,553,510	\$ 1,627,060
Other current assets	28,597	28,597
Current portion of unconditional promises to give, net	15,265	11,055
<b>Total current assets</b>	<b>1,597,372</b>	<b>1,666,712</b>
<b>Noncurrent assets</b>		
Investments	4,745,377	3,693,453
Unconditional promises to give, net of current portion	77,857	103,130
Beneficial interest in charitable remainder trust	307,235	304,811
<b>Total noncurrent assets</b>	<b>5,130,469</b>	<b>4,101,394</b>
<b>Total assets</b>	<b>\$ 6,727,841</b>	<b>\$ 5,768,106</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 40,964	\$ 28,855
Employee benefit programs	16,506	11,294
<b>Total current liabilities</b>	<b>57,470</b>	<b>40,149</b>
Annuity obligations	57,167	61,766
<b>Total liabilities</b>	<b>114,637</b>	<b>101,915</b>
<b>Net assets</b>		
Restricted		
Nonexpendable	4,368,389	3,909,555
Expendable	1,809,277	1,611,198
Unrestricted	435,538	145,438
<b>Total net assets</b>	<b>6,613,204</b>	<b>5,666,191</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,727,841</b>	<b>\$ 5,768,106</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>2010</b>	<b>2009</b>
<b>Operating revenues</b>		
Contributions	\$ 1,645,718	\$ 1,227,966
Change in value of split interest agreements	10,800	(24,193)
<b>Total operating revenues</b>	<b>1,656,518</b>	<b>1,203,773</b>
Operating expenses	325,305	333,384
<b>Operating income</b>	<b>1,331,213</b>	<b>870,389</b>
<b>Nonoperating revenues (expenses)</b>		
Investment income	20,941	211,249
Net unrealized gains (losses) on investments	565,122	(838,692)
Distributions to Lake Superior State University	(970,263)	(481,651)
<b>Net nonoperating expenses</b>	<b>(384,200)</b>	<b>(1,109,094)</b>
<b>Increase (decrease) in net assets</b>	<b>947,013</b>	<b>(238,705)</b>
Net assets, beginning of year	5,666,191	5,904,896
<b>Net assets, end of year</b>	<b>\$ 6,613,204</b>	<b>\$ 5,666,191</b>

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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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### 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 (“GASB”) 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 established 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 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 \$970,263 during fiscal 2010 and \$481,651 during fiscal 2009. Support from the University provided to the Foundation amounted to \$334,433 and \$334,400 during fiscal 2010 and 2009, respectively. Complete financial statements for the Foundation can be obtained from their office at 650 West Easterday Avenue, Sault Ste. Marie, Michigan, 49783.

#### **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 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

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

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

### **Basis of Presentation - Foundation**

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including Accounting Standards Codification (“ASC”) Topic 958-605-05, *Accounting for Contributions Received and Contributions Made*, and ASC Topic 958-205-05, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation’s financial information in the University’s financial report for these differences.

### **Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowances, the workers’ compensation reserve and the health insurance reserve.

### **Cash and Cash Equivalents**

Cash and cash equivalents at the University and the Foundation consist of demand deposits and highly liquid investments, excluding noncurrent investments, with an original maturity when purchased of three months or less.

### **Short-term Investments**

Short-term investments consist of certificates of deposit with maturities of less than one year.

### **Investments and Endowment Investments**

University and Foundation investments and endowment investments consist primarily of long-term mutual funds and are stated at fair value. Realized and unrealized gains and losses are reflected in the statements of revenues, expenses and changes in net assets. The Foundation maintains investment accounts for its expendable and nonexpendable endowments.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

### **Inventories**

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

### **Capital Assets**

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

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

<b><u>Classification</u></b>	<b><u>Life</u></b>
Buildings and building improvements	40 to 60 years
Land improvements	20 years
Infrastructure	20 years
Equipment	7 years
Personal computers	3 years
Library books	7 years
Vehicles	7 years

### **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, State appropriations-ARRA 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

During fiscal 2010 and 2009 the University received \$23,758,632 and \$24,576,992 (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 2010 which were forwarded to Bay Mills Community College. Appropriations received and related disbursements passed on to the charter schools and Bay Mills Community College are considered agency transactions and, accordingly, are not reported in the accompanying financial statements.

Contributions, including unconditional promises to give, are recognized by the Foundation as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Foundation records donations of non-cash assets at their appraised or fair value at the date of the gift.

### **Unearned Revenue**

Unearned revenue consists primarily of advance payment for sports camps, room and board, sales for athletic events and summer 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 2010 or 2009.

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.

## **2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNIVERSITY**

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

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



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

Investment income and realized gains or losses are allocated using an average balance method on accounts designated to receive investment earnings. Unrealized gains or losses are allocated based on investment balances on June 30.

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

	<u>2010</u>	<u>2009</u>
Disbursement accounts (deposits)	\$ 1,390,169	\$ 3,975,279
Government money market funds	<u>5,216,534</u>	<u>1,950,505</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 6,606,703</u></b>	<b><u>\$ 5,925,784</u></b>

At June 30, 2010 and 2009, \$862,154 and \$3,949,505, respectively, held by the University in disbursement accounts were held at Central Savings Bank ("CSB"), whose Chief Executive officer is the chair of the University's Board of Trustees.

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

	<u>2010</u>	<u>2009</u>
<u>University short-term investments</u>		
Certificates of deposit	<u>\$ 1,012,334</u>	<u>\$ --</u>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

	<b>2010</b>	<b>2009</b>
<u>University endowment investments</u>		
Mutual funds		
Equity funds	\$ 4,519,351	\$ 4,431,158
Bond/fixed income funds	1,847,986	1,410,498
Exchange traded funds	509,710	--
Total University endowment investments	6,877,047	5,841,656
<u>University investments</u>		
Mutual funds		
Government money market funds	\$ 824	\$ 655
Equity funds	571,167	581,705
Bond/fixed income funds	429,734	291,568
Total University investments	1,001,725	873,928
<b>Total investments</b>	<b>\$ 7,878,772</b>	<b>\$ 6,715,584</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, 2010, the University had the following debt investments and cash equivalents with related maturities:

	Maturities (in Years)			
	Fair Market Value	Less Than 1	1-5	6-10
Government money market funds	\$ 5,217,358	\$ 5,217,358	\$ -	\$ -
Bond/fixed income funds	2,277,720	-	-	2,277,720
<b>Total</b>	<b>\$ 7,495,078</b>	<b>\$ 5,217,358</b>	<b>\$ -</b>	<b>\$ 2,277,720</b>

As of June 30, 2009, the University had the following debt investments and cash equivalents with related maturities:

	Maturities (in Years)			
	Fair Market Value	Less Than 1	1-5	6-10
Government money market funds	\$ 1,951,160	\$ 1,951,160	\$ -	\$ -
Bond/fixed income funds	1,702,066	-	-	1,702,066
<b>Total</b>	<b>\$ 3,653,226</b>	<b>\$ 1,951,160</b>	<b>\$ -</b>	<b>\$ 1,702,066</b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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**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 June 30, 2010, \$6,073,881 of the University's bank balance of \$6,823,881 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

**Foreign Currency Risk** – The University's exposure to foreign currency risk is derived from its positions in international investments consisting solely of foreign currency denominated mutual fund equity investments. The University's investment policy permits investments in these asset types. At June 30, 2010 and 2009, the University held 31,483 and 31,518 units, respectively, of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of \$1,034,112 and \$989,369, 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 (depreciation) on investments of donor-restricted endowments approximated \$169,000 and (\$778,000) at June 30, 2010 and 2009, respectively. Net appreciation (depreciation) 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 years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest and dividends	2.0%	2.6%
Net realized and unrealized gains (losses)	<u>12.6</u>	<u>(20.5)</u>
<b>Total investment gain (loss)</b>	<b><u>14.6%</u></b>	<b><u>(17.9)%</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>2010</u>	<u>2009</u>
Mutual funds		
Equity funds	\$ 2,825,768	\$ 2,582,833
Bond/fixed income funds	1,551,703	1,101,652
Exchange traded funds	<u>355,873</u>	<u>--</u>
Subtotal	4,733,344	3,684,485
Marketable securities	<u>12,033</u>	<u>8,968</u>
<b>Total Foundation investments</b>	<b><u>\$ 4,745,377</u></b>	<b><u>\$ 3,693,453</u></b>

#### *Return Objectives and Risk Parameters*

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 8.0% annually. Actual returns in any given year may vary from this range.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve long-term return objectives within prudent risk constraints.

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has an annual spending policy of 4.5% of its endowment funds' average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 3.0% to 3.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## 4. ACCOUNTS AND STUDENT LOAN RECEIVABLES

Accounts receivable result primarily from student tuition and fee billings and auxiliary enterprise activities, 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 \$272,918 and \$274,196 at June 30, 2010 and 2009, respectively.

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

	<u>2010</u>	<u>2009</u>
Tuition and fees	\$ 353,863	\$ 382,739
Auxiliary activities	207,336	176,171
Governmental grants and contracts	279,332	371,444
Private grants and contracts	66,142	29,705
Other	<u>236,007</u>	<u>153,077</u>
<b>Accounts receivable, net</b>	<b><u>\$ 1,142,680</u></b>	<b><u>\$ 1,113,136</u></b>

In addition, the University has student loans receivable, in the amount of \$2,702,984 and \$2,812,157, which are recorded net of an allowance for uncollectible loans of \$471,950 and \$428,766 as of June 30, 2010 and 2009, respectively. Approximately 80% of student loans receivable are expected to be collected in periods beyond one year.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### 5. CAPITAL ASSETS

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

	2010			Balance June 30, 2010
	Balance July 1, 2009	Additions	Reductions	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ --	\$ --	\$ 838,684
Land	1,128,844	--	32,000	1,096,844
Art collection	<u>581,675</u>	<u>4,900</u>	<u>--</u>	<u>586,575</u>
Total capital assets not being depreciated	<u>2,549,203</u>	<u>4,900</u>	<u>32,000</u>	<u>2,522,103</u>
Capital assets being depreciated				
Land improvements	5,395,733	--	--	5,395,733
Infrastructure	3,244,705	--	--	3,244,705
Building and building improvements	114,840,865	153,977	--	114,994,842
Equipment and other	<u>18,034,395</u>	<u>730,008</u>	<u>197,736</u>	<u>18,566,667</u>
Total capital assets being depreciated	141,515,698	883,985	197,736	142,201,947
Accumulated depreciation	<u>(82,090,580)</u>	<u>(4,959,535)</u>	<u>(175,605)</u>	<u>(86,874,510)</u>
Total capital assets being depreciated, net	<u>59,425,118</u>	<u>(4,075,550)</u>	<u>22,131</u>	<u>55,327,437</u>
<b>Total capital assets, net</b>	<b><u>\$ 61,974,321</u></b>	<b><u>\$ (4,070,650)</u></b>	<b><u>\$ 54,131</u></b>	<b><u>\$ 57,849,540</u></b>

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

	2009			Balance June 30, 2009
	Balance July 1, 2008	Additions	Reductions	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ --	\$ --	\$ 838,684
Land	1,130,344	--	1,500	1,128,844
Art collection	<u>581,675</u>	<u>--</u>	<u>--</u>	<u>581,675</u>
 Total capital assets not being depreciated	 <u>2,550,703</u>	 <u>--</u>	 <u>1,500</u>	 <u>2,549,203</u>
Capital assets being depreciated				
Land improvements	5,395,733	--	--	5,395,733
Infrastructure	3,244,705	--	--	3,244,705
Building and building improvements	114,483,028	357,837	--	114,840,865
Equipment and other	<u>17,385,057</u>	<u>654,173</u>	<u>4,835</u>	<u>18,034,395</u>
 Total capital assets being depreciated	 140,508,523	 1,012,010	 4,835	 141,515,698
Accumulated depreciation	<u>(76,722,399)</u>	<u>(5,373,016)</u>	<u>(4,835)</u>	<u>(82,090,580)</u>
 Total capital assets being depreciated, net	 <u>63,786,124</u>	 <u>(4,361,006)</u>	 <u>--</u>	 <u>59,425,118</u>
 <b>Total capital assets, net</b>	 <b><u>\$ 66,336,827</u></b>	 <b><u>\$ (4,361,006)</u></b>	 <b><u>\$ 1,500</u></b>	 <b><u>\$ 61,974,321</u></b>

### 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

University accounts payable and accrued expenses consist of the following amounts at June 30:

	2010	2009
Accounts payable to vendors	\$ 872,273	\$ 788,827
Payroll and payroll taxes	1,424,240	1,383,454
Interest	165,294	171,230
Workers' compensation claims	380,000	251,000
Health insurance claims	<u>116,000</u>	<u>-</u>
 <b>Total accounts payable and accrued expenses</b>	 <b><u>\$ 2,957,807</u></b>	 <b><u>\$ 2,594,511</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, 2010 and 2009, 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>2010</b>	<b>2009</b>
Claims liability at beginning of year	\$ 251,000	\$ 176,000
Claims incurred	258,853	161,513
Claims payments	(129,853)	(86,513)
<b>Claims liability at end of year</b>	<b><u>\$ 380,000</u></b>	<b><u>\$ 251,000</u></b>

## 7. LONG-TERM DEBT

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

			2010						
			Outstanding Principal			June 30 2010			Current Portion
			Interest Rate	Maturity	July 1 2009				
<b>Bonds payable</b>									
General Revenue									
Bonds, Series 2001									
Series bonds	4.2%-5.0%	2010-2016	\$ 3,260,000	\$ --	\$ 345,000	\$ 2,915,000	\$ 360,000		
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--		
General Revenue									
Bonds, Series 1997									
Term bonds	5.0%-5.125%	2012-2019	6,805,000	--	660,000	6,145,000	690,000		
<b>Total –bonds payable</b>			<b>26,590,000</b>	<b>--</b>	<b>1,005,000</b>	<b>25,585,000</b>	<b>1,050,000</b>		
Capital leases	up to 7.0%		1,345,094	125,314	315,262	1,155,146	308,242		
<b>Total – long-term debt</b>			<b><u>\$ 27,935,094</u></b>	<b><u>\$ 125,314</u></b>	<b><u>\$ 1,320,262</u></b>	<b>26,740,146</b>	<b><u>\$ 1,358,242</u></b>		
Less current portion						1,358,242			
<b>Long-term debt, net of current portion</b>						<b><u>\$ 25,381,904</u></b>			



# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

		2009					
		Outstanding Principal					
	Interest Rate	Maturity	July 1 2008	Additions	Reductions	June 30 2009	Current Portion
<b>Bonds payable</b>							
General Revenue							
Bonds, Series 2001							
Series bonds	4.2%-5.0%	2009-2016	\$ 3,590,000	\$ --	\$ 330,000	\$ 3,260,000	\$ 345,000
Term bonds	5.125%-5.5%	2018-2031	16,525,000	--	--	16,525,000	--
General Revenue							
Bonds, Series 1997							
Series bonds	4.8%	2008-2009	625,000	--	625,000	--	--
Term bonds	5.0%-5.125%	2012-2019	6,805,000	--	--	6,805,000	660,000
<b>Total –bonds payable</b>			<b>27,545,000</b>	<b>--</b>	<b>955,000</b>	<b>26,590,000</b>	<b>1,005,000</b>
Capital leases	up to 7.0%		1,618,366	--	273,272	1,345,094	274,939
<b>Total – long-term debt</b>			<b>\$ 29,163,366</b>	<b>\$ --</b>	<b>\$ 1,228,272</b>	<b>27,935,094</b>	<b>\$ 1,279,939</b>
Less current portion						1,279,939	
<b>Long-term debt, net of current portion</b>						<b>\$ 26,655,155</b>	

### ***Bonded Debt***

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

As of June 30, 2010, bonds payable in the amount of \$19,440,000 are payable from general revenues including \$2,915,000 in serial bonds maturing in varying amounts through November 2016, with interest charged at annual rates ranging from 4.2% 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 accrue interest at 5.125%, 5.5%, 5.125% and 5.25%, respectively. All of the bonds are callable after November 15, 2012. The serial and term bonds were issued under the same official statement dated May 15, 2001.

#### **General Revenue Bonds, Series 1997**

As of June 30, 2010, bonds payable in the amount of \$6,145,000 are payable from general revenues and consist of two term bonds in the amounts of \$2,835,000 and \$3,970,000. 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 term bonds were issued under an official statement dated November 1, 1997. Serial bonds in the amount of \$625,000 issued on the same official statement were paid in full during fiscal year 2009.

# 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 June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,215,000	1,127,768	2,342,768
2015	1,275,000	1,064,493	2,339,493
2016-2020	5,285,000	4,484,343	9,769,343
2021-2025	5,000,000	3,153,951	8,153,951
2026-2030	6,440,000	1,680,654	8,120,654
2031-2032	<u>3,065,000</u>	<u>162,882</u>	<u>3,227,882</u>
<b>Total – bonds payable</b>	<b><u>\$25,585,000</u></b>	<b><u>\$15,401,886</u></b>	<b><u>\$40,986,886</u></b>

### Interest Rate Swap

On April 12, 2005, the University entered into a twenty-six year forward-looking basis interest rate swap agreement for an original amount of \$20,115,000 (notional amount of \$19,440,000 at June 30, 2010). The intention of the swap was to effectively change the fixed interest rate on the University's bonds to a variable rate. The effective date of the swap agreement is May 15, 2008. The stated maturity date of the swap is November 15, 2031.

Under the terms of the swap agreement, the University will pay interest based on the Bond Market Association ("BMA") rate. In return, the University will receive interest calculated at the outstanding notional amount times 68% of the one-month London Interbank Offered Rate ("LIBOR"). Only the net difference in interest payments will be actually exchanged each month. The University will continue to pay interest to the bondholders at the fixed rate on the outstanding bonds. However, during the term of the swap agreement, the University effectively pays a variable rate on the debt based on the economics of the swap agreement. The swap exposes the University to basis risk should the relationship between LIBOR, BMA and the fixed interest rate on the outstanding bonds diverge changing the effective fixed rate of the bonds. As of June 30, 2010, 68% of the one-month LIBOR was 0.24% whereas the BMA rate was 0.25%.

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, 2010 and 2009 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, 2010 and 2009. As of June 30, 2010, the fair value of the required termination payment is \$1,537,073 which represents the amount that the

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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University would be required to pay if the swap was terminated. The University does not intend to terminate the swap agreement. Therefore, the University has not recognized the fair value of the required termination payment.

### *Obligations Under Capital Leases*

The University leases certain equipment with a net book value of \$2,276,531 at June 30, 2010 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, 2010:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 361,428
2012	258,585
2013	222,547
2014	212,370
2015	<u>242,758</u>
Total minimum payments due	1,297,688
Less amounts representing interest, imputed at annual rates ranging up to 7.0%	<u>142,542</u>
<b>Present value of net minimum lease payments</b>	<b><u>\$ 1,155,146</u></b>

At June 30, 2010, \$46,676 of the total present value of net minimum lease payments of \$1,155,146 is due to CSB.

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, 2010 and 2009 are insignificant.

### *Line-of-credit*

The University had a \$2,000,000 unsecured bank revolving line-of-credit available from CSB at June 30, 2009. Interest is payable monthly on borrowings and is computed at 4.3%. There were no outstanding borrowings on the line-of-credit at June 30, 2009. The agreement expired in October, 2009 and was not renewed.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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### 8. 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 \$1,523,000 and \$1,510,000 to this plan for the years ended June 30, 2010 and 2009, 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 \$577,000, \$594,000 and \$620,000, for the years ended June 30, 2010, 2009 and 2008, respectively, all of which was contributed during the applicable year.

Beginning October 1, 2010, the University is required to contribute 4.11% (4.58% during the period of October 1, 2009 through September 30, 2010) of MPERS covered payroll for normal pension costs and 9.73% (7.72% during the period of October 1, 2009 through September 30, 2010) 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 (ARC) of the employers, 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, 2010, 2009 and 2008 were approximately \$849,000, \$840,000 and \$709,000, respectively, which equaled the required contributions each year.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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

### Compensated Absences

The University pays eligible employees for their unused accumulated vacation under various contracts, up to a maximum of 288 hours, upon termination of employment with the University.

### Accumulated Sick Leave Benefits

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

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

	2010				
	July 1 2009	Additions	Payments	June 30 2010	Current Portion
Compensated absences	\$ 695,899	\$ 80,041	\$ 82,938	\$ 693,002	\$ 101,000
Accumulated sick leave benefits	855,233	142,000	133,677	863,556	201,400
Early retirement severance program	60,042	(564)	59,478	--	--
<b>Total employee benefit programs</b>	<b><u>\$ 1,611,174</u></b>	<b><u>\$ 221,477</u></b>	<b><u>\$ 276,093</u></b>	<b><u>\$ 1,556,558</u></b>	<b><u>\$302,400</u></b>
	2009				
	July 1 2008	Additions	Payments	June 30 2009	Current Portion
Compensated absences	\$ 667,153	\$ 114,378	\$ 85,632	\$ 695,899	\$ 75,000
Accumulated sick leave benefits	747,203	175,658	67,628	855,233	100,000
Early retirement severance program	124,042	12,340	76,340	60,042	33,649
<b>Total employee benefit programs</b>	<b><u>\$ 1,538,398</u></b>	<b><u>\$ 302,376</u></b>	<b><u>\$ 229,600</u></b>	<b><u>\$ 1,611,174</u></b>	<b><u>\$208,649</u></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 18 retirees participating in this health coverage at June 30, 2010. The University segregates these retiree payments and health care expenses separately from current employee costs. Premium rates are adjusted on July 1 each year to cover projected health care increases for the next year and any funding deficits. Rates are set by the University from a cost analysis through the University's third party health care administrators. Since retirees are required to pay all monthly premiums, no post employment health care liability has been recorded in the accompanying financial statements.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

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### 9. SELF INSURANCE

#### **Liability and Property**

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

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

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

#### **Insurance Reserves**

The University provides coverage for up to a maximum of \$500,000 for each workers’ compensation claim and \$75,000 for each health insurance claim. The University purchases commercial insurance for workers’ compensation and health insurance claims in excess of coverage provided by the self insurance reserves. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The University reserves an amount within unrestricted net assets for health and maintenance reserves and records a liability for health and for workers’ compensation insurance. These reserves are determined by MUSIC for losses relating to catastrophes and amounted to \$3,122,283 and \$1,901,844 at June 30, 2010 and 2009, respectively. The health insurance claims liability of \$116,000 at June 30, 2010 and the workers’ compensation claims liability of \$380,000 and \$251,000 at June 30, 2010 and 2009, respectively, are included in accounts payable and accrued expenses. The health insurance and the workers’ compensation claims liabilities are based on the requirements of GASB Statement No. 10 “*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*”, 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.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### 10. CONTINGENCIES AND COMMITMENTS

#### Union Contracts

The University has three groups of employees, two of which are covered under union collective bargaining agreements. The collective bargaining agreements covering the Support Personnel and the Faculty expired on September 30, 2009 and August 31, 2010, respectively. Successor agreements are being negotiated, but have not been finalized. The employee groups covered and the expiration dates of the contracts are as follows:

<u>Employee Group</u>	<u>Union Name</u>	<u>Contract Expired</u>
Support Personnel	United Steelworkers Local 9997	September 30, 2009
Faculty	Michigan Education Association/ National Education Association	August 31, 2010
Administrative and 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, 2010 and 2009, the unfunded portion of the related pension benefits is significant. The University's portion of this obligation is not determinable at June 30, 2010 or 2009. While the University has continued to pay the required monthly payments as determined by MPSERS, it is management's position that the University is not responsible for any shortfall in the fund as a result of changes in benefits made by MPSERS.

# LAKE SUPERIOR STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

### 11. NATURAL CLASSIFICATION OF EXPENSES

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

2010

	Salaries, Wages, Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,527,417	\$ 1,229,061	\$ --	\$ --	\$ --	\$ --	\$ 13,756,478
Research	210,624	141,366	--	--	--	--	351,990
Public service	618,462	380,874	--	--	--	--	999,336
Academic support	2,328,637	558,110	--	--	--	--	2,886,747
Student services	2,158,389	483,239	--	--	--	--	2,641,628
Student aid	--	--	--	2,560,368	--	--	2,560,368
Institutional support	3,544,254	1,699,496	--	--	--	--	5,243,750
Plant operations	2,538,492	700,308	1,434,023	--	--	--	4,672,823
Auxiliary activities	4,106,881	3,329,439	867,469	--	--	--	8,303,789
Depreciation	--	--	--	--	4,959,535	--	4,959,535
Other	--	--	--	--	--	559,463	559,463
<b>Total operating expenses</b>	<b>\$ 28,033,156</b>	<b>\$ 8,521,893</b>	<b>\$ 2,301,492</b>	<b>\$ 2,560,368</b>	<b>\$ 4,959,535</b>	<b>\$ 559,463</b>	<b>\$ 46,935,907</b>

2009

	Salaries, Wages, Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,173,710	\$ 1,157,029	\$ --	\$ --	\$ --	\$ --	\$ 13,330,739
Research	233,962	100,898	--	--	--	--	334,860
Public service	635,944	225,378	--	--	--	--	861,322
Academic support	2,035,166	719,899	--	--	--	--	2,755,065
Student services	2,130,771	448,239	--	--	--	--	2,579,010
Student aid	--	--	--	2,107,541	--	--	2,107,541
Institutional support	4,222,484	1,850,945	--	--	--	--	6,073,429
Plant operations	2,476,623	551,184	1,829,244	--	--	--	4,857,051
Auxiliary activities	3,941,642	3,118,344	1,130,759	--	--	--	8,190,745
Depreciation	--	--	--	--	5,373,016	--	5,373,016
Other	--	--	--	--	--	593,627	593,627
<b>Total operating expenses</b>	<b>\$ 27,850,302</b>	<b>\$ 8,171,916</b>	<b>\$ 2,960,003</b>	<b>\$ 2,107,541</b>	<b>\$ 5,373,016</b>	<b>\$ 593,627</b>	<b>\$ 47,056,405</b>

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