

LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

**FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**



LAKE SUPERIOR STATE UNIVERSITY

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Lake Superior State University

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Term Expires January 27, 2024

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Second Vice Chair
Term Expires January 27, 2020

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Term Expires January 27, 2018

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Term Expires January 27, 2020

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Chair
Term Expires January 27, 2018

Randy D. Pingatore
Term Expires January 27, 2024

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Term Expires January 27, 2022

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Term Expires January 27, 2022

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President

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Vice President, Academic
Affairs and Provost

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Treasurer to the Board of Trustees

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Vice President, Enrollment Services
and Student Affairs

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Dr. Thomas C. Pleger
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Maurice E. Walworth
Treasurer

Lake Superior State University Management's Discussion and Analysis

This discussion and analysis section of the Lake Superior State University (University) annual financial report provides an overview of our financial activities during the years ended June 30, 2016, 2015, and 2014. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Lake Superior State University Foundation (Foundation) whenever appropriate. This discussion should be read in conjunction with the financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with University management.

Reporting Entity

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

The financial statements include not only the University itself, but also a legally separate entity, the Lake Superior State University Foundation, for which the University is financially accountable. Financial statement information for this component unit is reported separately from the financial information presented for the University.

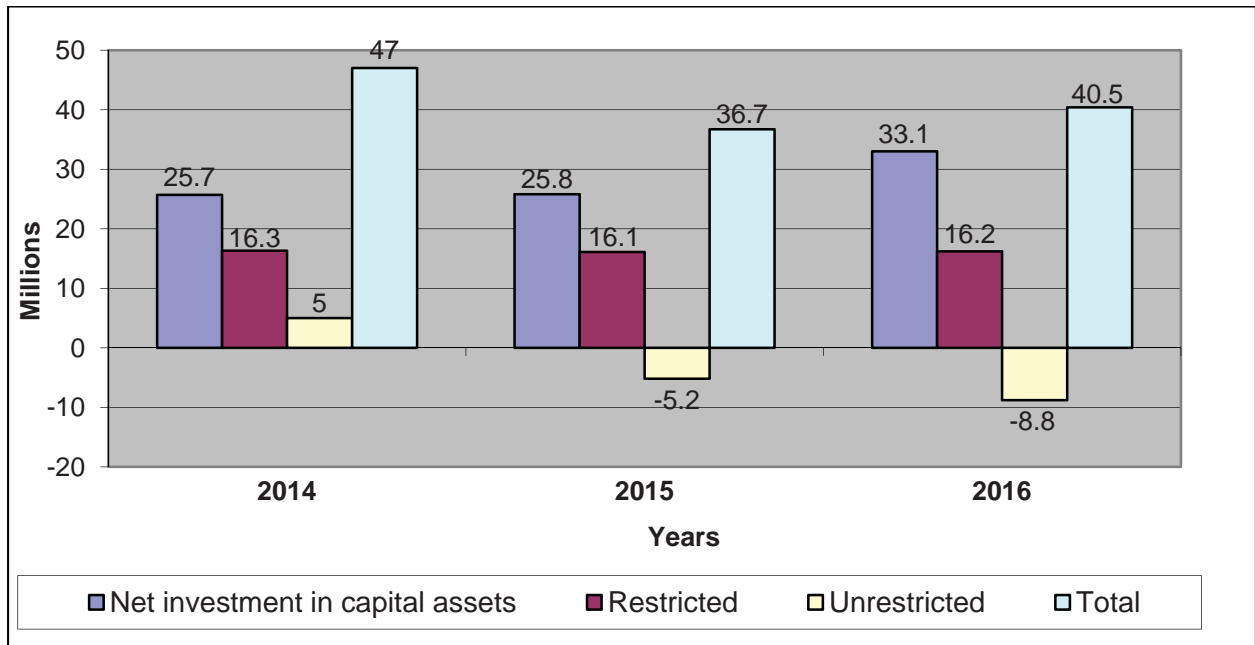
Using the Annual Report

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

Financial Highlights

The University's financial position was fairly stable as of June 30, 2016. Net position for the year ended June 30, 2016 of approximately \$40.5 million increased by approximately \$3.8 million from the prior year as compared to a decrease of approximately \$10.4 million for the year ended June 30, 2015. Unrestricted net position of approximately (\$8.8) million decreased by approximately \$3.6 million. The increase in total net position is largely due to an increase in net investment in capital assets of approximately \$7.3 million and an increase of the net pension obligation of approximately \$6.3 million.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2016, 2015, and 2014:



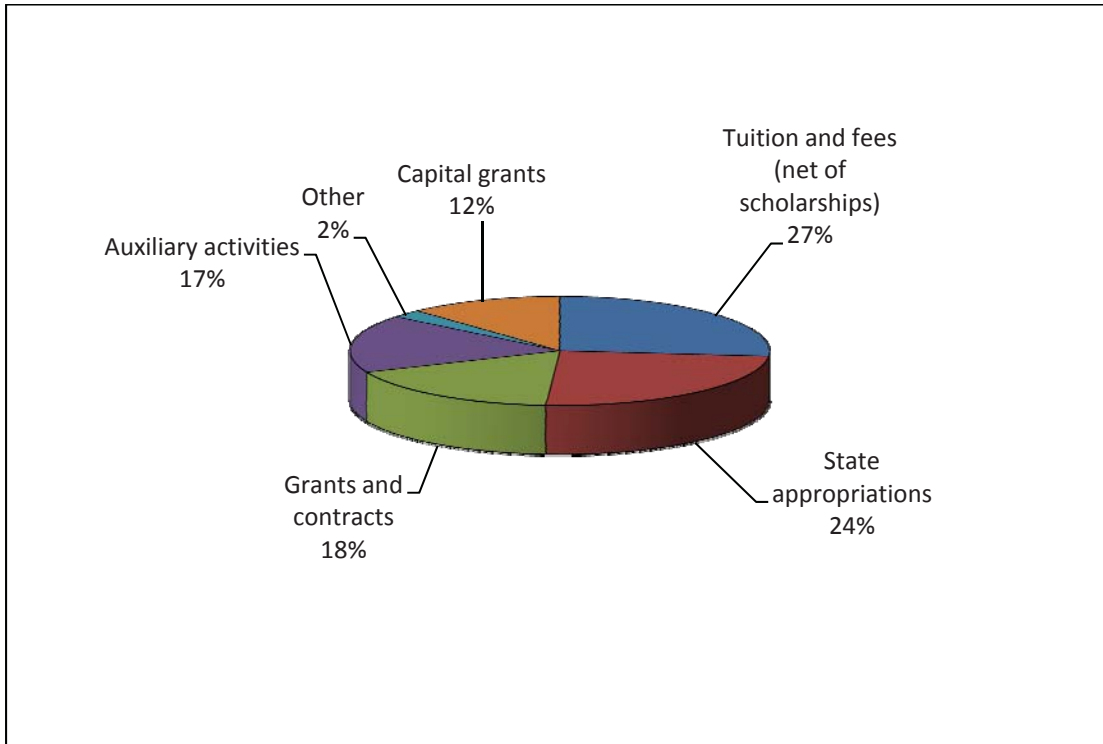
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not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

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

Revenues of the University consist of four main categories: tuition, State appropriations, auxiliary activities, and other revenue.

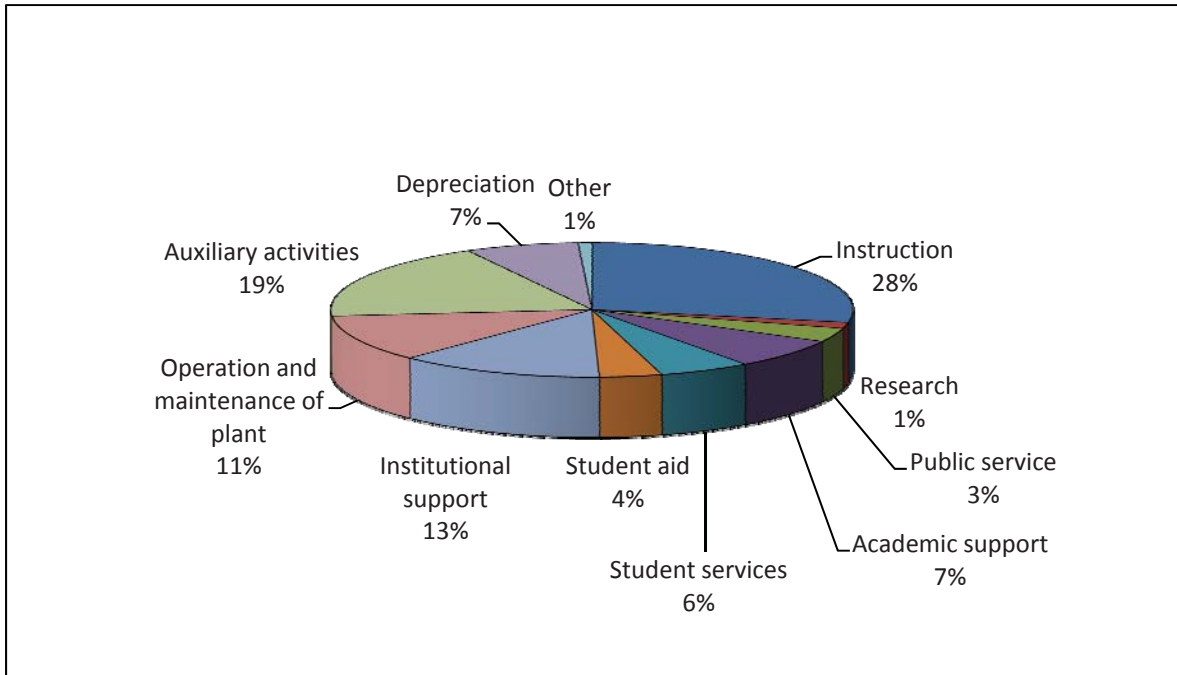
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled approximately \$54.3 million for the 2016 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2016:



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

Operating expenses totaled approximately \$49.8 million for the 2016 fiscal year. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2016:



The Statements of Net Position

The statements of net position include all assets and liabilities. Over time, increases or decreases in net position (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with operating measures such as enrollment levels and the physical condition of facilities.

	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 17,915,465	\$ 15,891,070	\$ 14,496,814
Capital assets, net	51,522,664	45,548,030	46,972,775
Other noncurrent assets	<u>12,571,613</u>	<u>12,933,949</u>	<u>13,003,068</u>
Total Assets	<u>\$ 82,009,742</u>	<u>\$ 74,373,049</u>	<u>\$ 74,472,657</u>
Deferred outflows of resources	<u>\$ 1,618,941</u>	<u>\$ 1,168,307</u>	<u>\$ -</u>
Liabilities			
Current liabilities	\$ 6,232,674	\$ 5,977,828	\$ 5,082,215
Noncurrent liabilities	19,740,808	20,968,044	22,347,453
Net pension obligation	<u>17,182,038</u>	<u>10,866,926</u>	<u>-</u>
Total liabilities	<u>\$ 43,155,520</u>	<u>\$ 37,812,798</u>	<u>\$ 27,429,668</u>
Deferred inflows of resources	<u>\$ 6,647</u>	<u>\$ 1,044,758</u>	<u>\$ -</u>
Net position			
Net investment in capital assets	\$ 33,057,999	\$ 25,841,499	\$ 25,754,352
Restricted, nonexpendable	205,367	205,327	205,327
Restricted, expendable	16,015,740	15,881,827	16,108,148
Unrestricted	<u>(8,812,590)</u>	<u>(5,244,853)</u>	<u>4,975,162</u>
Total net position	<u>\$ 40,466,516</u>	<u>\$ 36,683,800</u>	<u>\$ 47,042,989</u>
Total Liabilities and Net position	<u>\$ 83,622,036</u>	<u>\$ 74,496,598</u>	<u>\$ 74,472,657</u>

Changes from 2015 to 2016:

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

Net capital assets increased by approximately \$6.0 million as a result of the annual depreciation charge of approximately \$3.5 million and asset additions of approximately \$9.5 million.

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

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

Total net position increased by approximately \$3.8 million. The University's net investment in capital assets increased approximately \$7.2 million. This is the result of the capital asset acquisitions and payments on long-term debt being greater than the depreciation charge. Restricted, expendable net position increased approximately \$134,000. Unrestricted net position decreased by approximately \$3.6 million, primarily due to an increase in net pension obligation of approximately \$6.3 million. The June 30, 2016 unrestricted net position of approximately (\$8.8) million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately (\$3.3) million, and the net pension obligation of approximately \$17.2 million.

Changes from 2014 to 2015:

Cash and cash equivalents and short-term investments, collectively, increased by approximately \$922,000 to approximately \$11.4 million. Accounts receivable increased by approximately \$82,000 from the prior year. Current assets increased approximately \$1.4 million. Management attributes the majority of the increase in current assets to an increase in State appropriations, investment income, other nonoperating revenues, and controlled spending.

Net capital assets decreased by approximately \$1.4 million as a result of the annual depreciation charge of approximately \$3.9 million and asset additions of approximately \$2.5 million.

Deferred outflows of resources reflected an increase in the net pension obligation of approximately \$124,000.

Total liabilities increased by approximately \$10.4 million, primarily due to the recognition of the net pension obligation of approximately \$10.9 million.

Total net position decreased by approximately \$10.4 million. The University's net investment in capital assets increased approximately \$87,000. This is the result of the capital asset acquisitions and payments on long-term debt being greater than the depreciation charge. Restricted, expendable net position decreased approximately \$226,000 as a result of a downturn in the investment market. Unrestricted net position decreased by approximately \$10.2 million, primarily due to the recognition of the net pension obligation of approximately \$10.9 million. The June 30, 2015 unrestricted net position of approximately (\$5.2) million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, a general fund deficit of approximately \$643,000 and the net pension obligation of approximately \$10.9 million.

The Statements of Revenues, Expenses and Changes in Net Position

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

	Year Ended June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating revenues	\$ 30,626,612	\$ 31,871,543	\$ 31,098,907
Total operating expenses	<u>49,801,356</u>	<u>49,643,772</u>	<u>48,430,869</u>
Operating loss	(19,174,744)	(17,772,229)	(17,331,962)
Net nonoperating revenues	<u>16,505,967</u>	<u>16,607,832</u>	<u>17,468,855</u>
Income (loss) before other revenues	(2,668,777)	(1,164,397)	136,893
Total other revenues	<u>6,451,493</u>	<u>1,419,118</u>	<u>645,764</u>
Increase in net position	3,782,716	254,721	782,657
Net position, beginning of year	36,683,800	47,042,989	46,260,332
Cumulative effect of change in accounting principal	<u>-</u>	<u>(10,613,910)</u>	<u>-</u>
Net position, end of year	<u>\$ 40,466,516</u>	<u>\$ 36,683,800</u>	<u>\$ 47,042,989</u>

Changes from 2015 to 2016:

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

Operating expenses increased by approximately \$158,000. Operation and maintenance of plant increased by approximately \$262,000, research expenses decreased by approximately \$50,000, and auxiliary activities decreased by approximately \$157,000 from 2015.

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

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

Changes from 2014 to 2015:

Operating revenues increased by approximately \$773,000. Tuition and fees, net of scholarship allowances, decreased by approximately \$469,000 or 3.0% after a tuition rate increase of 2.61% and a slight decrease in enrollment. Scholarship allowances increased approximately \$799,000 from the prior year. Auxiliary activities, net of scholarship allowances, increased by approximately \$588,000 or 7.0% after a 3.37% room and board rate increase and a slight increase in housing occupancy.

Operating expenses increased by approximately \$1.2 million. Operation and maintenance of plant increased by approximately \$72,000, research expenses increased by approximately \$22,000 and auxiliary activities increased by approximately \$126,000 from 2014.

Net nonoperating revenues decreased by approximately \$861,000. State appropriations increased by approximately \$675,000. Investment income, net of investment expenses, decreased by approximately \$1.7 million from 2014.

The net result of operations for the year was an increase in net position of approximately \$255,000.

The Statements of Cash Flows

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

	Year Ended June 30		
	2016	2015	2014
Cash from:			
Operating activities	\$ (10,092,278)	\$ (13,039,816)	\$ (13,459,081)
Noncapital financing activities	17,002,954	16,844,643	16,140,078
Capital and related financing activities	(7,110,283)	(3,217,851)	(2,986,153)
Investing activities	<u>2,830,836</u>	<u>92,253</u>	<u>621,796</u>
Net change in cash and cash equivalents	2,631,229	679,229	316,640
Cash and cash equivalents, beginning of year	<u>2,262,709</u>	<u>1,583,480</u>	<u>1,266,840</u>
Cash and cash equivalents, end of year	<u>\$ 4,893,938</u>	<u>\$ 2,262,709</u>	<u>\$ 1,583,480</u>

Changes from 2015 to 2016:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants and contracts, and the return of excess pension contributions. Net cash from operating activities for the year ended June 30, 2016 was approximately \$10.1 million, decreasing moderately from the prior year. Uses of cash from operating activities include payments to employees, vendors, and students.

The net cash from noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was approximately \$17.0 million for the year ended June 30, 2016, up approximately \$158,000 from 2015. The University received approximately \$396,000 more in State appropriations and approximately \$349,000 less in Federal Pell grants than in 2015.

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

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

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

Changes from 2014 to 2015:

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities for the year ended June 30, 2015 was approximately \$13.0 million, decreasing moderately from the prior year. Uses of cash from operating activities include payments to employees, vendors, and students.

The net cash provided by noncapital financing activities, which consisted primarily of State appropriations and Federal Pell grants, was approximately \$16.8 million for the year ended June 30, 2015, up approximately \$705,000 from 2014. The University received approximately \$608,000 more in State appropriations and approximately \$67,000 more in Federal Pell grants than in 2014.

Net cash used in capital and related financing activities increased by approximately \$232,000 from 2014. The University spent approximately \$2.3 million on capitalized improvements in 2015 and approximately \$1.2 million in 2014.

Cash provided by investing activities decreased by approximately \$530,000. The decrease is mostly attributable to a decrease of approximately \$1.5 million in the proceeds from sales and maturities of investments and a decrease of approximately \$774,000 in the purchases of investments from 2014.

Overall, cash and cash equivalents increased by approximately \$679,000 for the year ended June 30, 2015.

Factors That Will Affect the Future

Dr. Tom Pleger is entering his third year as Lake Superior State University's eighth president. Dr. Pleger continues to embrace the mission and vision of the University, and he and his team have made changes that have increased communication, collaboration, structure, efficiency, and transparency.

Matthew Jurvelin, Vice President for Enrollment and Student Services, joined the University at the beginning of the 2016 fiscal year. As part of a restructuring effort, Mr. Jurvelin replaced two existing vice president positions, the Vice President for Enrollment and the Vice President for Student Services, due to both of those positions becoming vacant. The positions were combined to increase efficiency and student service support in the areas of recruitment and retention. Mr. Jurvelin comes from the University of Wisconsin-Baraboo where he was the Assistant Dean for Student Services. He has a background in enrollment management and student affairs and has worked at institutions in the University of Wisconsin System ranging from 600 to 14,000 students.

Maurice Walworth was moved from the Provost position to the Vice President of Finance position in January 2016. He was tasked with balancing the 2016-2017 budget (reducing about \$2.5 million from the 2016 budget), managing the South Hall project (declaring DeVere in default and working with legal council to implement a "takeover agreement"), and working with the other vice-presidents to develop an institutional restructuring plan. During this time, he noted that the University had about a \$2.0 million structural deficit and had not budgeted for its portion of the South Hall project (\$1.5 million).

David Roland Finley, Ph.D., PE was appointed Interim Provost and Vice President for Academic Affairs (VPAA) in January 2016. Dr. Finley continues to serve as Academic Dean - Business, Engineering. Prior to joining the University, Dr. Finley served as VPAA at Trine University for 7.5 years. During that time, enrollment at the institution grew 33%. Dr. Finley previously served as both dean and chair at Trine, all the while earning promotions from Assistant to Full Professor. Dr. Finley began his career in private industry. Dr. Finley has been charged by the President to implement a restructuring of the academic units on campus to create greater efficiency, greater interdisciplinary collaboration, and increase service to students.

Both Dr. Finley and Mr. Walworth are interim one-year appointments.

Academic Initiatives and Highlights:

Reorganization within Academic Affairs earlier this summer was a key component of an overall University reorganization to foster synergism, obtain efficiencies, and improve services. A two college structure has been created with the establishment of the College of Arts and Sciences and the College of Professional Studies. It is planned that the former college will lead general education innovation. The latter college is further divided into the Division of Health and Safety and the Division of Professional Studies and Outreach. These realignments have already begun to result in the synergism sought.

The Higher Learning Commission (HLC) will visit the University in November 2016. A small, dedicated team of faculty and staff, led by the Associate Provost, make up an Accreditation Review Team (ART) that has written the University's Assurance Argument and Federal Compliance Report. Final review and editing of these documents is now in process. HLC accreditation is the main institutional accreditation of the University, and meeting HLC's requirements and criteria is taken seriously. The accreditation process provides the University with an opportunity for critical reflection leading to improvement.

The University is in the final stages of approval to offer a Master of Business Administration degree. This initiative, begun in 2013, will culminate with application to the Higher Learning Commission this fall. Evaluators will consider this request when they visit in November 2016. All necessary internal approvals, as well as Michigan Association of State Universities approval, have been obtained.

The University continues renovation of a facility to house the Lukenda School of Business. South Hall, renamed R.W. Considine Hall, is scheduled for spring 2017 occupancy. The \$13.5 million project, in the heart of the University's campus, will bring much needed classroom and student/faculty collaboration space to campus. It will be a vibrant gathering place for all of campus and the surrounding community, with amenities such as a café, board room, project rooms, and other flexible, adaptable learning spaces.

Capital Outlay Planning Authority was granted by the State of Michigan for the Center for Freshwater Resources and Education (CFRE). This approximately \$12.0 million project, which will renovate an existing building supporting the local hydroelectric plant, has been in the works for at least ten years. When completed, this will be a phenomenal education and research facility on the Saint Marys River near downtown Sault Ste. Marie. Discussion is also underway to expand the Nursing Simulation program in partnership with War Memorial Hospital. This would entail a \$1.6 million renovation of the downtown Ganzhorn building by the hospital, as well as enhanced services for local health care providers.

Modest strategic investments have been made in the University Arts Center, including additional staff, stipends for key staff, and purchase of a new digital projector. This has resulted in a new level of energy and excitement in this vital area of campus. This facility has now been 'discovered' by many more members of the Twin Saults community and beyond. Some of the notable events hosted in the past six months include: Almost Maine (play); movement, text, image (student production); Dervish; Glenn Miller Band; the Sault Arts Festival; and the Weekend Movies Series. The Arts Center will play a critical role in the President's initiatives of increasing the University's visibility and connections to the Sault Ste. Marie and greater Eastern Upper Peninsula region.

The Michigan Transfer Agreement (MTA) will be accepted as meeting University General Education requirements in total. This recommendation was made by the General Education Committee, and it is one that ought to bolster the number of transfer students who choose to attend LSSU.

Meijer Corporation will be opening a new store in Sault Ste. Marie, MI this coming year. Officials within the organization have indicated preliminary support of both athletic event sponsorship and student activities sponsorship. Moreover, Meijer officials have also expressed interest in co-branding throughout northern Michigan.

University faculty and staff continue to write grant applications and have been very successful in receiving funding for research and academic purposes. Over \$1.3 million in grants and contracts were secured this past year. Our largest ongoing grant is the competitive Title III grant. In conjunction with one of many Title III grant objectives, a team of faculty staff and administrators are engaged in a research project to identify momentum points for student progress. This and other Title III objectives, such as establishing a Student Learning Commons and implementing greater advising support for students, are expected to have a significant positive impact on student retention. Other notable grants/gifts include a new Fanuc robotics line valued at \$250,000 and the gift of two new Kuka robots.

The University is replacing the ACT high school assessment with the SAT in accordance with a recent state decision. This decision has posed challenges for all Michigan universities, and the University is responding favorably. This change impacts many areas of campus. The University is also working to align its challenge testing with the SAT.

Finally, the University will be implementing Ellucian Degree Works software this coming year. Degree Works is a comprehensive academic advising, transfer articulation, and degree audit solution that aligns students, advisors, and institutions to a common goal: helping students graduate on time. This important initiative is expected to bolster student retention.

Enrollment and Student Affairs:

Reorganization continued within Enrollment and Student Affairs earlier this summer and was a key component of an overall University reorganization to foster synergism, obtain efficiencies, and improve services. As previously noted, Mr. Jurvelin replaced two existing VP positions, the Vice President for Enrollment and the Vice President for Student Services, due to both of those positions becoming vacant. Focus within the divisional reorganization was primarily focused on program and event management along with greater shared recruitment and retention efforts. The primary additions to the division to aid in this transition were Norris Center administration oversight in addition to Integrated Marketing (formerly Graphics and Public Relations offices).

Scott Korb, Director of Campus Life and Housing, has been given additional responsibility by assuming accountability for Summer Edventures, Sodexo Food Service, Cisler University Center, UREC (University Recreation – Club Sports, Rec Sports, Intramurals), and Norris Center Administration. Annette Hackbarth-Onson, Director of Admissions, adds oversight to Integrated Marketing, Native American Center, and the office of Orientation, Retention, and Advising. These changes continue our efforts towards increased communication and collaboration as it relates to supporting student success and persistence. It also should allow for a more comprehensive and cohesive short and long-term programming across the University, with both campus and community members noticing this conscious change in University program and event management and integrated marketing.

Enrollment continues to decline slightly but there are several new initiatives in place beyond the reorganization that will make the University better known for its quality programs and affordability.

One example is the University being the first university in the state to establish a set tuition rate for all North American students. Echoing calls from government and business leaders, the University's Board of Trustees approved a North America tuition initiative designed to attract academically talented students to enhance Michigan's economy, intellectual capital, and overall environment. The "One Rate at Lake State" program, live since fall semester 2015, will make the unique opportunities available at the University open and affordable to a wider range of students. The University has the lowest average net-price for low-income students at Michigan's 15 public universities, according to the U.S. Department of Education.

A second example is a relook and revamp of our scholarship and financial aid parameters by looking ahead to the fall 2017 offers that we will be making beginning this October/November with the earlier FAFSA schedule. The University self-funds financial aid for students and hasn't adjusted parameters or rates for over five years. Efforts to predicatively model changes to scholarships and leverage them to increase enrollment is a significant piece to steadying and growing enrollment on campus despite the precipitous drops in high school graduating classes across our service region.

Lastly, we are working with outside professional marketing organizations to increase our brand awareness, digital presence, and overall visibility within the higher education market. Our integrated marketing approach will seek to reach beyond our campus walls for some of this expertise, seeking to expand on our traditional approaches to advertising and marketing. Efforts to improve our social media presence in addition to expanding our potential student market beyond Michigan can potentially bring significant return on investment if we build relationships with such companies. We have been running campaigns with Charter Spectrum and have renewed contracts with them, while also seeking to diversify by exploring the abilities of similar companies.

Lake Superior State University has lost over a thousand students in the last thirteen years. The trend of enrollment decline combined with lower high school graduating classes upcoming in addition to our campus budget issues have required the Enrollment Services and Student Affairs division to take strong, bold, but common sense approaches to finding balance and purpose. Our number one effort is in retaining those students that enroll with us. Our reorganization should assist in providing better service and communication along with awareness of issues, thus increasing student persistence, therefore increasing enrollment. Any growth from our current 72% freshman to sophomore retention will be of benefit. The reorganization adjustments and changes should also increase awareness of our university brand, location, programs, and value. Greater presence and recognition should increase applications, yield, and ultimately, enrollment.

Institutional:

The 20-year Master Plan which will help direct the University on prioritized capital projects for the future and provide a roadmap for its facilities, grounds, and infrastructure was completed this spring (March 2016). The Plan will help the University better connect with the community, evaluate traffic and parking on and around campus, and improve the overall appearance of the campus. The need to engage a firm to assist with master planning had been recognized for some time but funds were not available to take on a project like this. The Master Plan was made possible by a generous donation from a University stakeholder.

The University is one of the seven Michigan public universities in the Michigan Public School Employees Retirement System (MPSERS). Included in the fiscal year 2016 appropriations budget is funding and the recommendation to enact legislation that will cap universities contribution rate at 25.73%. This is the rate universities were paying in 2012 and is a similar treatment to that afforded to community colleges and K-12 in PA300 of 2012. The seven universities have worked together to make this happen and will continue working on retiree health care reform. In addition, the seven universities were informed that they had significantly overpaid a portion of their contributions. A refund of \$3.4 million was realized in the 16 fiscal year.

In the process of presenting a 2016-2017 balanced General Fund budget, changes were made that will make the finances of the University sustainable. The University has gone through significant restructuring involving eliminating some positions or combining various departments or positions. The 2016 General Fund budget (\$38.5 million) was cut to \$36.2 million for 2017.

Two new positions were funded (and filled) in our newly created Institutional Research and Business Analytics unit. Additionally, the University has purchased Rapid Insight (predictive modeling software) and Qlik (data visualization software) as tools that will work with our BANNER and ARGOS systems. Although the two members have only been with the University a few months, we have already seen a number of positive outcomes, such as better access to data, modeling of financial aid distribution, real-time reports for admissions staff, and development of simple reports for budget monitoring.

In conclusion, budgets and enrollment continue to be challenging. The University is committed to ensuring a viable future and has begun to take steps as necessary. The budget reductions, reorganization, strategic investments (business analytics), and a focus on enrollment and retention are all just first steps in the journey. Looking toward the future, we have a new Business Building scheduled to open this winter, a commitment from the State for a new Science Building (CFRE), and are confident that the Nursing Simulation Facility will become a reality. We will continue to look for efficiencies in our operations and to become an integral and essential part of the community, the Eastern Upper Peninsula, and the State of Michigan.

Report of Independent Auditors

Board of Trustees
Lake Superior State University

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Superior State University (University), a component unit of the State of Michigan, and Lake Superior State University Foundation (Foundation), a discretely presented component unit of the University, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake Superior State University and its discretely presented component unit, Lake Superior State University Foundation, as of June 30, 2016 and 2015, and the respective changes in financial position and Lake Superior State University cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 13 and the Required Supplementary Information on page 60 (Schedule of the University's Proportionate Share of the Net Pension Obligation, Schedule of University's Contributions, and Notes to Required Supplementary Information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 on our consideration of Lake Superior State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Midland, Michigan
December 16, 2016

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

	As of June 30	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 4,893,938	\$ 2,262,709
Short-term investments	6,811,001	9,135,180
Accounts receivable, net	1,131,834	1,374,689
State appropriations receivable	4,542,450	2,324,094
Inventories	388,517	389,802
Other	147,725	404,596
Total current assets	17,915,465	15,891,070
Noncurrent assets		
Student loans receivable, net	2,260,248	2,220,122
Endowment investments	10,075,523	10,463,245
Unamortized bond insurance costs	235,842	250,582
Land, construction in progress and art collection	12,727,458	4,554,189
Depreciable capital assets, net	38,795,206	40,993,841
Total noncurrent assets	64,094,277	58,481,979
Total assets	\$ 82,009,742	\$ 74,373,049
Deferred outflows of resources	\$ 1,618,941	\$ 1,168,307
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,903,057	\$ 2,917,914
Unearned revenue	798,318	1,165,350
Deposits	208,130	192,143
Current portion of long-term debt	1,093,169	1,457,421
Current portion of employee benefit programs	230,000	245,000
Total current liabilities	6,232,674	5,977,828
Long-term debt, net of current portion	18,777,599	19,681,055
Employee benefit programs, net of current portion	963,209	1,286,989
Net pension obligation	17,182,038	10,866,926
Total liabilities	\$ 43,155,520	\$ 37,812,798
Deferred inflows of resources	\$ 6,647	\$ 1,044,758
Net position		
Net investment in capital assets	\$ 33,057,999	\$ 25,841,499
Restricted		
Nonexpendable		
Scholarships and research	205,367	205,327
Expendable		
Scholarships and research	11,311,674	11,589,435
Loans	3,047,297	2,978,634
Capital projects and debt service	1,656,769	1,313,758
Unrestricted	(8,812,590)	(5,244,853)
Total net position	\$ 40,466,516	\$ 36,683,800

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2016	2015
Operating revenues		
Tuition and fees (net of scholarship allowances of \$7,656,870 in 2016 and \$8,361,379 in 2015)	\$ 14,444,282	\$ 15,160,349
Federal grants and contracts	1,607,710	1,712,776
State grants and contracts	147,308	151,257
Nongovernmental grants and contracts	4,095,742	4,098,449
Auxiliary activities (net of scholarship allowances of \$813,692 in 2016 and \$645,363 in 2015)	9,332,536	9,618,529
Other	999,034	1,130,183
Total operating revenues	30,626,612	31,871,543
Operating expenses		
Instruction	13,971,285	13,500,741
Research	716,397	766,524
Public service	1,669,704	1,599,180
Academic support	3,583,936	3,470,903
Student services	2,815,209	2,601,357
Student aid	1,919,526	2,209,799
Institutional support	6,316,666	5,977,715
Operation and maintenance of plant	5,596,514	5,334,587
Auxiliary activities	9,274,947	9,431,738
Depreciation	3,497,703	3,918,717
Other	439,469	832,511
Total operating expenses	49,801,356	49,643,772
Operating loss	(19,174,744)	(17,772,229)
Nonoperating revenues (expenses)		
State appropriations	13,269,782	12,896,965
Federal Pell grants	3,639,364	3,988,914
Interest on capital debt and leases	(673,496)	(705,644)
Amortization of prepaid bond insurance	(14,740)	(14,740)
Investment income, net of investment expenses	118,935	388,838
Gifts for endowments	170,080	58,608
Loss on assets sold or retired	(3,958)	(5,109)
Net nonoperating revenues	16,505,967	16,607,832
Loss before other revenues	(2,668,777)	(1,164,397)
Other revenues		
Capital appropriations	5,452,953	-
Capital grants and gifts	998,540	1,419,118
Total other revenues	6,451,493	1,419,118
Increase in net position	3,782,716	254,721
Net position, beginning of year	36,683,800	47,042,989
Cumulative effect of change in accounting principle	-	(10,613,910)
Net position, beginning of year - restated	36,683,800	36,429,079
Net position, end of year	\$ 40,466,516	\$ 36,683,800

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
Cash flows from operating activities		
Tuition and fees	\$ 14,330,316	\$ 15,134,522
Grants and contracts	5,810,198	5,868,409
Payments to employees	(29,846,269)	(28,590,635)
Payments to vendors	(12,283,000)	(14,136,166)
Payments for financial aid	(1,919,526)	(2,209,799)
Loans issued to students	(570,606)	(477,030)
Collections of interest and principal on loans to students	530,480	585,393
Auxiliary activities	9,357,672	9,631,225
Return of excess pension contributions	3,479,203	-
Other receipts	1,019,254	1,154,265
Net cash from operating activities	(10,092,278)	(13,039,816)
Cash flows from noncapital financing activities		
State appropriations	13,192,528	12,796,691
Federal Pell grants	3,640,346	3,989,344
Gifts for endowments	170,080	58,608
Federal Direct Lending receipts	10,256,174	11,460,530
Federal Direct Lending disbursements	(10,256,174)	(11,460,530)
Net cash from noncapital financing activities	17,002,954	16,844,643
Cash flows from capital and related financing activities		
Capital appropriations received	3,311,851	-
Capital grants and gifts received	864,928	1,361,754
Purchases and construction of capital assets	(9,054,248)	(2,334,324)
Proceeds from disposal of capital assets	10,721	108,603
Principal paid on debt and capital leases	(1,541,022)	(1,619,285)
Interest paid on debt and capital leases	(702,513)	(734,599)
Net cash from capital and related financing activities	(7,110,283)	(3,217,851)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	12,174,960	8,712,786
Purchases of investments	(9,738,003)	(9,078,896)
Investment income, net	393,879	458,363
Net cash from investing activities	2,830,836	92,253
Net change in cash and cash equivalents	2,631,229	679,229
Cash and cash equivalents, beginning of year	2,262,709	1,583,480
Cash and cash equivalents, end of year	\$ 4,893,938	\$ 2,262,709

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

LAKE SUPERIOR STATE UNIVERSITY
STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
Reconciliation of operating loss to net cash from operating activities		
Operating loss	\$ (19,174,744)	\$ (17,772,229)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,497,703	3,918,717
Provision for uncollectible accounts and student loans receivables	74,242	60,607
Gain on repossession of property	-	(30,998)
Pension expense adjustment	4,826,367	129,467
Change in assets and liabilities:		
Accounts receivable, net	122,612	(181,964)
Student loans receivable, net	4,893	69,510
Inventories	1,285	41,189
Other	256,871	(331,167)
Accounts payable and accrued expenses	988,318	970,720
Unearned revenue	(367,032)	98,618
Deposits	15,987	9,468
Employee benefit programs	(338,780)	(21,754)
Net cash from operating activities	\$ (10,092,278)	\$ (13,039,816)
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	\$ 133,612	\$ 57,363
Entered into capital leases to purchase capital equipment	\$ 299,156	\$ 107,392
Receipt of repossessed property in satisfaction of outstanding receivable	\$ -	\$ 77,605

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 324,721	\$ 381,971
Short-term investments	1,576,280	2,160,350
Other current assets	16,798	16,798
Current portion of unconditional promises to give, net	89,303	78,027
Total current assets	2,007,102	2,637,146
Noncurrent assets		
Investments	12,885,098	11,172,785
Unconditional promises to give, net of current portion	124,905	106,542
Beneficial interest in charitable remainder trust	346,206	340,335
Total noncurrent assets	13,356,209	11,619,662
Total assets	\$ 15,363,311	\$ 14,256,808
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 8,818	\$ 11,372
Employee benefit programs	20,788	20,362
Total current liabilities	29,606	31,734
Annuity obligations	40,964	45,039
Total liabilities	70,570	76,773
Net assets		
Restricted		
Permanently	10,188,507	8,276,458
Temporarily	4,490,099	5,275,832
Unrestricted	614,135	627,745
Total net assets	15,292,741	14,180,035
Total liabilities and net assets	\$ 15,363,311	\$ 14,256,808

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2016	2015
Operating revenues		
Contributions	\$ 3,141,858	\$ 3,332,419
Change in value of split interest agreements	8,561	(8,638)
Total operating revenues	3,150,419	3,323,781
Operating expenses	499,365	507,603
Operating income	2,651,054	2,816,178
Nonoperating revenues (expenses)		
Investment income, net	544,532	407,001
Net unrealized losses on investments	(484,599)	(32,424)
Distributions to Lake Superior State University	(1,598,281)	(2,132,739)
Net nonoperating revenues (expenses)	(1,538,348)	(1,758,162)
Increase in net assets	1,112,706	1,058,016
Net assets, beginning of year	14,180,035	13,122,019
Net assets, end of year	\$ 15,292,741	\$ 14,180,035

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As required by the Governmental Accounting Standards Board (GASB), the University's financial statements include the financial statements of both the University and its legally separate tax-exempt component unit, the *Lake Superior State University Foundation* (Foundation). As a result of a) the Foundation's Board of Trustees is drawn primarily from community representatives, independent from the governance of the University's Board of Trustees and b) 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 Internal Revenue Service, an agency of the Department of the Treasury of the United States, determined on August 9, 1985, that the Foundation was a tax-exempt organization under section 501(c)(3) of the tax code. The Foundation exclusively benefits the University; however, its Board of Directors is not substantively the same as that of the University. The Foundation is discretely presented in the University's financial statements in accordance with the provisions of GASB 61. See pages 20 and 21 of this report for the statements of financial position and statements of activities of the Foundation.

Contributions to the University by the Foundation have been made in the amount of \$1,598,281 during 2016 and \$2,132,739 during 2015. Support from the University provided to the Foundation amounted to \$408,451 during 2016 and \$404,355 during 2015.

Basis of Presentation - University

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

In accordance with U.S. generally accepted accounting principles, the University follows all applicable GASB pronouncements. In applying these accounting pronouncements, the University follows the guidance for special purpose governments engaged only in "business-type" activities rather than issuing financial statements that focus on accountability of individual funds.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle - University

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires the University to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB Statement No. 68 requiring the University to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the GASB Statements, the University has reported a net pension liability of \$10,613,910 as a cumulative effect of a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

Basis of Presentation - Foundation

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

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the accounts receivable allowance, pension liability, and insurance reserves.

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of less than one year and liquid bond/fixed income funds.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Endowment Investments

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

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

<u>Classification</u>	<u>Life</u>
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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of outflows related to the University's multi-employer net pension obligation and totaled \$1,618,941 as of June 30, 2016 and \$1,168,307 as of June 30, 2015. Deferred inflows of resources consist of inflows related to the University's multi-employer net pension obligation and totaled \$6,647 as of June 30, 2016 and \$1,044,758 as of June 30, 2015. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members.

Net Pension Obligation

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Revenue Recognition

Revenues are recognized when earned and expenses are recognized when the service is provided or when materials are received. Restricted grant revenue is recognized only to the extent expended. Operating revenues of the University consist of tuition and fees, grants and contracts, auxiliary enterprise revenues, and other revenue. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, and Federal Pell grant revenue are components of nonoperating revenue. Restricted and unrestricted resources are allocated to the appropriate departments within the University which are responsible for adhering to any donor restrictions.

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

The University received \$62,980,925 during 2016 and \$63,670,140 during 2015 (net of a 3.0% administrative fee retained by the University), of State appropriations which were forwarded to 22 charter schools. The University also received \$100,000 in State appropriations for Bay Mills Community College during fiscal years 2016 and 2015, which was forwarded to Bay Mills Community College on a monthly basis when received. Appropriations received and related disbursements passed on to the charter schools and Bay Mills Community College are considered agency transactions and, accordingly, are not reported in the financial statements.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 noncash assets at their appraised or fair value as of the date of the gift.

Unearned Revenue

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

Income Taxes

The University is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code section 501(c)(1), 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 2016 or 2015.

The Foundation is also exempt from federal income taxes under Section 501(c)(3) and qualifies as an organization operated for the benefit of a college or University owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv). Accordingly, no provision for income taxes has been recorded in the financial statements. Certain activities of the Foundation may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2016 or 2015.

ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. The Foundation analyzes its filing positions in the state jurisdictions where it is required to file income tax returns, including tax years 2012 through 2016 in these jurisdictions. The Foundation also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of operating expenses. The continued application of ASC Topic 740 has had no significant impact on the Foundation's financial statements.

Split-Interest Agreements

Beneficial Interest in Charitable Remainder Trust

The Foundation is a beneficiary of certain irrevocable charitable remainder trusts. Contribution revenue was recognized at the date the trust was established based on the expected present value of the Foundation's interest in the trust assets. Changes in the value of the assets and other changes in the estimates of future receipts are reported in the statements of activities of the Foundation.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Annuity Obligations

The Foundation's annuity and life income agreements require payments during the life of the annuitant at various rates up to 7.0% of the principal amounts. The annuity obligations payable is reported at the present value of the future payments based on life expectancy tables and an implied discount rate of 5.8%. Changes in the value of annuity obligations payable are reported in the statements of activities of the Foundation.

Fair Value Measurements

As required by ASC Topic 820, *Fair Value Measurements*, the Foundation has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). For a further discussion of ASC Topic 820, refer to Note 5.

Foundation Net Assets

The net assets and revenues, gains, and losses of the Foundation are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation have been grouped into the following three classes:

Unrestricted net assets – Generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily restricted net assets – Generally result from contributions, unrealized and realized gains and losses, and dividends and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. Temporarily restricted assets are released from restrictions by the passage of time or by actions of the Foundation, pursuant to the donors' stipulations.

Permanently restricted net assets – Generally result from contributions and other inflows of assets that represent permanent endowments where use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

In preparing these financial statements, Foundation management has evaluated, for the potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of financial position presented herein, through December 16, 2016, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNIVERSITY

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

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

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

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – UNIVERSITY (continued)

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

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

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

	2016	2015
Disbursement accounts	\$ 1,776,198	\$ 502,916
Money market funds	3,117,740	1,759,793
Total cash and cash equivalents	\$ 4,893,938	\$ 2,262,709

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

	2016	2015
<u>University short-term investments</u>		
Certificates of deposit	\$ 505,877	\$ 757,571
Mutual funds		
Bond/fixed income funds	6,305,124	8,377,609
Total University short-term investments	\$ 6,811,001	\$ 9,135,180
	2016	2015
<u>University endowment investments</u>		
Mutual funds		
Equity funds	\$ 6,372,992	\$ 6,492,177
Bond/fixed income funds	2,385,800	2,672,225
Exchange traded funds	1,214,118	1,255,201
Money market funds	102,613	43,642
Total University endowment investments	\$ 10,075,523	\$ 10,463,245

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – UNIVERSITY (continued)

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

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

As of June 30, 2015, the University had the following investments with related maturities:

	Fair Market Value	Maturities (in Years)		
		Less Than 1	1-5	6-10
Money market funds	\$ 1,759,753	\$ 1,759,753	\$ -	\$ -
Bond/fixed income funds	11,093,476	8,377,609	-	2,715,867
Total investments	\$12,853,229	\$10,137,362	\$ -	\$2,715,867

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 – Deposit custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution in which it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of June 30, 2016, \$675,294 of the University's bank balance of \$4,428,308 was exposed to custodial credit risk because it was uninsured and uncollateralized.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – UNIVERSITY (continued)

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

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

Foreign Currency Risk – The University’s exposure to foreign currency risk is derived from its positions in international investments consisting solely of foreign currency denominated mutual fund equity investments. The University’s investment policy permits investments in these asset types. As of June 30, 2016 the University held 44,379 and 41,185 units as of June 30, 2015 of the EuroPacific Growth Fund Class F (Security identifier: AEGFX) with a fair value of \$1,948,254 as of June 30, 2016 and \$2,066,685 as of June 30, 2015. 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 statements of net position and all international investments are equity investments held through mutual funds.

Policies regarding marketable securities in the University endowment investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds, or other marketable securities. The University endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the original gift principal. The spending policy is reviewed periodically by the Finance Committee, which recommends changes to the Board of Trustees. The net appreciation on University investments of donor-restricted endowments approximated \$2,006,000 as of June 30, 2016 and \$2,633,000 as of June 30, 2015. Net appreciation is a component of restricted, expendable net position.

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	2.4%	2.4%
Net realized and unrealized (losses) gains	<u>(3.8)</u>	<u>0.8</u>
Total investment (loss) gain	<u>(1.4)%</u>	<u>3.2%</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – UNIVERSITY (continued)

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

3. FAIR VALUE MEASUREMENTS – UNIVERSITY INVESTMENTS

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

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

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

Level 3 – Unobservable inputs for an asset or liability.

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

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

4. INVESTMENTS - FOUNDATION

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

	<u>2016</u>	<u>2015</u>
Mutual funds		
Index funds	\$ 2,621,718	\$ 2,308,136
Growth funds	4,105,498	3,702,070
Bond/fixed income funds	5,104,389	5,459,204
Exchange traded funds	1,669,259	1,272,542
Value funds	655,786	566,583
Money market	<u>283,796</u>	<u>5,005</u>
Subtotal	14,440,446	13,313,540
Marketable securities	<u>20,932</u>	<u>19,595</u>
Total Foundation investments	<u>\$ 14,461,378</u>	<u>\$ 13,333,135</u>

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

	<u>2016</u>	<u>2015</u>
Mutual funds		
Index funds	\$ 23,034	\$ 108,170
Growth funds	(427,668)	53,806
Bond/fixed income funds	15,571	(60,724)
Exchange traded funds	(40,597)	(121,431)
Value funds	<u>(56,276)</u>	<u>(14,072)</u>
Subtotal	(485,936)	(34,251)
Marketable securities	<u>1,337</u>	<u>1,827</u>
Total Foundation unrealized losses	<u>\$ (484,599)</u>	<u>\$ (32,424)</u>

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to investments and the beneficial interest in charitable remainder trust and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS (continued)

Fair Value Hierarchy - Under ASC Topic 820, the Foundation groups its assets at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets recorded at fair value:

Investments: Fair value measurement is based upon quoted prices, if available. Level 1 investments include mutual funds and marketable securities. Level 3 investments include bond/fixed income fund where fair value is based on a value provided by a third-party investment manager. The value is quoted on a private market that is not active.

Beneficial Interest in Charitable Remainder Trust: Fair value measurement is based upon the fair value of the underlying investments in the trusts, an estimated rate of return, anticipated future payments to be made to beneficiaries, living beneficiaries' life expectancies, and an assumed discount rate as discussed further in Note 8.

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 2,308,136	\$ -	\$ -	\$ 2,308,136
Growth funds	3,702,070	-	-	3,702,070
Bond/fixed income funds	4,907,203	-	552,001	5,459,204
Exchange traded funds	1,272,542	-	-	1,272,542
Value funds	566,583	-	-	566,583
Money market	5,005	-	-	5,005
Marketable securities	<u>19,595</u>	<u>-</u>	<u>-</u>	<u>19,595</u>
Total investments at fair value	<u>\$12,781,134</u>	<u>\$ -</u>	<u>\$ 552,001</u>	<u>\$13,333,135</u>
Beneficial Interest in				
Charitable Remainder Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340,335</u>	<u>\$ 340,335</u>

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2016:

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS (continued)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2015:

	<u>Bond/Fixed Income Fund</u>	<u>Beneficial Interest in Charitable Remainder Trust</u>
Balance, beginning of year	\$ 427,592	\$ 350,948
Unrealized gains relating to investments held at year end	13,409	-
Net purchases	111,000	-
Change in value	<u>-</u>	<u>(10,613)</u>
Balance, end of year	<u>\$ 552,001</u>	<u>\$ 340,335</u>

6. ACCOUNTS AND STUDENT LOAN RECEIVABLES

Accounts receivable result primarily from student tuition and fee billings and auxiliary enterprise sales, such as food service and student residence. In addition, receivables arise from grant awards and financial aid. These receivables are reported net of an allowance for collection losses in the amount of \$582,099 as of June 30, 2016 and \$533,156 as of June 30, 2015.

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

	<u>2016</u>	<u>2015</u>
Tuition and fees	\$ 411,256	\$ 531,251
Governmental grants and contracts	390,728	514,104
Auxiliary activities	180,613	203,969
Other	80,583	83,381
Private grants and contracts	<u>68,654</u>	<u>41,984</u>
Accounts receivable, net	<u>\$ 1,131,834</u>	<u>\$ 1,374,689</u>

In addition, the University has student loans receivable in the amount of \$2,260,248 net of an allowance for uncollectible loans of \$508,709 as of June 30, 2016 and \$2,220,122, net of an allowance for uncollectible loans of \$555,949 as of June 30, 2015. Approximately 80% of student loans receivable are expected to be collected in periods beyond one year.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. UNCONDITIONAL PROMISES TO GIVE

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

	<u>2016</u>	<u>2015</u>
Unconditional promises due in less than one year	\$ 94,108	\$ 81,026
Unconditional promises due in one to five years, net of discount to net present value at 1% of \$1,950 and \$2,523	110,050	93,062
Unconditional promises due in more than five years, net of discount to net present value at 8% of \$22,145 and \$26,520	<u>14,855</u>	<u>13,480</u>
Present value of promises to give	219,013	187,568
Less allowance for uncollectible amounts	<u>4,805</u>	<u>2,999</u>
Net unconditional promises to give	214,208	184,569
Less current portion	<u>89,303</u>	<u>78,027</u>
Unconditional promises to give, net of current portion	<u>\$ 124,905</u>	<u>\$ 106,542</u>

8. CHARITABLE REMAINDER TRUST

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

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 \$346,206 as of June 30, 2016 and \$340,335 as of June 30, 2015.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

9. CAPITAL ASSETS

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

9. CAPITAL ASSETS (continued)

	2015			
	Balance			Balance
	July 1, 2014	Additions	Reductions	June 30, 2015
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ -	\$ -	\$ 838,684
Land	1,301,179	30,000	30,000	1,301,179
Art collection	576,997	25,000	-	601,997
Construction in progress	<u>610,381</u>	<u>1,201,948</u>	<u>-</u>	<u>1,812,329</u>
Total capital assets not being depreciated	<u>3,327,241</u>	<u>1,256,948</u>	<u>30,000</u>	<u>4,554,189</u>
Capital assets being depreciated				
Land improvements	5,795,958	39,545	-	5,835,503
Infrastructure	3,254,282	21,800	10,000	3,266,082
Building and building improvements	116,663,279	679,121	68,603	117,273,797
Equipment and other	<u>19,954,525</u>	<u>599,832</u>	<u>291,917</u>	<u>20,262,440</u>
Total capital assets being depreciated	145,668,044	1,340,298	370,520	146,637,822
Accumulated depreciation	<u>(102,022,510)</u>	<u>(3,918,717)</u>	<u>297,246</u>	<u>(105,643,981)</u>
Total capital assets being depreciated, net	<u>43,645,534</u>	<u>(2,578,419)</u>	<u>73,274</u>	<u>40,993,841</u>
Total capital assets, net	<u>\$ 46,972,775</u>	<u>\$ (1,321,471)</u>	<u>\$ 103,274</u>	<u>\$ 45,548,030</u>

As of June 30, 2016, construction in progress consisted of work performed on the R. W. Considine Hall (formerly South Hall), a classroom renovation project which will be home to the Lukenda School of Business. The anticipated completion date for the project is December 2016.

Construction in progress

Estimated cost of construction	\$ 13,500,000
Costs incurred through June 30, 2016	<u>9,977,139</u>
Estimated cost to complete	<u>\$ 3,522,861</u>
Expected sources of financing:	
State of Michigan funds	\$ 9,000,000
University funds and other sources	<u>4,500,000</u>
Total	<u>\$ 13,500,000</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2016	2015
Accounts payable to vendors	\$ 2,263,943	\$ 1,547,839
Payroll and payroll taxes	1,131,256	1,087,927
Health insurance claims	363,385	167,500
Interest	85,473	88,648
Workers' compensation claims	59,000	26,000
Total accounts payable and accrued expenses	\$ 3,903,057	\$ 2,917,914

Workers' Compensation

The University is self-insured for workers' compensation claims up to \$550,000 per claim as of June 30, 2016 and 2015. The accrued workers' compensation obligation represents claims made prior to June 30, 2016 and June 30, 2015, which remain unpaid at those dates. The University's third-party administrator bases these amounts upon an analysis of workers' compensation claims, which includes historical incident rates and other related factors.

11. LONG-TERM DEBT

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

11. LONG-TERM DEBT (continued)

	Interest Rate	Maturity	2015				
			July 1, 2014	Outstanding Principal		June 30, 2015	Current Portion
				Additions	Reductions		
Bonds payable							
General Revenue							
Bonds, Series 2012							
Series bonds	2.0%-4.0%	2015-2031	\$ 21,100,000	\$ -	\$ 1,245,000	\$ 19,855,000	\$ 1,270,000
Net premium on bond issuance			465,143	-	25,842	439,301	-
Total bonds payable			21,565,143	-	1,270,842	20,294,301	1,270,000
Capital leases	up to 5.24%	2015-2024	1,111,068	107,392	374,285	844,175	187,421
Total long-term debt			\$ 22,676,211	\$ 107,392	\$ 1,645,127	21,138,476	\$ 1,457,421
Less current portion of long-term debt						1,457,421	
Long-term debt, net of current portion						\$ 19,681,055	

Bonded Debt

General Revenue Bonds, Series 2012

In March 2012, the University issued fixed rate General Revenue Bonds in the amount of \$23,355,000. As of June 30, 2016, serial bonds payable in the amount of \$18,585,000 are payable from general revenues, maturing in varying amounts through November 2031, with interest charged at annual rates ranging from 2.0% to 4.0%. All of the bonds are callable after November 15, 2031.

In 2012, the University used the proceeds from above mentioned bond issue to refund \$4,670,000 and \$18,685,000 in outstanding fixed rate General Revenue Bonds, Series 1997 and 2001, respectively. As of June 30, 2016 and 2015, the certificates are considered defeased and the liability has been removed from the statements of net position. The refunding resulted in an interest savings of \$3,540,834 and a net present value savings of \$2,821,221.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

11. LONG-TERM DEBT (continued)

Debt Service Requirements

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 890,000	\$ 674,875	\$ 1,564,875
2018	910,000	655,738	1,565,738
2019	935,000	626,800	1,561,800
2020	975,000	588,600	1,563,600
2021	1,010,000	548,900	1,558,900
2022-2026	5,600,000	2,182,200	7,782,200
2027-2031	6,745,000	999,900	7,744,900
2032	<u>1,520,000</u>	<u>30,400</u>	<u>1,550,400</u>
Total bonds payable	<u>\$ 18,585,000</u>	<u>\$ 6,307,413</u>	<u>\$ 24,892,413</u>

Obligations Under Capital Leases

The University leases certain equipment with a net book value of \$898,013 as of June 30, 2016, 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 lease obligations as of June 30, 2016:

Year Ending <u>June 30</u>	<u>Amount</u>
2017	\$ 217,262
2018	202,134
2019	117,998
2020	117,998
2021	63,920
2022-2024	<u>182,512</u>
Total minimum payments due	901,824
Less amounts representing interest, imputed at annual rates ranging up to 4.0%	<u>29,515</u>
Present value of net minimum lease payments	<u>\$ 872,309</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

11. LONG-TERM DEBT (continued)

Commitments and related rental expenses under operating leases with initial or remaining non-cancelable lease terms in excess of one year for the years ended June 30, 2016 and June 30, 2015, are insignificant.

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plans

Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF)

Support personnel represented by the Michigan Education Association/National Education Association (MEA) hired after January 1, 1996, and faculty and administrative employees are eligible for the TIAA-CREF plan. TIAA-CREF is a defined contribution plan where the University contributes an amount equal to 10.0% of administrative and faculty group employees' pay (12.0% for those hired before January 1, 2010), and 10.0% of MEA employees' pay. The University contributed approximately \$1,654,000 for the year ended June 30, 2016 and \$1,679,000 for the year ended June 30, 2015. Plan participants maintain individual annuity contracts with TIAA-CREF, the plan administrator, which are fully vested.

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

Michigan Public School Employees' Retirement System

Plan Description: The University participates in the Michigan Public School Employees' Retirement System (MPSERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPSERS. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909. Separate pension information related to the University's employees included in this plan is not available. The seven participating public universities have a net pension obligation that is separated out from the system-wide MPSERS plan. The net pension obligation information included in this Note relates to the seven public universities that participate in MPSERS and not the plan as a whole.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Contributions: Public Act 300 of 1980, as amended, requires the University to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by the action of the State Legislature. Under these provisions, each university's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

University contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rates from October 1 to September 30 are as follows:

<u>Fiscal Year Ended</u>	<u>Funded Portion</u>	<u>Unfunded Portion</u>
June 30, 2016	4.87%	20.26%
June 30, 2015	4.80%	17.72%

Depending on the plan selected, plan member contributions range from 0.0% to 7.0% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The University's statutorily required contribution for the year ended June 30, 2016 was \$1,074,692. Its actual and actuarially determined contributions to the plan for the year were \$1,888,294. Contributions include \$162,611 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016. The University's required and actual contributions to the plan for the year ended June 30, 2015 were \$1,720,135. Contributions included \$183,773 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2015.

Benefits Provided: Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25% to 1.50%. The requirements to retire range from attaining the age of 46 to 60 years with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100.0% of the participant's final average compensation with an increase of 2.0% each year thereafter.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3.0%. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Measurement of the MPSERS Net Pension Liability: The plan's net pension liability for the seven universities participating in MPSERS is to be measured as the total pension liability less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the University's contribution requirement).

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

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

MPSERS Net Pension Liability – Seven Universities as of October 1, 2014

Total pension liability	\$ 1,013,910,892
Plan fiduciary net position	<u>638,804,892</u>
Net pension liability	<u>\$ 375,106,000</u>
Plan fiduciary net position as a percentage of total pension liability	63.00%
Net pension liability as a percentage of covered-employee payroll	424.35%

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)**

Net Pension Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense: As of June 30, 2016, the University reported a liability of \$17,182,038 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The University's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. As of September 30, 2015, the University's proportionate share was 3.13198%. The University reported a liability of \$10,866,926 as of June 30, 2015 and the University's proportionate share was 2.89703% as of the September 30, 2014, measurement date.

The University recognized pension expense of \$6,098,558 for the year ended June 30, 2016, and \$1,181,611 for the year ended June 30, 2015.

As of June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

As of June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	323,748	-
Net difference between projected and actual plan investment earnings	-	1,044,748
Changes in proportionate and differences between University contributions and proportionate share of contributions	60	-
University contributions subsequent to the measurement date	844,499	-
	\$ 1,168,307	\$ 1,044,758

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2017	\$ 436,004
2018	(58,153)
2019	(58,153)
2020	224,218
	\$ 543,916

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Timing of the Valuation: An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Valuations and Assumptions: Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:September 30, 2014

Actuarial Cost Method:.....Entry Age, Normal

Wage Inflation Rate:3.5%

Investment Rate of Return:

- MIP and Basic Plans (Non-Hybrid):8.0%

- Pension Plus Plan (Hybrid):.....7.0%

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

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

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

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

Long-term Expected Return on Plan Assets: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are summarized in the following table:

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	4.8%
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate & Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
Total	100.0%	

Rate of Return: For the fiscal year ended September 30, 2015, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (.02)%. For the fiscal year ended September 30, 2014, the rate was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Single Discount Rate: Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 8.00%; the municipal bond rate is 4.11% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve); and the resulting single discount rate is 8.00%.

Discount Rate: A discount rate of 8.00% was used to measure the total pension liability (7.00% for the Pension Plus Plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.00% (7.00% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Obligation to Changes in the Discount Rate: The following presents Lake Superior State University's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what Lake Superior State University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00%) or 1.00 percentage point higher (9.00%) than the current rate:

As of June 30, 2016:

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

As of June 30, 2015:

1.00% decrease (7.00%)	Current Discount Rate (8.00%)	1.00% increase (9.00%)
\$13,600,313	\$10,866,926	\$8,511,594

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)**

Payable to the Pension Plan: As of June 30, 2016, the University reported a payable of \$220,951 and \$96,303 as of June 30, 2015, for the outstanding amount of contributions to the pension plan required for the year then ended for the statutorily required pension contributions related to accrued labor expense.

Compensated Absences

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

Accumulated Sick Leave Benefits

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

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

	2016				
	July 1, 2015	Additions	Payments	June 30, 2016	Current Portion
Compensated absences	\$ 768,012	\$ 16,262	\$ 162,337	\$ 621,937	\$ 100,000
Accumulated sick leave benefits	763,977	-	192,705	571,272	130,000
Total employee benefit programs	\$ 1,531,989	\$ 16,262	\$ 355,042	\$ 1,193,209	\$ 230,000
	2015				
	July 1, 2014	Additions	Payments	June 30, 2015	Current Portion
Compensated absences	\$ 765,979	\$ 80,474	\$ 78,441	\$ 768,012	\$ 80,000
Accumulated sick leave benefits	787,764	-	23,787	763,977	165,000
Total employee benefit programs	\$ 1,553,743	\$ 80,474	\$ 102,228	\$ 1,531,989	\$ 245,000

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Other Postemployment Health Benefits

The University allows retirees who are not covered by the MPSERS healthcare plan to purchase healthcare benefits at cost and has approximately 15 retirees participating in this health coverage as of June 30, 2016 and 15 retirees in the prior year. The University segregates these retiree payments and health care expenses separately from current employee costs. Premium rates are adjusted on July 1 each year to cover projected health care increases for the next year and any funding deficits. Rates are set by the University from a cost analysis through the University's third-party health care administrators. Since retirees are required to pay all monthly premiums, there is no liability to the University; accordingly, no postemployment health care liability has been recorded in the statements of net position.

13. SELF INSURANCE

Liability and Property

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

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

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

Insurance Reserves

The University provides coverage for up to a maximum of \$550,000 for each workers' compensation claim as of June 30, 2016 and \$80,000 as of June 30, 2016 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

JUNE 30, 2016

13. SELF INSURANCE (continued)

Insurance Reserves (continued)

The University reserves an amount within unrestricted net position for health and maintenance reserves and records a liability for workers' compensation insurance. These reserves are determined by MUSIC for losses relating to catastrophes and amounted to \$3,510,789 as of June 30, 2016 and \$3,702,947 as of June 30, 2015. The workers' compensation claims liability of \$59,000 for the year ending as of June 30, 2016 and \$26,000 for the year ending as of June 30, 2015, which is included in accounts payable and accrued expenses, is based on the requirements of generally accepted accounting principles, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. Health insurance claims incurred but not reported as of June 30, 2016 were \$363,385 and \$167,500 as of June 30, 2015, and, accordingly, a related liability has been recorded in the statements of net position.

14. NET ASSETS CATEGORIES - FOUNDATION

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

	2016	2015
Deficiencies for all donor-restricted endowment funds for which fair value of assets is less than donor-stipulated level	\$ (245)	\$ -
Board designated	235,531	187,214
Undesignated	378,849	440,531
	\$ 614,135	\$ 627,745

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

	2016	2015
University programs	\$ 1,791,072	\$ 2,246,165
Net appreciation on donor-restricted endowment funds	2,699,027	3,029,667
	\$ 4,490,099	\$ 5,275,832

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

	2016	2015
Remainder interests in split interest agreements	\$ 346,206	\$ 340,335
Corpus of donor-restricted endowment funds	9,842,301	7,936,123
	\$ 10,188,507	\$ 8,276,458

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

14. NET ASSETS CATEGORIES – FOUNDATION (continued)

Permanently restricted net assets are held in perpetuity, the income from which supports scholarships and fellowships, faculty chairs, and other University programs.

Following is a summary of the changes in the Foundation's net assets for the years ended June 30:

	2016			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Revenue, gains, and other support				
Investment income	\$ 32,272	\$ 267,762	\$ -	\$ 300,034
Net realized and unrealized appreciation in investments	1,092	(241,193)	-	(240,101)
Contributions	438,701	799,669	1,903,488	3,141,858
Change in value of split interest agreements	-	-	8,561	8,561
Net assets released from restrictions	<u>1,611,971</u>	<u>(1,611,971)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	2,084,036	(785,733)	1,912,049	3,210,352
Expenses				
Operating expenses	(499,365)	-	-	(499,365)
Contributions to the University	<u>(1,598,281)</u>	<u>-</u>	<u>-</u>	<u>(1,598,281)</u>
Changes in net assets	(13,610)	(785,733)	1,912,049	1,112,706
Net assets, beginning of year	<u>627,745</u>	<u>5,275,832</u>	<u>8,276,458</u>	<u>14,180,035</u>
Net assets, end of year	<u>\$ 614,135</u>	<u>\$ 4,490,099</u>	<u>\$ 10,188,507</u>	<u>\$ 15,292,741</u>
	2015			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Revenue, gains, and other support				
Investment income	\$ 69,608	\$ 238,454	\$ -	\$ 308,062
Net realized and unrealized appreciation in investments	1,827	64,688	-	66,515
Contributions	465,996	601,766	2,264,657	3,332,419
Change in value of split interest agreements	-	-	(8,638)	(8,638)
Net assets released from restrictions	<u>2,044,037</u>	<u>(2,044,037)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	2,581,468	(1,139,129)	2,256,019	3,698,358
Expenses				
Operating expenses	(507,603)	-	-	(507,603)
Contributions to the University	<u>(2,132,739)</u>	<u>-</u>	<u>-</u>	<u>(2,132,739)</u>
Changes in net assets	(58,874)	(1,139,129)	2,256,019	1,058,016
Net assets, beginning of year	<u>686,619</u>	<u>6,414,961</u>	<u>6,020,439</u>	<u>13,122,019</u>
Net assets, end of year	<u>\$ 627,745</u>	<u>\$ 5,275,832</u>	<u>\$ 8,276,458</u>	<u>\$ 14,180,035</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

15. FOUNDATION ENDOWMENT

The Foundation's endowment consists of individual funds, all of which are donor restricted, that have been established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation interprets the State of Michigan Prudent Management of Institutional Funds Act (SMPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SMPMIFA.

In accordance with SMPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation (depreciation) of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Following is a summary of the changes in the endowment net assets for the years ended June 30:

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

15. FOUNDATION ENDOWMENT (continued)

	2015			
	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Investment return				
Investment income	\$ -	\$ 238,454	\$ -	\$ 238,454
Net appreciation (realized and unrealized)	-	64,688	-	64,688
Total investment return	-	303,142	-	303,142
Contributions and other revenue	-	-	2,264,657	2,264,657
Change in value	-	-	(8,638)	(8,638)
Appropriation of endowment assets for expenditure	-	(318,546)	-	(318,546)
Changes to endowment net assets	-	(15,404)	2,256,019	2,240,615
Endowment net assets				
Beginning of year	-	3,045,071	6,020,439	9,065,510
End of year	\$ -	\$ 3,029,667	\$ 8,276,458	\$ 11,306,125

Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

16. OTHER CONTINGENCIES AND COMMITMENTS

Legal Matters

In the normal course of its activities, the University is a party to various legal and administrative actions. Although some actions have been brought for substantial amounts, the University has not experienced significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, University management is of the opinion that the outcome thereof will not have a material effect on the financial statements.

Union Contracts

The University has three groups of employees, two of which are covered under union collective bargaining agreements. The collective bargaining agreement covering the Support Personnel under the Michigan Education Association/National Education Association (MEA) was ratified effective October 1, 2014. The Faculty Association contract was ratified effective August 4, 2014. The employee groups covered and the expiration of the contracts are as follows:

<u>Employee Group</u>	<u>Union Name</u>	<u>Contract Expired/Expires</u>
Support Personnel	Michigan Education Association/ National Education Association	September 30, 2017
Faculty	Michigan Education Association/ National Education Association	August 31, 2017
Administrative and Professional	N/A	N/A

State Building Authority

The University has lease agreements with the State Building Authority (SBA) and the State of Michigan for the Arts Classroom Building and the Crawford Hall Addition and Remodeling. The buildings were financed with SBA revenue bonds, State appropriations, and University general revenue bonds.

The SBA bond issues are collateralized by a pledge of rentals to be received from the State pursuant to the lease agreements between the SBA, the State, and the University. During the lease terms, the SBA will hold title to the facilities; the State will make all annual lease payments to the SBA; and the University will pay all operating and maintenance costs of the facilities.

At the expiration of the leases, the SBA has agreed to sell each facility to the University for one dollar. The cost and accumulated depreciation for these facilities is included in the statements of net position.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

17. NATURAL CLASSIFICATION OF EXPENSES

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

2016							
	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,592,092	\$ 1,379,193	\$ -	\$ -	\$ -	\$ -	\$ 13,971,285
Research	479,642	236,755	-	-	-	-	716,397
Public service	896,063	773,641	-	-	-	-	1,669,704
Academic support	2,550,704	1,033,232	-	-	-	-	3,583,936
Student services	2,353,490	461,719	-	-	-	-	2,815,209
Student aid	-	-	-	1,919,526	-	-	1,919,526
Institutional support	4,175,297	2,141,369	-	-	-	-	6,316,666
Operations and maintenance of plant	3,389,752	741,817	1,464,945	-	-	-	5,596,514
Auxiliary activities	4,460,940	3,902,337	911,670	-	-	-	9,274,947
Depreciation	-	-	-	-	3,497,703	-	3,497,703
Other	-	-	-	-	-	439,469	439,469
Total operating expenses	\$ 30,897,980	\$ 10,670,063	\$ 2,376,615	\$ 1,919,526	\$ 3,497,703	\$ 439,469	\$ 49,801,356
2015							
	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 12,302,087	\$ 1,198,654	\$ -	\$ -	\$ -	\$ -	\$ 13,500,741
Research	508,042	258,482	-	-	-	-	766,524
Public service	809,563	789,617	-	-	-	-	1,599,180
Academic support	2,302,110	1,168,793	-	-	-	-	3,470,903
Student services	2,125,097	476,260	-	-	-	-	2,601,357
Student aid	-	-	-	2,209,799	-	-	2,209,799
Institutional support	3,787,060	2,190,655	-	-	-	-	5,977,715
Operations and maintenance of plant	2,972,726	797,075	1,564,786	-	-	-	5,334,587
Auxiliary activities	4,196,616	4,259,894	975,228	-	-	-	9,431,738
Depreciation	-	-	-	-	3,918,717	-	3,918,717
Other	-	-	-	-	-	832,511	832,511
Total operating expenses	\$ 29,003,301	\$ 11,139,430	\$ 2,540,014	\$ 2,209,799	\$ 3,918,717	\$ 832,511	\$ 49,643,772

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

18. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The requirements of this Statement would be effective for fiscal years beginning after June 15, 2017. The University is currently evaluating the impact this Statement will have on the financial statements when adopted; however, the University believes that the impact will be material.

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LAKE SUPERIOR STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

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

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

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

Statutorily required contribution	\$ 1,074,692	\$ 936,883
Contributions in relation to the actuarially determined contractually required contribution	1,888,294	1,720,135
Contribution excess	\$ 813,602	\$ 783,252
University's covered-employee payroll	\$ 2,025,982	\$ 2,259,143
Contributions as a percentage of covered-employee payroll	93.20%	76.14%

Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions in 2016