

LAKE SUPERIOR STATE UNIVERSITY

ANNUAL FINANCIAL REPORT

**FISCAL YEARS ENDED
JUNE 30, 2023 AND 2022**



LAKE SUPERIOR STATE UNIVERSITY

TABLE OF CONTENTS

	<u>PAGE</u>
University Officers	1
Management’s Discussion and Analysis	2
Report of Independent Auditors	16
Lake Superior State University	
Statements of Net Position	19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21
Lake Superior State University Foundation	
Statements of Financial Position	23
Statements of Activities	24
Statements of Cash Flows	25
Notes to Financial Statements	26
Required Supplementary Information	78

Lake Superior State University

University Officers

Board of Trustees

Timothy L. Lukenda
Chair
Term Expires January 27, 2026

Cynthia K. Williams
First Vice Chair
Term Expires January 27, 2028

Patricia L. Caruso
Second Vice Chair
Term Expires January 27, 2028

Richard W. Barch
Term Expires January 27, 2026

Randy D. Pingatore
Term Expires January 27, 2024

Thomas C. Bailey
Term Expires January 27, 2024

Jon P. DeRoo
Term Expires January 27, 2030

Laurel (Sheri) Davie
Term Expires January 27, 2030

President and Vice Presidents

Dr. Lynn Gillette
Interim President

Dr. Kimberly Muller
Interim Vice President, Academic
Affairs and Provost

Maurice Walworth
Interim Vice President, Finance and
Operations
Treasurer to the Board of Trustees

Scott P. Smith
Vice President of Advancement

Lake Superior State University Foundation

Edward Smith
Chair

Robert Kjolhede
First Vice Chair

Dr. Lynn Gillette
Second Vice Chair, Ex-Officio

Maurice 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, 2023 and 2022. University management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis, which includes the Lake Superior State University Foundation (Foundation) whenever appropriate. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with University management.

Reporting Entity

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

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

Using the Annual Report

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

COVID-19 and Federal Relief Acts

The University was awarded over \$10.6 million in Higher Education Emergency Relief Funding to aid in dealing with the effects of the COVID-19 pandemic. The first awards were through the Coronavirus Aid, Relief and Economic Security (CARES) Act which was signed into law in the Spring of 2020. At the end of 2020, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act was passed. And, in March of 2021, the American Rescue Plan (ARP) was signed into law. The awards from the three acts are now commonly referred to as HEERF I, HEERF II and HEERF III grants.

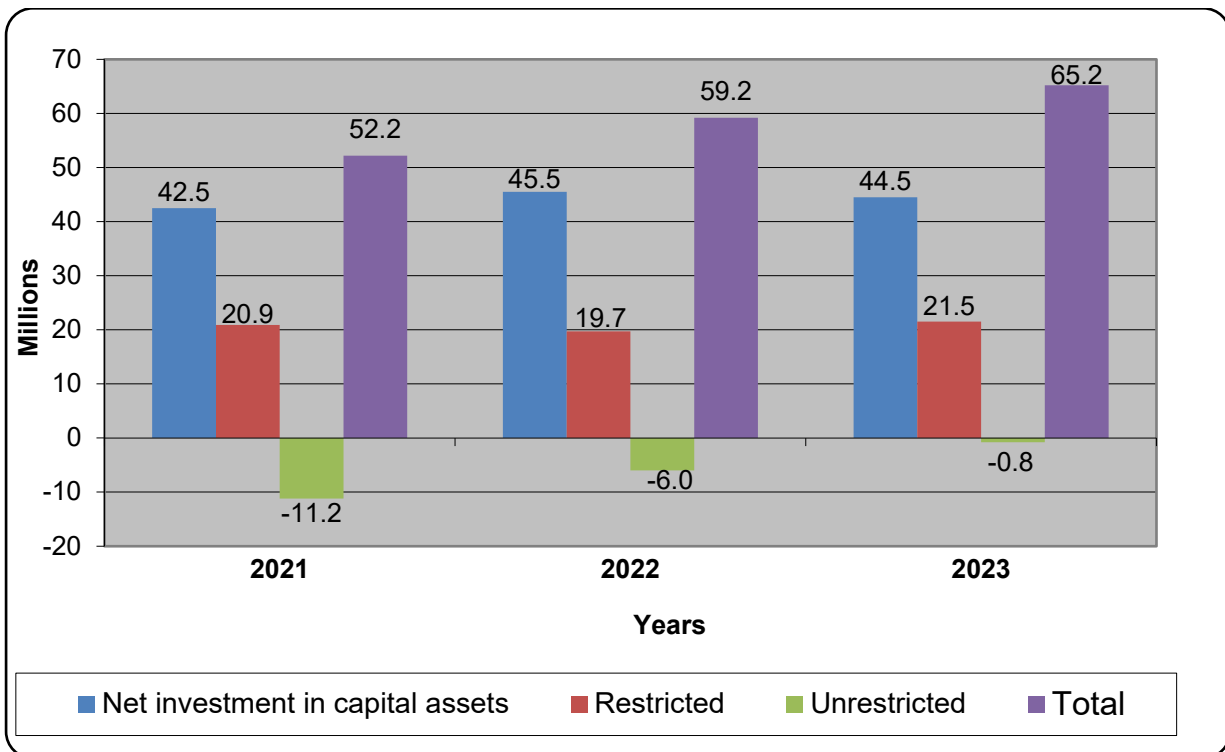
The COVID-19 monies passed through the State of Michigan and the greater portion of the HEERF awards were expended in the fiscal years ended June 30, 2021 and 2022. All the remaining HEERF awards were expended in the fiscal year ended June 30, 2023 in the form of student awards or recovery of lost revenues. For further details, refer to Note 20.

On July 22, 2020, the State of Michigan passed Senate Bill 373 which reduced State Aid funding to LSSU by \$1,502,600 and awarded the University \$1,502,600 of CARES Act funds.

Financial Highlights

The University’s financial position was fairly stable as of June 30, 2023. Net position for the year ended June 30, 2023 of approximately \$65.2 million increased by approximately \$6.0 million; as compared to an increase of approximately \$7.0 million for the year ended June 30, 2022. The deficit in the unrestricted net position of approximately \$813,000 decreased by approximately \$5.2 million. The increase in total net position is due to increases in State appropriations and investments.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2023, 2022 and 2021:



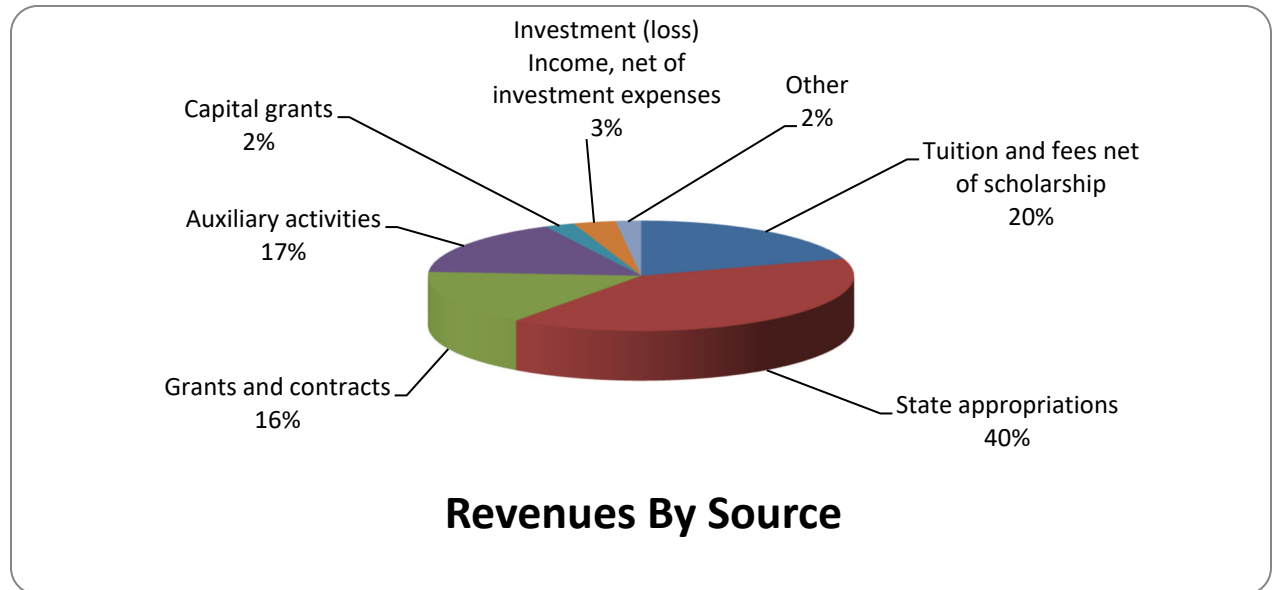
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and other rental and sales activities. In addition, certain federal, state, and nongovernmental grants and contracts are considered operating if they are not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

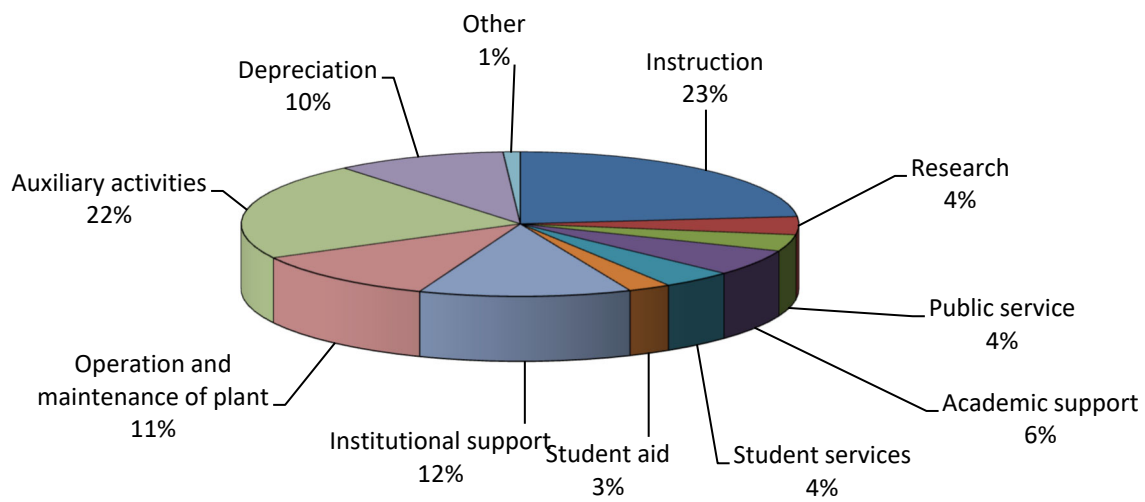
Tuition and fees, net of scholarship allowances, make up the largest contribution to the total revenue of the University. State appropriations are the next largest. Auxiliary activities consist of primarily housing, food services, and athletics. Other revenue includes investment income and gifts.

Revenues totaled approximately \$58.8 million for the 2023 fiscal year. The following is a graphical illustration of revenues by source for the fiscal year ended June 30, 2023:



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 \$52.9 million for the 2023 fiscal year. The following is a graphical illustration of the University's operating expenses by functional classification for the year ended June 30, 2023:



Operating Expenses

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 and the physical condition of facilities.

	June 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets	\$ 21,439,126	\$ 23,970,932	\$ 21,507,765
Capital assets, net	80,591,876	82,521,038	79,163,287
Other noncurrent assets	<u>15,596,341</u>	<u>14,844,381</u>	<u>17,220,147</u>
Total Assets	<u>\$ 117,627,343</u>	<u>\$ 121,336,351</u>	<u>\$ 117,894,199</u>
Deferred outflows of resources	<u>\$ 987,740</u>	<u>\$ 3,808,284</u>	<u>\$ 1,134,871</u>
Liabilities			
Current liabilities	\$ 5,856,509	\$ 6,436,749	\$ 5,538,123
Noncurrent liabilities	38,056,308	39,354,101	39,009,031
Net pension obligation and OPEB	<u>8,604,903</u>	<u>15,676,015</u>	<u>21,877,396</u>
Total liabilities	<u>\$ 52,517,720</u>	<u>\$ 61,466,865</u>	<u>\$ 66,424,550</u>
Deferred inflows of resources	<u>\$ 843,580</u>	<u>\$ 4,442,541</u>	<u>\$ 328,034</u>

	June 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net position			
Net investment in capital assets	\$ 44,492,627	\$ 45,503,668	\$ 42,576,409
Restricted, nonexpendable	205,837	205,837	205,837
Restricted, expendable	21,368,855	19,543,095	20,769,710
Unrestricted	<u>(813,536)</u>	<u>(6,017,371)</u>	<u>(11,275,470)</u>
Total net position	<u>\$ 65,253,783</u>	<u>\$ 59,235,229</u>	<u>\$ 52,276,486</u>
Total Liabilities and Net position	<u>\$ 117,771,503</u>	<u>\$ 120,702,094</u>	<u>\$ 118,701,036</u>

Changes from 2022 to 2023:

Cash, cash equivalents and short-term investments, collectively, decreased by approximately \$2.3 million from \$17.4 million to approximately \$15.1 million. Accounts receivable increased by approximately \$582,000 from the prior year. Current assets decreased approximately \$2.5 million. Management attributes the majority of the decrease in current assets due to a decrease in cash as well as a decrease in State appropriations receivable of approximately \$900,000.

The University's Capital Assets additions of \$3.3 million and the annual depreciation charge of \$5.2 million resulted in the Net Capital Assets decreasing by \$1.9 million for fiscal year 2023.

Deferred outflows of resources reflect a decrease of approximately \$2.8 million from the prior year.

Total liabilities decreased by approximately \$8.9 million, primarily due to a decrease in the net pension and other post-employment benefits liability of approximately \$7.1 million as well as a reduction in long term debt of approximately \$1.2 million

Total net position increased by approximately \$6.0 million. The University's net investment in capital assets decreased approximately \$1.0 million. This is the result of the capital asset acquisitions and payments on long-term debt being less than the depreciation charge. Restricted expendable net position increased \$1.8 million. The deficit in the unrestricted net position decreased by approximately \$5.2 million, primarily due to an increase in State appropriations and operating revenues. The June 30, 2023 deficit in the unrestricted net position of approximately \$813,000 consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, and the net pension deficit of approximately \$5.4 million.

Changes from 2021 to 2022:

Cash, cash equivalents and short-term investments, collectively, increased by approximately \$1.3 million from \$16.1 million to approximately \$17.4 million. Accounts receivable decreased by approximately \$341,000 from the prior year. Current assets increased approximately \$2.5 million. Management attributes the majority of the increase in current assets to an increase in State appropriations of \$1.3 million.

The University's Capital Assets additions of \$8.4 million and the annual depreciation charge of \$5.0 million resulted in the Net Capital Assets increasing by \$3.4 million for fiscal year 2022.

Deferred outflows of resources reflects an increase of approximately \$2.6 million from the prior year.

Total liabilities decreased by approximately \$5.0 million, primarily due to a decrease in the net pension and other post-employment benefits liability of approximately \$6.2 million.

Total net position increased by approximately \$7.0 million. The University's net investment in capital assets increased approximately \$3.1 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 decreased \$1.2 million. The deficit in the unrestricted net position decreased by approximately \$5.2 million, primarily due to an increase in State appropriations and operating revenues. The June 30, 2022 deficit in the unrestricted net position of approximately \$6.0 million consists of reserves in designated funds, auxiliary funds, insurance and benefit reserves, and the net pension deficit of approximately \$12.5 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>2023</u>	<u>2022</u>	<u>2021</u>
Total operating revenues	\$ 30,403,926	\$ 30,188,187	\$ 28,269,281
Total operating expenses	<u>52,705,630</u>	<u>49,911,764</u>	<u>44,697,917</u>
Operating loss	(22,301,704)	(19,723,577)	(16,428,636)
Net nonoperating revenues	<u>26,946,990</u>	<u>20,975,865</u>	<u>25,010,681</u>
Income before other revenues	4,645,286	1,252,288	8,582,045
Total other revenues	<u>1,373,268</u>	<u>5,706,455</u>	<u>4,868,972</u>
Increase in net position	6,018,554	6,958,743	13,451,017
Net position, beginning of year	<u>59,235,229</u>	<u>52,276,486</u>	<u>38,825,469</u>
Net position, end of year	<u>\$ 65,253,783</u>	<u>\$ 59,235,229</u>	<u>\$ 52,276,486</u>

Changes from 2022 to 2023:

Operating revenues increased by approximately \$220,000, due to an increase in Federal and State grants and contracts, as well as private grants and contracts. Tuition and fees, net of scholarship allowances, decreased by approximately \$340,000 or 2.8%. Scholarship allowances decreased approximately \$1.4 million from the prior year. Auxiliary activities, net of scholarship allowances, decreased by approximately \$430,000 or 4.23% after a 1.0% increase in room and board rate and a decrease in occupancy.

Operating expenses increased by approximately \$2.8 million, resulting mainly from a Student Aid decrease of \$2.9 million, Institutional support increase of \$1.0 million, Instruction increase of \$1.1 million, Operation and maintenance of plant increase of \$1.2 million and Auxiliary Activities increase of \$1.3 million over the prior year.

Net nonoperating revenues increased by approximately \$6.0 million. State appropriations increased by approximately \$6.2 million. Investment income, net of investment expenses, increased by approximately \$4.8 million from 2022, while Corona Virus Relief funds decreased by \$4.9 million.

The net result of operations for the year was an increase in net position of approximately \$6.0 million.

Changes from 2021 to 2022:

Operating revenues increased by approximately \$1.9 million. Tuition and fees, net of scholarship allowances, decreased by approximately \$619,000 or 4.8% after a tuition rate increase of 3.6% and a slight increase in total fall semester headcount. Scholarship allowances increased approximately \$494,000 from the prior year. Auxiliary activities, net of scholarship allowances, increased by approximately \$1.4 million or 15.95% after a 2.0% increase in room and board rate and a decrease in occupancy.

Operating expenses increased by approximately \$5.2 million. Student Aid increased \$2.0 million, Research increased \$818,000 and Auxiliary Activities increased \$759,000 over the prior year.

Net nonoperating revenues decreased by approximately \$4.0 million. State appropriations increased by approximately \$3.5 million. Investment income, net of investment expenses, decreased by approximately \$6.8 million from 2021.

The net result of operations for the year was an increase in net position of approximately \$7.0 million.

The Statements of Cash Flows

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

	Year Ended June 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash from:			
Operating activities	\$ (15,969,704)	\$ (17,719,361)	\$ (14,826,447)
Noncapital financing activities	17,006,172	22,938,796	21,456,576
Capital and related financing activities	(4,093,597)	(3,924,739)	(6,415,534)
Investing activities	<u>874,201</u>	<u>(79,582)</u>	<u>796,779</u>
Net change in cash and cash equivalents	(2,182,928)	1,215,114	1,011,374
Cash and cash equivalents, beginning of year	<u>14,538,831</u>	<u>13,323,717</u>	<u>12,312,343</u>
Cash and cash equivalents, end of year	<u>\$ 12,355,903</u>	<u>\$ 14,538,831</u>	<u>\$ 13,323,717</u>

Changes from 2022 to 2023:

The most significant components of cash flows from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash from operating activities for the year ended June 30, 2023 was approximately \$16.0 million, decreasing slightly 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 million for the year ended June 30, 2023, down approximately \$5.9 million from 2022. The University received approximately \$800,000 less in State appropriations in

2023, approximately \$4.9 million less in Federal corona virus relief funds and approximately \$223,000 less in Federal Pell grants than in 2022.

Net cash from capital and related financing activities increased by approximately \$169,000 from 2022, to approximately \$4.1 million in 2023. The University spent approximately \$2.5 million on capitalized improvements in 2023 and approximately \$6.4 million in 2022.

Cash from investing activities increased by approximately \$954,000 totaling approximately \$874,000 for 2023. The increase is mostly attributable to a decrease of approximately \$865,000 in the purchases of investments and a decrease of \$177,000 in proceeds from sales and maturities of investments as compared to 2022.

Overall, cash and cash equivalents decreased by approximately \$2.1 million for the year ended June 30, 2023.

Changes from 2021 to 2022:

The most significant components of cash flows from operating activities are tuition and fees, auxiliary activities, and grants and contracts. . Net cash from operating activities for the year ended June 30, 2022 was approximately \$17.7 million, increasing significantly 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, Federal corona virus relief funds and Federal Pell grants, was approximately \$22.9 million for the year ended June 30, 2022, up approximately \$1.4 million from 2021. The University received approximately \$2.2 million more in State appropriations, approximately \$655,000 less in Federal corona virus relief funds and approximately \$122,000 less in Federal Pell grants than in 2021.

Net cash from capital and related financing activities decreased by approximately \$2.5 million from 2021, to approximately \$3.9 million in 2022. The University spent approximately \$6.4 million on capitalized improvements in 2022 and approximately \$8.6 million in 2021.

Cash from investing activities decreased by approximately \$876,000 totaling approximately (\$80,000) for 2022. The decrease is mostly attributable to a decrease of approximately \$6.7 million in the purchases of investments and a decrease of \$6.0 million in proceeds from sales and maturities of investments as compared to 2021.

Overall, cash and cash equivalents increased by approximately \$1.2 million for the year ended June 30, 2022.

Factors That Will Affect the Future

Senior Management Team Stability

The LSSU Senior Management Team (SMT) is comprised of the President; Provost and Vice President of Academic Affairs; Vice President for Finance & Operations; Vice President of Advancement; Dean of Admissions and Marketing; Dean of Student Affairs; Director of Athletics; Director of Human Resources, Title IX, Safety, & Risk; and the State Relations Officer.

The University has experienced changes to the Senior Management Team during FY2023 with the resignations of President Dr. Rodney Hanley and VP of Finance and Operation, Dr. Nafez Alyan. In order to maintain stability during this time of transition Dr. Lynn Gillette was appointed to the Interim President

role and Maurice Walworth, retired VP of Finance and Operations returned as Interim VP of Finance and Operations.

The Senior Management Team works collaboratively and capably, combining their diverse and extensive experience and knowledge to accomplish the goals established in the University's 2020-2025 strategic plan.

Major Initiatives

LSSU will continue to secure investment in the new Barch CFRE, which opened in 2021. LSSU recently secured over \$1M in donations to the Barch CFRE, and is adding a \$300,000 addition to the structure (completely funded by external dollars; above the \$1M). A number of donors and businesses have strong interest in the facility. The Barch CFRE recently received \$3.8M (Canadian) in grant funding. Academically, recent restructuring has placed a greater emphasis on programmatic activities that will result in new programs (undergraduate and graduate), thereby increasing enrollment.

LSSU is in the silent phase fundraising for the Nursing SIM Center. Currently, LSSU partners with the local MyMichigan Health Care facility. The fundraising goal will be in the \$1.0M - \$1.5M range and will provide upgrades to the facility.

LSSU is planning fundraising for the pool. This \$1.5M venture would upgrade the only operational pool in the Eastern U.P. Plans include securing grants, collaborations with local k-12 schools, and a potential millage. The renovation would provide a facility for LSSU's new men's/women's swimming and diving team, local high school swim teams, and the community. It would also serve as an enrollment initiative - increasing our D-II footprint.

LSSU has applied for Capital Outlay for FY25. The project would expand the Robotics, Criminal Justice, Fire Science, and EMC program spaces. This \$30M project would not begin until after FY26 once it is approved by the state. This is only in the early stages of development.

Enrollment Initiatives

Lake Superior State University experienced increases in new student enrollment in both 2020 and 2021, however the Fall 2022 and Fall 2023 recruitment cycles were more complicated due to a number of exogenous factors inherent in the higher education ecosystem:

- As a result of the drop in the national birth rate that began in 2007, the number of high school graduates has been in decline since 2011, along with the projection of a "Demographic Cliff" that will have full impact on the college going population in 2025.
- The declining demographic trend has been intensified by the fact that only 54% of high school graduates are currently pursuing college education.
- A third factor complicating the trend is the tight labor market that has reduced the unemployment rate to one of the lowest levels in decades.
- These tight labor market conditions have also caused a spike in wage rates, with entry level workers being paid over \$20/hour, contributing to a high inflation rate that has driven up prices of almost everything.
- High inflation rates caused most parents to struggle to keep up with basic family needs. Parents may encourage their recently graduated high school students to join the job market in support of the family and take advantage of the higher wage levels.
- Higher wage levels contribute negatively to the value proposition concerning a university degree.

The conditions outlined above have had significant impact on both national and local enrollment trends.

- Undergraduate enrollment witnessed a downturn trend from 2011 that was accelerated by the COVID-19 pandemic. From Spring 2011 to Spring 2022, universities lost about 3.3 million students (around 17% of enrollment) (Bestcolleges.com, data from National Student Clearinghouse Research center (NSCRC)).
- The declining trend has accelerated due to the pandemic; college attendance among undergraduates has fallen almost 10% since COVID-19 started in 2020. Moreover, the NSCRC reported in May that spring 2022 enrollment was 4.7% below 2021, a decline of 1.4 million students nationally. These figures show the accelerating impact of the pandemic over the last couple of years.
- Data for Michigan indicated the drop was 5.8% overall (one of the highest in the nation) with the largest declines occurring at regional public universities and community colleges.

The exogenous variables outlined above potentially have tended to have an outsized impact on our enrollment efforts as the majority of our student population are First Generation and 38% Pell-eligible. Further analysis of the data reinforces this hypothesis as we experienced declines in enrollment from students from farther afield (southwest and southeast Michigan as well as out-of-state). On a positive note, local enrollments rebounded from the Fall of 2022.

Staffing the Department of Admissions continues to be enhanced and territories regularly evaluated for maximum optimization of our recruiting resources. All staff compliment all pre-college university activities (GearUP, camps, charter school relations, and concurrent, dual, and early middle college enrollment) in an endeavor to optimize enrollment streams.

With the implementation of the strategic plan, LSSU shifted focus from a selective institution to open access by lowering the minimum grade point average (GPA) for admission from a 2.4 to a 2.0, and furthermore established a Conditional Admission (Anchor Advantage) program for students under a 2.0 GPA. Students admitted through this program are limited to 13 registered credit hours for two semesters and assigned an academic support specialist through Academic Services to provide enhanced guidance, support, and mentoring for two semesters. To bolster access, we removed all enrollment and housing deposits and migrated from a test optional institution to a test blind by removing all standardized test considerations from all institutional financial aid.

To address the reductions in total enrollment and make progress toward total enrollment growth, Lake Superior State University is expanding its outreach in the immediate region through enhanced partnerships with regional schools, charter schools, and the dual/concurrent and early middle college enrollments as noted above. Furthermore, we evaluated our current admissions staff and territory assignments to optimize our effectiveness as well as exploring international recruiting efforts and expansion of our efforts with Native American students. We are making investments in applied programs (certificates, associates, bachelor and potential master's degrees) with workforce applicability.

To enhance the likelihood of continued new student enrollment growth we will be deploying the following strategies:

- Increased development and utilization with our Customer Relationship Management system – Ellucian Recruit.
- Continued use of the Common Application to expand brand identity outside the immediate region and Michigan.
- Increased data analytics and reporting.
- More effective territory management and communication.
- Expansion of club sports as it moved under the Athletics portfolio.

- Launch of a Master's in Business Administration program for Fall 2024.
- Launch of Prisoner Education program during the academic year 2023-2024.
- Launch of Swimming and Diving as NCAA sports.
- Leveraging of new programs, graduate and undergraduate, in the new College of the Great Lakes Ecology and Education.

Furthermore, the State of Michigan approved and implemented the Michigan Achievement Scholarship state funded program which provides residents enrolling in public colleges with up to \$5,500 in tuition and fees for up to five years for students with an Estimated Family Contribution of \$25,000 or less. Fifty-five percent of the incoming Michigan students received the Michigan Achievement Scholarship (MAS), while the state projected 75%. The MAS program underperformed and consequently there are initiatives under way to move the eligibility to a Student Aid Index of \$30,000 and make all of the award a first dollar rather than last dollar award. This ongoing investment will have the greatest impact on students that are deciding between attending college or not attending college, which represents a substantial portion of the regional students we serve and subsequently will have a positive impact on our ability to increase student enrollments.

Academic Initiatives/Successes

The University continues to work diligently to develop and market high demand and unique career-oriented degrees and certificates, as well as explore new partnerships that will help us to address unmet educational needs. As we look to the future, the University is resolved to align scarce resources with areas of interest and need, and to fulfill its commitment to a mission that provides excellent educational value across all our programs and offerings.

In the fall of 2023, LSSU hired two new marketing professionals and the Marketing and Communications department was integrated into the reporting structure of Academic Affairs. This initiative was designed to better highlight LSSU's strengths in applied learning and promote our strong academic programs, opportunities to work closely with faculty, and the successes of our students and graduates in their careers. This has resulted in doubling our reach in social media. LSSU has also called for a request for proposals on the design and implementation of a new University website and is developing a new marketing strategy.

Academic Affairs has increased their overall recruitment efforts including, but not limited to, the creation of new state-wide Career Technical Education agreements, the development of new articulation agreements (with an emphasis on four high-yield community colleges), and presentations to high school students.

Academic Affairs is actively pursuing the approval from the Michigan Department of Corrections for the approval of a Prison Education Program that will include programs in health and fitness and business at two nearby prison facilities. The programs have preliminary approval from the Higher Learning Commission.

Academic Affairs continues to strengthen relationships with the Indigenous and First Nations populations in the region and offer a wide range of opportunities for Indigenous students to develop a sense of belonging at LSSU and all students to learn more about Indigenous cultures and current topics. The University continues its recruitment and retention efforts by providing supports and a welcoming environment for Native students and their families.

College of Great Lakes Ecology and Education:

The College of Great Lakes Ecology and Education (CoGLEE) was developed in July 2023 under the direction of LSSU's Board of Trustees. The college consists of the School of Natural Resources and the School of Education. CoGLEE leverages the visibility, resources, and placed-based learning opportunities

of the Richard and Theresa Barch Center for Freshwater Research and Education (CFRE). This initiative has a stretch goal of increasing enrollment by 100 students by 2025 through the strengthening and redesign of existing programs and development of new programs.

The School of Education is participating in the State of Michigan's Talent Together program, which is an initiative to recruit non-traditional college students to complete teacher education programs. This initiative yielded approximately 20 students in the fall of 2023, with more expected in the spring of 2024.

College of Health and Behavior:

The School of Nursing continues to build on their simulation capabilities, with a major fundraising campaign that has reached 89% of their \$600,000 goal. They are in the process of developing a healthcare education consortium with high school Career Technical Education in the Eastern Upper Peninsula, Bay Mills Community College, and MyMichigan Healthcare Sault (our regional hospital). They are also developing an agreement with a Kalkaska hospital for LPN nurses to enter their BSN degree completion program.

College of Innovation and Solutions:

In spring of 2023, the Board of Trustees approved the creation of a Master's of Business Administration program with an emphasis in project management. The program was approved by the Michigan Association of State Universities in June. In October 2023, the Higher Learning Commission (HLC) performed a site visit. The two reviewers have recommended to HLC the approval of the MBA program. The program will be voted on by HLC's Institutional Actions Council in January 2024. If approved, LSSU will begin the first cohort of MBA students in Fall 2024. This initiative is projected to increase enrollment by 20-25 students in the first year.

College of Science and the Environment:

In the summer of 2023, the College of Science and the Environment (CoSE) began work on their new Hemp Growth Laboratory, which will be utilized by the programs in Cannabis Chemistry, Cannabis Production, Cannabis Science, and Cannabis Business. This lab has increased our already strong ability to meet the needs of the cannabis industry, both in compliance and horticulture.

Faculty in CoSE also received their second consecutive Major Research Instrumentation Grant from the National Science Foundation. Not only will the new micro X-ray fluorescence spectrometer support multidisciplinary research, it will also assist in outreach and recruitment efforts with the Eastern Upper Peninsula Intermediate School District, in coordination with the local K-12 STEM coordinator. This will add to our existing K-12 outreach efforts in genetics, forensic chemistry, and aquaponics.

College of Liberal Arts:

The School of Liberal Arts is developing a certificate program in theater, with the hopes of drawing more non-traditional students from our local arts community. They also were awarded a National Endowment for the Humanities grant to build a new Indigenous Studies certificate program. They continue to offer courses in the Ojibwe language and incorporate Indigenous cultural opportunities in to offerings in the Arts Center.

College of Criminal Justice and Emergency Responders:

The College of Criminal Justice and Emergency Responders has developed a new interdisciplinary Cybersecurity bachelor's program that will go to the LSSU Board of Trustees in November 2023 for approval. The program was developed collaboratively with computer science faculty. Its uniqueness lies in

its strong emphasis on cybersecurity as it pertains to criminal justice and forensics, while preparing students for nationally recognized certifications.

Student Affairs Initiatives

Retention, persistence, and student success are continually critical factors to Lake Superior State University's planning for a successful future. Using intensive and invasive interventions through Laker Success (LSSU's peer mentor program) and a strong partnership with Academic Affairs, Student Affairs is reporting increased retention and persistence rates for FY23. Moreover, the continued emphasis on maintaining or increasing student residency in University Housing, combined with local environmental factors resulted in an increased number of students living on campus. Current initiatives target retention of first-to-second year students and among rising seniors. Residential Life staff have established an early check-in process to identify students' plans for their spring semester housing. Through this early identification process, issues are being addressed with interventions appropriate to the students' individual needs.

To support overall retention and persistence, Student Affairs has increased collaborations with Academic Affairs particularly in relation to early alerts and at registration times. Multiple functional areas consistently use text messaging to connect with students not yet registered and/or in need of support outside the classroom. The Title III grant for which LSSU applied was ultimately awarded and has led to increasing integration of efforts between the two areas. Through the Title III and KCP/4S grants, Student Affairs and Academic Affairs have enacted a workflow through a singular online solution to ensure shared information among interested parties. This coordinated approach has improved communication tracks among departments to get students the help they need more quickly.

A new Associate Dean of Student Affairs joined the university at the beginning of the 2022-2023 academic year. With a strong background in residential education programming and student engagement, Ms. Anya Alexander will be a critical contributor to the retention, persistence, and success efforts. Student Affairs expanded data collection in the past two years. Through the gathered data, the areas have been able to drive continuous improvement efforts and determine effectiveness of programs and interventions. The effort to track participation will continue through the use of the "Presence" platform, and through social media platforms such as Facebook and Instagram.

The year ahead will be defined by ongoing and increased efforts to boost retention rates of first-to-second-year students above its current 73% and maintain upward movement in persistence rates among all other returning students. Additionally, Student Affairs will focus attention on improving the housing inventory as an added tool for retention of first-year students and as a way to boost on-campus residency among upper class students and bring additional revenue to the university.

Looking Forward

Lake Superior State University recognizes that its high populations of first-generation, low-income, and academically underprepared students derive great benefits from strong support services and individualized attention. The University received a five-year \$1.64 Million Title III Strengthening Institutions Program grant to primarily strengthen retention practices and implement new student support services. A major part of this grant program is a collaboration between Student Affairs and Academic Affairs to develop and grow LSSU's new Student Support Advising services. This unique program provides one-on-one support to incoming freshmen and all students identified through a campus-wide Early Alert system. The Early Alert system at LSSU is designed to identify students with issues or concerns ranging from academic underperformance to homesickness or depression. As the University looks ahead toward the future, this

program is expected to expand and enhance the level of support we can provide to the many first-generation, low-income, and academically underprepared students at LSSU.

Academic Affairs will continue to develop and propose new programs that meet student and current market needs. The emphasis is on developing new programs that are low in cost and leverage existing faculty and equipment. Deans and faculty look to their advisory boards, comprised of professionals and experts in their fields, to identify potential trends and innovations that might suggest the emergence of new career markets and fields of study.

Report of Independent Auditors

Board of Trustees
Lake Superior State University

Report on the Financial Statements

Opinions

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

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, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lake Superior State University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ferris State University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ferris State University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ferris State University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for pension and other postemployment benefit plans and related notes, as listed on the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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

basic financial statements, and other knowledge we obtained during our audit of the basic 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 January 4, 2024 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 effectiveness of Lake Superior State University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Superior State University's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Grand Rapids, Michigan
January 4, 2024

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF NET POSITION

Assets	As of June 30	
	2023	2022
Current assets		
Cash and cash equivalents	\$ 12,355,903	\$ 14,538,831
Short-term investments	2,775,180	2,874,395
Accounts receivable, net	2,168,114	1,586,456
State appropriations receivable	2,970,595	3,870,304
Current portion of leases receivable	303,285	266,403
Inventories	437,020	432,796
Other	429,029	401,747
Total current assets	21,439,126	23,970,932
Noncurrent assets		
Student loans receivable, net	1,208,295	1,362,238
Endowment investments	13,715,577	12,544,419
Leases receivable, net of current portion	438,775	689,308
Unamortized bond insurance costs	233,694	248,416
Land, construction in progress and art collection	3,928,906	3,910,569
Depreciable capital assets, net	76,662,970	78,610,469
Total noncurrent assets	96,188,217	97,365,419
Total assets	\$ 117,627,343	\$ 121,336,351
Deferred outflows of resources	\$ 987,740	\$ 3,808,284
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,683,771	\$ 3,073,541
Unearned revenue	793,028	826,201
Deposits	269,005	243,327
Current portion of long-term debt	1,930,301	2,099,081
Current portion of employee benefit programs	180,404	194,599
Total current liabilities	5,856,509	6,436,749
Long-term debt, net of current portion	37,403,583	38,649,426
Employee benefit programs, net of current portion	652,725	704,675
Net pension and other post employment benefits liability	8,604,903	15,676,015
Total liabilities	\$ 52,517,720	\$ 61,466,865
Deferred inflows of resources	\$ 843,580	\$ 4,442,541
Net position		
Net investment in capital assets	\$ 44,492,627	\$ 45,503,668
Restricted		
Nonexpendable		
Scholarships and research	205,837	205,837
Expendable		
Scholarships and research	15,859,913	14,311,656
Loans	1,891,236	2,155,258
Capital projects and debt service	3,617,706	3,076,181
Unrestricted	(813,536)	(6,017,371)
Total net position	\$ 65,253,783	\$ 59,235,229

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	
	2023	2022
Operating revenues		
Tuition and fees (net of scholarship allowances of \$7,489,294 in 2023 and \$8,903,840 in 2022)	\$ 12,006,113	\$ 12,350,485
Federal grants and contracts	2,237,742	1,813,439
State grants and contracts	624,280	361,947
Nongovernmental grants and contracts	4,499,386	4,254,422
Auxiliary activities (net of scholarship allowances of \$246,567 in 2023 and \$455,420 in 2022)	9,890,395	10,327,662
Other	1,146,010	1,080,232
Total operating revenues	30,403,926	30,188,187
Operating expenses		
Instruction	12,324,008	11,197,682
Research	2,125,602	1,754,985
Public service	1,956,639	1,340,779
Academic support	3,082,767	2,767,520
Student services	2,165,983	1,799,629
Student aid	1,307,568	4,196,756
Institutional support	6,479,602	5,553,943
Operation and maintenance of plant	5,990,346	4,804,430
Auxiliary activities	11,529,113	10,163,464
Depreciation	5,219,909	4,984,267
Other	524,093	1,348,309
Total operating expenses	52,705,630	49,911,764
Operating loss	(22,301,704)	(19,723,577)
Nonoperating revenues (expenses)		
State appropriations	24,077,465	17,924,880
Federal Pell grants	2,353,178	2,558,048
Federal corona virus relief funds	17,838	4,896,486
Interest on capital debt and leases	(1,447,367)	(1,487,415)
Amortization of prepaid bond insurance	(14,722)	(14,717)
Bond issue costs	-	(57,247)
Investment (loss) income, net of investment expenses	1,946,144	(2,869,421)
Gifts for endowments	22,524	21,808
Gain (Loss) on assets sold or retired	(8,070)	3,443
Net nonoperating revenues	26,946,990	20,975,865
Gain before other revenues	4,645,286	1,252,288
Other revenues		
Capital appropriations	509,235	5,053,169
Capital grants and gifts	864,033	653,286
Total other revenues	1,373,268	5,706,455
Increase in net position	6,018,554	6,958,743
Net position, beginning of year, as restated	59,235,229	52,276,486
Net position, end of year	\$ 65,253,783	\$ 59,235,229

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

LAKE SUPERIOR STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2023	2022
Cash flows from operating activities		
Tuition and fees	\$ 12,063,590	\$ 12,409,625
Grants and contracts	6,862,656	6,435,510
Payments to employees	(15,953,663)	(16,389,231)
Payments to vendors	(28,810,790)	(27,567,400)
Payments for financial aid	(1,307,568)	(4,196,756)
Loans issued to students	(213,031)	(288,746)
Collections of interest and principal on loans to students	366,974	401,496
Auxiliary activities	9,763,884	10,375,590
Other receipts	1,258,244	1,100,551
Net cash from operating activities	(15,969,704)	(17,719,361)
Cash flows from noncapital financing activities		
State appropriations	14,557,498	15,354,808
Federal Pell grants	2,338,443	2,561,840
Federal corona virus relief funds	87,707	5,000,340
Gifts for endowments	22,524	21,808
Federal Direct Lending receipts	6,008,120	6,537,191
Federal Direct Lending disbursements	(6,008,120)	(6,537,191)
Net cash from noncapital financing activities	17,006,172	22,938,796
Cash flows from capital and related financing activities		
Capital appropriations received	1,408,088	3,837,431
Capital grants and gifts received	659,197	985,563
Proceeds from refunding bond issue	-	13,282,745
Loan proceeds	6,230	42,168
Proceeds from line of credit	-	614,699
Payment of bond issuance costs	-	(88,370)
Purchase of bond insurance	-	(100,095)
Purchases and construction of capital assets	(2,468,004)	(6,366,342)
Proceeds from disposal of capital assets	10,283	3,443
Principal paid on debt and capital leases	(2,026,019)	(14,409,382)
Interest paid on debt and capital leases	(1,683,372)	(1,726,599)
Net cash from capital and related financing activities	(4,093,597)	(3,924,739)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,032,718	1,210,713
Purchases of investments	(777,961)	(1,642,991)
Investment income, net	619,444	352,696
Net cash from investing activities	874,201	(79,582)
Net change in cash and cash equivalents	(2,182,928)	1,215,114
Cash and cash equivalents, beginning of year	14,538,831	13,323,717
Cash and cash equivalents, end of year	\$ 12,355,903	\$ 14,538,831

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

LAKE SUPERIOR STATE UNIVERSITY
STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2023	2022
Reconciliation of operating loss to net cash from operating activities		
Operating loss	\$ (22,301,704)	\$ (19,723,577)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	5,219,909	4,984,267
Provision for uncollectible accounts and student loans receivables	99,063	(118,724)
Pension and OPEB expense adjustment	1,896,046	(3,277,754)
Change in assets and liabilities:		
Accounts receivable, net	(542,658)	(146,714)
Student loans receivable, net	149,481	244,463
Inventories	(4,224)	16,131
Other	(27,282)	28,801
Accounts payable and accrued expenses	(384,695)	21,351
Unearned revenue	(33,173)	261,634
Deposits	25,678	5,180
Employee benefit programs	(66,145)	(14,419)
Net cash from operating activities	\$ (15,969,704)	\$ (17,719,361)
Supplemental disclosures of non-cash financing and investing activities		
Gifts in-kind received and recorded as capital assets	\$ 16,101	\$ 7,745
Entered into capital leases to purchase capital equipment	\$ 220,462	\$ 206,207

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	As of June 30	
	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 304,221	\$ 278,373
Short-term investments	1,595,283	1,482,283
Other current assets	-	5,976
Current portion of unconditional promises to give, net	1,140,305	175,211
Total current assets	3,039,809	1,941,843
Noncurrent assets		
Investments	22,362,708	19,932,835
Unconditional promises to give, net of current portion	381,918	581,829
Total noncurrent assets	22,744,626	20,514,664
Total assets	\$ 25,784,435	\$ 22,456,507
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,860	\$ 1,994
Total current liabilities	14,860	1,994
Annuity obligations	30,890	10,908
Total liabilities	45,750	12,902
Net assets		
With donor restrictions	25,393,119	22,278,340
Without donor restrictions	345,566	165,265
Total net assets	25,738,685	22,443,605
Total liabilities and net assets	\$ 25,784,435	\$ 22,456,507

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2023	2022
Operating revenues		
Contributions of cash and other financial assets	\$ 2,413,692	\$ 2,692,809
Contributions of nonfinancial assets	328,210	136,848
Change in value of split interest agreements	<u>(17,616)</u>	<u>(4,689)</u>
Total operating revenues	2,724,286	2,824,968
Operating expenses	<u>699,280</u>	<u>455,422</u>
Operating income	<u>2,025,006</u>	<u>2,369,546</u>
Nonoperating revenues (expenses)		
Investment return, net	2,737,359	(3,655,190)
Distributions to Lake Superior State University	<u>(1,467,285)</u>	<u>(1,557,027)</u>
Net nonoperating revenues (expenses)	<u>1,270,074</u>	<u>(5,212,217)</u>
Change in net assets	3,295,080	(2,842,671)
Net assets, beginning of year	<u>22,443,605</u>	<u>25,286,276</u>
Net assets, end of year	<u>\$ 25,738,685</u>	<u>\$ 22,443,605</u>

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

LAKE SUPERIOR STATE UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 3,295,080	\$ (2,842,671)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net depreciation (appreciation) in fair value of investments	(1,823,663)	5,088,772
Change in operating assets and liabilities:		
Other current assets	5,976	1,039
Unconditional promises to give	(765,183)	(346,761)
Accounts payable and accrued expenses	12,866	(13,364)
Employee benefits program	-	(16,720)
Annuity obligation	19,982	(5,757)
Net cash from operating activities	745,058	1,864,538
Cash flows from investing activities		
Purchase of investments	(1,000,210)	(2,427,059)
Sale of investments	281,000	561,000
Net cash from investing activities	(719,210)	(1,866,059)
Net change in cash and cash equivalents	25,848	(1,521)
Cash and cash equivalents, beginning of year	278,373	279,894
Cash and cash equivalents, end of year	\$ 304,221	\$ 278,373

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As required by the Governmental Accounting Standards Board (GASB), the University's financial statements include the financial statements of both the University and its legally separate tax-exempt component unit, the *Lake Superior State University Foundation* (Foundation). As a result of a) the Foundation's Board of Trustees being drawn primarily from community representatives, independent from the governance of the University's Board of Trustees and b) restricted resources held by the Foundation being used only by, or for the benefit of, the University, the Foundation is considered a component unit of the University. The Internal Revenue Service, an agency of the Department of the Treasury of the United States, determined on August 9, 1985, that the Foundation was a tax-exempt organization under section 501(c)(3) of the tax code. The Foundation exclusively benefits the University; however, its Board of Directors is not substantively the same as that of the University. The Foundation is discretely presented in the University's financial statements in accordance with the provisions of GASB 61. See pages 23 through 25 of this report for the statements of net position, statements of activities, and statements of cash flow of the Foundation.

Contributions to the University by the Foundation have been made in the amount of \$1,467,285 during 2023 and \$1,557,027 during 2022. The University provided support to the Foundation in the amount of \$211,924 during 2023 and \$303,894 during 2022.

Basis of Presentation - University

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Adoption of New Accounting Standards

The University adopted GASB Statement 96, *Subscription-Based Information Technology Arrangements*, (GASB 96) effective for the fiscal year ended June 30, 2023. The statement establishes new requirements for calculating and reporting the University's subscription-based information technology arrangements. The adoption of GASB 96 has been reflected as of July 1, 2021, resulting in an increase in intangible right-to-use subscription assets and subscriptions payable of \$260,419 as of July 1, 2021. These balances were calculated using the facts and circumstances that existed as of July 1, 2021 as prescribed by GASB 96. There was no impact to beginning net position as of July 1, 2022.

Balances were restated as follows for the effects of the University's adoption of GASB 96:

	June 30, 2022 As Originally Reported	GASB 96 Impact	June 30, 2022 As Restated
Current assets	\$ 23,970,932	\$ -	\$ 23,970,932
Noncurrent assets	95,903,294	1,462,125	97,365,419
Total assets	119,874,226	1,462,125	121,336,351
Deferred outflows	3,808,284		3,808,284
Current liabilities	5,920,039	516,710	6,436,749
Noncurrent liabilities	53,869,120	1,160,996	55,030,116
Total liabilities	59,789,159	1,677,706	61,466,865
Deferred inflows	4,442,541		4,442,541
Net position	\$ 59,450,810	\$ (215,581)	\$ 59,235,229

Basis of Presentation - Foundation

The Foundation is a not-for-profit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Use of Estimates

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Cash and Cash Equivalents

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

Short-Term Investments

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

Investments and Endowment Investments

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

Accounts Receivable

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

Inventories

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

Leases Receivable

When the University is a lessor in a contract, it records a lease receivable at the commencement of the lease term equal to the present value of the payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. In addition to the lease receivable, the University also records a corresponding deferred inflow of resources at the commencement of the lease term. This is equal to the amount of the lease receivable plus any lease payments related to future periods (e.g., last month's rent), less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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	20 to 60 years
Land improvements	20 years
Infrastructure	20 years
Equipment	3-10 years
Library books	7 years
Vehicles	7 years

Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of outflows related to the University's multi-employer net pension obligation and OPEB and totaled \$987,740 as of June 30, 2023 and \$3,808,284 as of June 30, 2022. Deferred inflows of resources consist of inflows related to the University's multi-employer net pension obligation and OPEB totaling \$1,611, and inflows related to the 2021 refunding bonds totaling \$99,909 as of June 30, 2023, and \$3,375,820 as of June 30, 2022 for pension and OPEB. Inflows related to leases totaling \$742,060 for 2023. Net pension obligation and OPEB amounts are amortized over the actuarial calculated expected remaining service life of the members. The deferred gain on the bond refunding is amortized over the life of the bond issue in accordance with GASB. Revenue from the deferred inflows for the University's lessor leases will be recognized over the term of the lease.

Net Pension Obligation

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenue Recognition

Revenues are recognized when earned and expenses are recognized when the service is provided or when materials are received. Restricted grant revenue is recognized only to the extent expended. Operating revenues of the University consist of tuition and fees, grants and contracts, auxiliary enterprise revenues, and other revenue. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, Federal corona virus relief grants, 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 \$86,374,570 during 2023 and \$81,382,921 during 2022 (net of a 3.0% administrative fee retained by the University and included in nongovernmental grants and contracts within operating revenues) of State appropriations which were forwarded to 21 charter schools. The State appropriation for Bay Mills Community College was changed to a one-time \$1,000,000 for fiscal year 2021. When Bay Mills met certain requirements imposed by the State in July of 2021, the funds were received and transferred. No additional funds have been appropriated for Bay Mills Community College. Appropriations received and related disbursements passed on to the charter schools and Bay Mills Community College are considered agency transactions and, accordingly, are not reported in the accompanying financial statements.

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

Unearned Revenue

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

Income Taxes

The University is classified as a State instrumentality under Internal Revenue Code Section 115 and is also classified as a charitable organization under Internal Revenue Code section 501(c)(1). Therefore, the University is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2023 or 2022.

The Foundation is also exempt from federal income taxes under Section 501(c)(3) and qualifies as an

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

organization operated for the benefit of a college or university owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Certain activities of the Foundation may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. No such taxes were incurred for either fiscal year 2023 or 2022.

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 2019 through 2023 in these jurisdictions. The Foundation also treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of operating expenses. The continued application of ASC Topic 740 has had no significant impact on the Foundation's financial statements.

Split-Interest Agreements

Beneficial Interest in Charitable Remainder Trust

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

Annuity Obligations

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

Fair Value Measurements

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

Foundation Net Assets

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

Net assets without donor restrictions - Generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

dividends and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions.

Net assets with donor restrictions - 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. Some of the restrictions are temporary in nature and are released from restrictions by the passage of time or by actions of the Foundation, pursuant to the donors' stipulations. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Subsequent Events

In preparing these financial statements, management has evaluated, for the potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2023, the most recent statement of net assets presented herein, through January 4, 2024, the date these financial statements were available to be issued. See footnote 23 for a description of significant events.

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

of a manager against a comparable index, as well as the amount of risk the manager is taking. The University uses the service of outside investment counsel in providing performance measurements and asset allocation recommendations. Reports are submitted to the Board of Trustees on an annual basis to ensure compliance with the prescribed policy.

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

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

	2023	2022
Disbursement accounts	\$ 6,461,513	\$ 8,850,741
Money market funds	5,894,390	5,688,090
Total cash and cash equivalents	\$ 12,355,903	\$ 14,538,831

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

	2023	2022
<u>University short-term investments</u>		
Certificates of deposit	\$ 548,906	\$ 540,990
Mutual funds		
Bond/fixed income funds	2,226,274	2,333,405
Total University short-term investments	\$ 2,775,180	\$ 2,874,395
	2023	2022
<u>University endowment investments</u>		
Mutual funds		
Equity funds	\$ 10,364,032	\$ 9,198,250
Bond/fixed income funds	3,322,146	3,316,846
Money market funds	29,399	29,323
Total University endowment investments	\$ 13,715,577	\$ 12,544,419

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, 2023

As of June 30, 2023, the University had the following investments with related maturities:

	Fair Market Value	Maturities (in Years)		
		Less Than 1	1-5	6-10
Equity Funds	\$ 10,364,032	\$ -	\$ -	\$ -
Bond/fixed income funds	5,548,420	2,226,274	-	3,322,146
Certificates of deposit	548,906	-	548,906	-
Money market funds	29,399	29,399	-	-
Total investments	<u>\$ 16,490,757</u>	<u>\$ 2,255,673</u>	<u>\$ 548,906</u>	<u>\$ 3,322,146</u>

As of June 30, 2022, the University had the following investments with related maturities:

	Fair Market Value	Maturities (in Years)		
		Less Than 1	1-5	6-10
Equity funds	\$ 9,198,250	\$ -	\$ -	\$ -
Bond/fixed income funds	5,650,251	2,333,405	-	3,316,846
Certificates of deposit	540,990	-	540,990	-
Money market funds	29,323	29,323	-	-
Total investments	<u>\$ 15,418,814</u>	<u>\$ 2,362,728</u>	<u>\$ 540,990</u>	<u>\$ 3,316,846</u>

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

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The University believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution in which it deposits University funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of June 30, 2023, \$11,395,575 of the University's bank balance of \$12,645,585 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023, the University held 24,651 units of the EuroPacific Growth Fund Class F3 (Security identifier: FEUPX) with a fair value of \$1,352,895 and 49,816 units of the Fidelity Advisor International Capital Appreciation fund (Security identifier: FCPIX) with a fair value of \$1,381,399. As of June 30, 2022, the University held 25,004 units of the EuroPacific Growth Fund Class F3 (Security identifier: FEUPX) with a fair value of \$1,206,964 and 53,153 units of the Fidelity Advisor International Capital Appreciation fund (Security identifier: FCPIX) with a fair value of \$1,193,818. The University holds no other assets which may be subject to the risks of foreign currency.

No foreign currency risk exists with respect to any holdings under the caption "cash and cash equivalents" in the accompanying statements of net position, and all international investments are equity investments held through mutual funds.

Policies regarding marketable securities in the University endowment investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds, or other marketable securities. The University endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the original gift principal. The spending policy is reviewed periodically by the Finance Committee, which recommends changes to the Board of Trustees. The net appreciation on University investments of donor-restricted endowments approximated \$1,197,000 as of June 30, 2023 and \$67,000 as of June 30, 2022. 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>2023</u>	<u>2022</u>
Interest and dividends	2.1%	1.7%
Net realized and unrealized gains (loss)	<u>10.9</u>	<u>(19.2)</u>
Total investment gain (loss)	<u>13.0%</u>	<u>(17.5)%</u>

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.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

3. FAIR VALUE MEASUREMENTS – UNIVERSITY INVESTMENTS

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

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

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

Level 3 - Unobservable inputs for an asset or liability.

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

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

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

4. INVESTMENTS - FOUNDATION

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

	<u>2023</u>	<u>2022</u>
Mutual funds		
Index funds	\$ 4,582,190	\$ 4,076,679
Growth funds	7,777,051	6,557,000
Bond/fixed income funds	7,268,417	7,123,412
Value funds	2,991,558	2,589,887

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

	2023	2022
Public natural resources funds	1,133,157	975,722
Money market	143,626	42,173
Subtotal	23,895,999	21,364,873
Marketable securities	61,992	50,245
Total Foundation investments	\$ 23,957,991	\$ 21,415,118

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

	2023	2022
Mutual funds		
Index funds	\$ 489,181	\$ (651,167)
Growth funds	1,087,228	(2,973,215)
Bond/fixed income funds	(138,345)	(910,035)
Value funds	269,007	(601,141)
Public natural resources funds	104,845	65,515
Subtotal	1,811,916	(5,070,043)
Marketable securities	11,747	(18,729)
Total Foundation unrealized gains (losses)	\$ 1,823,663	\$ (5,088,772)

5. FAIR VALUE MEASUREMENTS – FOUNDATION INVESTMENTS

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

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

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

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 4,582,190	\$ -	\$ -	\$ 4,582,190
Growth funds	7,777,051	-	-	7,777,051
Bond/fixed income funds	7,268,417	-	-	7,268,417
Value funds	2,991,558	-	-	2,991,558
Public natural resources funds	1,133,157	-	-	1,133,157
Money market	143,626	-	-	143,626
Marketable securities	<u>61,992</u>	<u>-</u>	<u>-</u>	<u>61,992</u>
Total investments at fair value	<u>\$23,957,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,957,991</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 4,076,679	\$ -	\$ -	\$ 4,076,679
Growth funds	6,557,000	-	-	6,557,000
Bond/fixed income funds	7,023,276	-	-	7,023,276
Municipal bonds	100,136	-	-	100,136
Value funds	2,589,887	-	-	2,589,887
Public natural resources funds	975,722	-	-	975,722
Money market	42,173	-	-	42,173
Marketable securities	<u>50,245</u>	<u>-</u>	<u>-</u>	<u>50,245</u>
Total investments at fair value	<u>\$21,415,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,415,118</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 \$511,110 as of June 30, 2023 and \$515,887 as of June 30, 2022.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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

	2023	2022
Tuition and fees	\$ 370,754	\$ 331,295
Governmental grants and contracts	1,400,752	894,006
Auxiliary activities	356,084	248,003
Private grants and contracts	21,703	4,725
Other	18,821	108,427
Accounts receivable, net	\$ 2,168,114	\$ 1,586,456

In addition, the University has student loans receivable in the amount of \$1,208,295, net of an allowance for uncollectible loans of \$123,450, as of June 30, 2023 and \$1,362,238, net of an allowance for uncollectible loans of \$247,158, as of June 30, 2022. Approximately 66% of student loans receivable are expected to be collected in periods beyond one year.

7. UNCONDITIONAL PROMISES TO GIVE

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

	2023	2022
Unconditional promises due in less than one year	\$ 1,175,895	\$ 178,401
Unconditional promises due in one to five years, net of discount to net present value at 4% and 1% of \$11,932 and \$7,908	366,034	486,706
Unconditional promises due in more than five years, net of discount to net present value at 1% and 8% of \$14,616 and \$25,261	15,884	95,123
Present value of promises to give	1,557,813	760,230
Less allowance for uncollectible amounts	35,590	3,190
Net unconditional promises to give	1,522,223	757,040
Less current portion	1,140,305	175,211
Unconditional promises to give, net of current portion	\$ 381,918	\$ 581,829

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

8. LEASES RECEIVABLE

The University, as a lessor, has the following receivables under operating lease arrangements:

Description of Lease	<u>Lease Receivable</u>
Lease of cell tower access by telecommunication company: The remaining noncancellable period under this lease is through July 31, 2038. The monthly lease amounts are \$150 through July 31, 2023, then \$1,183 through July 31, 2028, and \$1,302 through July 31, 2038. After the initial term, the lease automatically renews for up to six 5-year periods with a 10% rate increase at the start of each renewal period unless the lessee gives notice of its intent not to renew at least 60 days prior to the next renewal period. The lease receivable reflects the expectation that it is likely that the lessee will not exercise its nonrenewal option.	\$ 890,045
Lease of office space in the Center for Freshwater Research and Education by the U.S. Coast Guard: The remaining noncancellable period under this operating lease is through September 30, 2026. The monthly lease amounts start at \$3,331 per month and increase 2.5% annually on October 1.	136,017
Lease of building in Phoenix, Arizona to Summit High School: The remaining noncancellable period under this operating lease was through June 30, 2024; however, subsequent to year end this lease was modified. Monthly rent was \$18,727 through June 30, 2023 and expected to be approximately \$20,045 thereafter through June 30, 2024. See subsequent event details in Note 23.	240,540
Lease of Cisler Center by Limestone Credit Union. The remaining noncancellable period under this operating lease is through December 31, 2025. The monthly lease amount is \$750 for the entire lease period.	22,500
Subtotal	<u>1,289,102</u>
Less: discount to arrive at net present value	<u>(547,042)</u>
Net present value of leases receivable	<u>\$ 742,060</u>

Present value of annual amounts from leases receivable are as follows:

Year Ending June 30,	Amount
2024	\$ 303,285
2025	62,148
2026	56,302
2027	21,873
2028	11,908

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

2029-2033	57,406
2034-2038	46,142
2039-2043	40,662
2044-2048	35,891
2049-2053	31,683
2054-2058	27,965
2059-2063	24,686
2064-2068	21,791
Thereafter	318
	<u>\$ 742,060</u>

9. CAPITAL ASSETS AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

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

	2023			Balance June 30, 2023
	Balance July 1, 2022	Additions	Reductions	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ -	\$ -	\$ 838,684
Land	2,406,203	6,687	-	2,412,890
Art collection	665,682	11,650	-	677,332
Construction in progress	-	-	-	-
Total capital assets not being depreciated	3,910,569	18,337	-	3,928,906
Capital assets being depreciated				
Land improvements	6,991,227	150,443	-	7,141,670
Infrastructure	5,008,456	36,714	-	5,045,170
Building and building improvements	169,810,043	427,159	-	170,237,202
Equipment and other	26,077,686	2,071,914	970,100	27,179,500
SBITA	1,761,725	693,104	243,157	2,211,672
Total capital assets being depreciated	209,649,137	3,379,334	1,213,257	211,815,214
Accumulated depreciation	(131,038,668)	(5,219,909)	1,106,333	(135,152,244)
Total capital assets being depreciated, net	78,610,469	(1,840,575)	106,924	76,662,970
Total capital assets, net	\$ 82,521,038	\$ (1,822,238)	\$ 106,924	\$ 80,591,876

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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

	2022			Balance June 30, 2022
	Balance July 1, 2021	Additions	Reductions	
Capital assets not being depreciated				
Land - restricted	\$ 838,684	\$ -	\$ -	\$ 838,684
Land	2,110,634	295,569	-	2,406,203
Art collection	665,682	-	-	665,682
Construction in progress	9,839,840	4,869,294	14,709,134	-
Total capital assets not being depreciated	13,454,840	5,164,863	14,709,134	3,910,569
Capital assets being depreciated				
Land improvements	6,037,786	953,441	-	6,991,227
Infrastructure	4,638,914	369,542	-	5,008,456
Building and building improvements	156,187,588	13,622,455	-	169,810,043
Equipment and other	25,007,287	1,179,127	108,728	26,077,686
SBITA	260,419	1,501,306	-	1,761,725
Total capital assets being depreciated	192,131,994	17,625,871	108,728	209,649,137
Accumulated depreciation	(126,163,128)	(4,984,268)	108,728	(131,038,668)
Total capital assets being depreciated, net	65,968,866	12,641,603	-	78,610,469
Total capital assets, net	\$ 79,423,706	\$ 17,806,466	\$ 14,709,134	\$ 82,521,038

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

Site contamination from the former Union Carbide plant prompted the University to enter into various agreements that would allow up to \$1,541,000 of Brownfield grant/loan funds from the Michigan Department of Environment, Great Lakes and Energy to be used to respond to environmental issues at the project site. Project cost increased to \$15,341,000. Bid packaging was nearing completion and estimated completion moved from Spring 2020 to Fall 2020.

In fiscal year 2020, bids were awarded and construction began. More contamination issues were identified late Fall 2019 and the Brownfield monies were increased in February 2020 to \$2,000,000

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(\$1,000,000 each of grant and loan) for site cleanup. The road component was identified and the estimated cost was added to the project. The project suffered various delays related to COVID-19. As a result, the project was expected to be completed Fall 2021.

Occupancy was permitted beginning in October 2021. The opening dedication and open-house events took place in December 2021. The Brownfield grant and loan expenses totaled \$1,464,103 as of June 30, 2022, which is a reduction of about \$500,000 in the amount budgeted at June 30, 2021. No more expenditures are expected for this funding source. Although the project was substantially complete at June 30, 2022 and capitalized, some of the grants and gifts related to the project were not fully expended until fiscal year 2023. The remaining expenses recorded in fiscal year 2023 totaled \$514,621. No more expenditures are expected for this project.

The College has SBITAs that are used for various software licenses and remote hosting arrangements, which meet the capitalization criteria specified by U.S. generally accepted accounting principles. Therefore, the SBITAs have been recorded at the present value of the future minimum payments as of the inception date using internal borrowing rates ranging from 5.00% to 7.00%. The asset cost, accumulated amortization, and payable under the SBITAs totaled approximately \$2.2 million, \$540,000, and \$1.6 million, respectively, as of June 30, 2023. The asset cost, accumulated amortization, and payable under the SBITAs totaled approximately \$1.8 million, \$300,000, and \$1.7 million, respectively, as of June 30, 2022.

Payments on the SBITAs for years succeeding June 30, 2023 are summarized as follows:

2024	\$	453,062
2025		466,466
2026		474,049
2027		478,568
2028		<u>31,218</u>
Total minimum payments		1,903,363
Less amount representing interest		<u>(288,825)</u>
Present value as of June 30, 2023	\$	<u>1,614,538</u>

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2023</u>	<u>2022</u>
Accounts payable to vendors	\$ 1,225,999	\$ 915,437
Payroll and payroll taxes	917,275	1,606,532
Interest	540,497	545,572
Health insurance claims	<u>-</u>	<u>6,000</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Total accounts payable and accrued expenses **\$ 2,683,771** **\$ 3,073,541**

During the year ended June 30, 2019, the University changed to premium-based workers' compensation insurance and no claims were unpaid as of June 30, 2023 or June 30, 2022.

11. LONG-TERM DEBT

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

2023							
	Interest Rate	Maturity	Outstanding Principal				Current Portion
			July 1 2022	Additions	Reductions	June 30 2023	
Bonds payable							
General Revenue							
Bonds, Series 2018							
Series bonds	4.0%	2026-2035	\$ 3,265,000	\$ -	\$ -	\$ 3,265,000	\$ -
Term bonds	5.0%	2038-2050	18,645,000	-	-	18,645,000	-
Bonds, Series 2012							
Series bonds	3.0%-4.0%	2022-2031	-	-	-	-	-
Bonds, Series 2021							
Series bonds	4.0%	2022-2031	11,565,000	-	1,015,000	10,550,000	1,050,000
Net premium on bond issuance			3,312,516	-	219,829	3,092,687	219,829
Total bonds payable			36,787,516	-	1,234,829	35,552,687	1,269,829
Capital leases	up to 4.50%	2021-2025	451,361	220,462	198,711	473,112	158,036
Loans payable	1.85%-4.15%	2021-2034	1,831,924	6,230	144,607	1,693,547	153,725
SBITA	5.00%-7.00%	2021-2028	1,677,706	693,104	756,272	1,614,538	348,711
Total long-term debt			<u>\$ 40,748,507</u>	<u>\$ 919,796</u>	<u>\$ 2,334,419</u>	39,333,884	<u>\$1,930,301</u>
Less current portion						1,930,301	
Long-term debt, net of current portion						<u>\$ 37,403,583</u>	

2022							
	Interest Rate	Maturity	Outstanding Principal				Current Portion
			July 1 2021	Additions	Reductions	June 30 2022	
Bonds payable							
General Revenue							
Bonds, Series 2018							
Series bonds	4.0%	2026-2035	\$ 3,265,000	\$ -	\$ -	\$ 3,265,000	\$ -
Term bonds	5.0%	2038-2050	18,645,000	-	-	18,645,000	-
Bonds, Series 2012							
Series bonds	3.0%-4.0%	2022-2031	13,865,000	-	13,865,000	-	-
Bonds, Series 2021							
Series bonds	4.0%	2022-2031	-	11,565,000	-	11,565,000	1,015,000
Net premium on bond issuance			2,098,844	1,717,746	504,074	3,312,516	219,829

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Total bonds payable			37,873,844	13,282,746	14,369,074	36,787,516	1,234,829
Capital leases	up to 4.50%	2021-2025	511,446	206,207	266,292	451,361	191,346
Loans payable	1.85%-4.15%	2021-2034	1,353,881	672,115	194,072	1,831,924	156,196
SBITA	5.00%-7.00%	2021-2027	260,419	1,501,306	84,019	1,677,706	516,710
Total long-term debt			<u>\$ 39,999,590</u>	<u>\$ 15,662,374</u>	<u>\$14,913,457</u>	40,748,507	<u>\$2,099,081</u>
Less current portion						<u>2,099,081</u>	
Long-term debt, net of current portion							<u>\$ 38,649,426</u>

Bonded Debt

General Revenue Bonds, Series 2021

In August 2021, the University issued fixed rate General Revenue Bonds in the amount of \$11,565,000. As of June 30, 2023, serial bonds payable in the amount of \$10,550,000 are payable from general revenues, maturing in varying amounts through November 2031, with interest charged at an annual fixed rate of 4.0%.

In 2021, the University used the proceeds from above mentioned bond issue to refund \$12,820,000 in outstanding fixed rate General Revenue Bonds, Series 2012. As of June 30, 2022, the certificates were considered defeased and the liability has been removed from the statements of net position. The refunding resulted in an interest savings of \$1,717,545 and a net present value savings of \$1,575,210. The difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is reflected as a deferred inflow which is being amortized over the life of the new bond as a component of interest expense.

General Revenue Bonds, Series 2018

In August 2018, the University issued fixed rate General Revenue Bonds in the amount of \$21,910,000 payable from General Revenues. As of June 30, 2023, bonds payable are comprised of serial bonds payable in the amount of \$3,265,000 maturing in varying amounts beginning in January 2026 through January 2035, with interest charged at 4% and 4 term bonds in the amounts of \$2,545,000, \$5,585,000, \$7,135,000 and \$3,380,000 with interest charged at 5%. The term bonds mature in January 2038, 2043, 2048, and 2050, respectively. All of the bonds are callable after January 15, 2029.

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, 2021, serial bonds payable in the amount of \$13,865,000 were payable from general revenues, maturing in varying amounts through November 2031, with interest charged at annual rates ranging from 3.0% to 4.0%. As of June 30, 2022, the certificates were considered defeased and the liability has been removed from the statement of net position.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

In 2012, the University used the proceeds from above mentioned bond issue to refund \$4,670,000 and \$18,685,000 in outstanding fixed rate General Revenue Bonds, Series 1997 and 2001, respectively. As of June 30, 2018, the certificates were considered defeased and the liability has been removed from the statements of net position. The refunding resulted in an interest savings of \$3,540,834 and a net present value savings of \$2,821,221.

Debt Service Requirements

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,050,000	\$ 1,463,850	\$ 2,513,850
2025	1,095,000	1,420,950	2,515,950
2026	1,195,000	1,376,350	2,571,350
2027	1,285,000	1,327,650	2,612,650
2028	1,380,000	1,275,450	2,655,450
2029-2033	6,595,000	5,526,850	12,121,850
2034-2038	3,380,000	4,619,600	7,999,600
2039-2043	3,760,000	3,494,000	7,254,000
2044-2048	5,585,000	1,950,250	7,535,250
2049-2050	<u>7,135,000</u>	<u>255,500</u>	<u>7,390,500</u>
Total – bonds payable	<u>\$ 32,460,000</u>	<u>\$ 22,710,450</u>	<u>\$ 55,170,450</u>

Lease Obligations

Lease Obligations for Capitalized Right-of-Use Assets

The University leases certain equipment with a net book value of \$553,271 as of June 30, 2023, under lease agreements which meet the capitalization criteria specified by U.S. generally accepted accounting principles.

The following is a schedule of annual future minimum lease payments required under these lease obligations as of June 30, 2023:

<u>Year Ending June 30</u>	<u>Amount</u>
2024	\$ 180,434
2025	131,932
2026	99,189
2027	66,687
2028	15,579
2029-2033	<u>28,554</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Total minimum payments due	522,375
Less amounts representing interest, imputed at annual rates ranging up to 9.59%	<u>49,263</u>
Present value of net minimum lease payments	<u>\$ 473,112</u>

Other Lease Obligations

During the fiscal year ended June 30, 2019, the University entered into a 5-year operating lease for copier equipment. Two additional copiers were added to the lease during fiscal year 2022. Due to the immaterial nature of these agreements, right-of-use assets or lease liabilities have not been recorded. This does not affect the University's net position. The following is a schedule of annual future minimum lease payments required under these leasing arrangements (that were considered operating lease obligations prior to the adoption of GASB No. 87) as of June 30, 2023:

<u>Year Ending June 30</u>	<u>Amount</u>
2024	<u>5,505</u>
Total minimum payments due	<u>\$ 5,505</u>

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, 2023, and June 30, 2022, are included in operating expenses.

Equipment Loans

On November 15, 2016, the University entered into a Loan Agreement with Central Savings Bank to purchase exercise equipment for the Student Activity Center. The loan was for the amount of \$150,000 with a fixed interest rate of 1.850%. Repayment comprises 60 monthly payments in the amount of \$2,619 beginning January 1, 2017 and ending November 14, 2021. As of June 30, 2022, the loan was paid in full.

On June 14, 2019, the University entered into a Loan Agreement with Central Savings Bank for cash to purchase Cannabis equipment for the new Cannabis chemistry academic program. The loan was for the amount of \$977,842 with a fixed interest rate of 4.150%. Original repayment comprises 180 monthly payments in the amount of \$7,315 beginning August 14, 2019 and ending July 14, 2034. The loan was refinanced as of August 14, 2023, with new monthly payments in the amount of \$8,565 ending June 14, 2034. As of June 30, 2023, the principal remaining on the loan was \$789,420.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

The following is a schedule of annual future payments for the loan as of June 30, 2023:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 48,448	\$ 53,080	\$ 101,528
2025	53,390	49,389	102,779
2026	57,114	45,665	102,779
2027	61,182	41,597	102,779
2028	65,483	37,295	102,778
2029-2033	404,771	109,123	513,894
2034	<u>99,032</u>	<u>3,746</u>	<u>102,778</u>
Total – loan payable	<u>\$ 789,420</u>	<u>\$ 339,895</u>	<u>\$ 1,129,315</u>

Line of Credit

On May 28, 2020, the University entered into a promissory note (tax-exempt non-revolving Line of Credit) with Central Savings Bank to meet cash flow needs related to capital expenditures. The note allows for up to \$3,000,000 to be borrowed over the course of two years after which time the note converts to a five-year term loan. The interest rate is fixed at 3.250% and began as soon as the first dollars were drawn. During fiscal year 2022, the initial draw on the line of credit was paid off and additional draws totaling \$544,599 were made for the purchase of various equipment. A payment of \$3,000 was made in May 2022 and a \$100 processing fee was added in June for the final draw made subsequent to the May deadline. Thus, a total of \$541,699 was converted to a five-year term loan with the first payment due in June 2022. As of June 30, 2023, the principal remaining on the loan was \$433,794.

The following is a schedule of annual future payments for the five-year term loan as of June 30, 2023:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 105,277	\$ 12,558	\$ 117,835
2025	108,781	9,054	117,835
2026	112,355	5,480	117,835
2027	<u>107,381</u>	<u>1,774</u>	<u>109,155</u>
Total – loan payable	<u>\$ 433,794</u>	<u>\$ 28,866</u>	<u>\$ 462,660</u>

Sault Ste. Marie Brownfield Redevelopment Authority Loan

On July 1, 2019, the City of Sault Sainte Marie entity, Sault Ste. Marie Brownfield Redevelopment Authority, in conjunction with the University were awarded \$541,000 in Brownfield Loan monies

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(together with a \$1,000,000 Brownfield Grant) for the redevelopment of the former Union Carbide property into the Center for Freshwater Research and Education. On July 23, 2019, the Brownfield loan amount was increased by \$459,000 to \$1,000,000 to handle additional issues with the site contamination and underground discarded structures. According to the agreement between the University and the City of Sault Ste. Marie, the University is responsible for the loan repayment even though some of the expenditures will be made directly by the City. The fixed interest rate of 1.50% begins with repayment in 2026. As of June 30, 2023, the principal drawn on the loan was \$470,333.

The following is a schedule of annual future payments for the loan as of June 30, 2023:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 46,011	\$ -	\$ 46,011
2027	39,646	6,365	46,011
2028	40,241	5,770	46,011
2029-2033	210,442	19,613	230,055
2034-2036	<u>133,993</u>	<u>4,040</u>	<u>138,033</u>
Total – loan payable	<u>\$ 470,333</u>	<u>\$ 35,788</u>	<u>\$ 506,121</u>

12. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plans

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

Support personnel represented by the Michigan Education Association/National Education Association (MEA) hired after January 1, 1996, and faculty and administrative employees are eligible for the TIAA-CREF plan. TIAA-CREF is a defined contribution plan where the University contributes an amount equal to 10.0 percent of administrative and faculty group employees' pay (12.0 percent for those hired before January 1, 2010), and 10.0 percent of MEA employees' pay. Beginning July 8, 2021, the University contribution will decrease from 10.0 percent to 8.0 percent of MEA employees' pay and a three-year vesting requirement will be imposed. The University contributed approximately \$1,720,000 for the year ended June 30, 2023 and \$1,698,000 for the year ended June 30, 2022. 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 (MPERS or System), a statewide, cost-sharing, multiple-employer defined benefit public

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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

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

University contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The member 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, 2023	6.52%	10.00%
June 30, 2022	6.52%	19.86%

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

The University's statutorily required contribution was \$1,841,966. Its actual and actuarially determined contributions to the plan for the year ended June 30, 2023 were \$10,342,771. Contributions include \$206,553 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate and \$9,184,406 of revenue received from the State of Michigan under Section 236(h) Special Allocation 2022 for the year ended June 30, 2023. The University's required and actual contributions to the plan for the year ended June 30, 2022 were \$4,462,075. Contributions included \$515,034 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate and \$2,594,341 of revenue received from the State of Michigan under Section 236(h) Special Allocation 2021 for the year ended June 30, 2022.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 years with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

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

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

MPSERS Net Pension Liability – Seven Universities as of September 30, 2022

Total pension liability	\$	1,248,180,072
Plan fiduciary net position		<u>(928,478,539)</u>
Net pension liability	\$	<u>319,701,533</u>
Plan fiduciary net position as a percentage of total pension liability		74.39%
Net pension liability as a percentage of covered payroll		141.51%

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

MPSERS Net Pension Liability – Seven Universities as of September 30, 2021

Total pension liability	\$	1,176,949,367
Plan fiduciary net position		<u>(615,094,553)</u>
Net pension liability	\$	<u>561,854,814</u>
Plan fiduciary net position as a percentage of total pension liability		52.26%
Net pension liability as a percentage of covered payroll		253.66%

Net Pension Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense: At June 30, 2023, the University reported a liability of \$9,751,506 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2021. The University’s proportionate share 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, 2022, the University’s proportionate share was 3.05019%. The University reported a liability of \$16,987,951 as of June 30, 2022, and the University’s proportionate share was 3.02354% as of the September 30, 2021 measurement date.

The University recognized pension expense of \$3,575,326 for the year ended June 30, 2023 and \$457,718 for the year ended June 30, 2022.

At June 30, 2023, 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	-	-
Net difference between projected and actual plan investment earnings	521,695	-
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	367,299	1,611
	\$ 888,994	\$ 1,611

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

At June 30, 2022, 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	-	-
Net difference between projected and actual plan investment earnings	-	2,287,266
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	3,613,458	338,028
	\$ 3,613,458	\$ 2,625,294

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
2023	\$ 48,521
2024	(13,469)
2025	(66,612)
2026	553,255
	\$ 521,695

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, 2022 is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using U.S. generally accepted actuarial procedures.

Actuarial Valuations and Assumptions: Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health-care 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.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2021

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

Wage Inflation Rate:2.75%

Investment Rate of Return:

- MIP and Basic Plans (Non-Hybrid):6.00%

- Pension Plus Plan (Hybrid):.....6.00%

Projected Salary Increases:2.75 - 11.55%, including wage inflation at 2.75%

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

Mortality: RP-2014 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. This assumption was first used for the September 30, 2017 valuation of the System. For retirees, 82% of the table rates were used for males and 78% of the table rates were used for females. For active members, 100% of the table rates were used.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation.

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Investment Category	Target Allocation	2022	2021
		Long-term Expected Real Rate of Return	Long-term Expected Real Rate of Return
Domestic Equity Pools	25.0%	5.1%	5.4%
Private Equity Pools	16.0	8.7	9.1
International Equity Pools	15.0	6.7	7.5
Fixed Income Pools	13.0	(0.2)	(0.7)
Real Estate & Infrastructure Pools	10.0	5.3	5.4
Absolute Return Pools	9.0	2.7	2.6
Real Return/Opportunistic Pools	10.0	5.8	6.1
Short Term Investment Pools	2.0	(0.5)	(1.3)
Total	100.0%		

Rate of Return: For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (4.18)%. For the fiscal year ended September 30, 2021, the rate was 27.3%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.00% and the resulting single discount rate is 6.00%.

Discount Rate: A discount rate of 6.00% was used to measure the total pension. This discount rate was based on the long term expected rate of return on pension plan investments of 6.00%. 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.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 6.00% for the current fiscal year, as well as what Lake Superior State University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate:

At June 30, 2023:

1.0% decrease (5.00%)	Current Discount Rate (6.00%)	1.0 % increase (7.00%)
\$ 13,584,620	\$ 9,751,506	\$ 6,497,658

At June 30, 2022:

1.0% decrease (5.80%)	Current Discount Rate (6.80%)	1.0 % increase (7.80%)
\$ 20,411,072	\$ 16,987,951	\$ 14,065,600

Payable to the Pension Plan: The University reported a payable of \$16,490 as of June 30, 2023 and \$-0- as of June 30, 2022 for the outstanding amount of contributions to the pension plan required for the year then ended for the statutorily required pension contributions related to accrued labor expense.

MPSERS – Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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

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

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

MPSERS Fiduciary Net Position-OPEB

MPSERS Net OPEB Liability – Seven Universities as of September 30, 2022

Total OPEB liability	\$	176,676,168
Plan fiduciary net position		<u>(214,115,486)</u>
Net OPEB liability	\$	<u><u>(37,439,318)</u></u>
Plan fiduciary net position as a percentage of total OPEB liability		121.19%
Net OPEB liability as a percentage of covered payroll		(16.57)%

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

MPSERS Net OPEB Liability – Seven Universities as of September 30, 2021

Total OPEB liability	\$	179,304,062
Plan fiduciary net position		<u>(222,182,156)</u>
Net OPEB liability	\$	<u>(42,878,094)</u>
Plan fiduciary net position as a percentage of total OPEB liability		123.91%
Net OPEB liability as a percentage of covered payroll		(19.36)%

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 20-year period.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2023.

OPEB Contribution Rates

Benefit Structure	Member	Employer <u>University</u>
Premium subsidy	3.00%	0.92%
Personal Health-care Fund (PHF)	0.00%	0.00%

Required contributions to the OPEB plan from LSSU were \$413,816 for the year ended September 30, 2022 and \$417,370 for the year ended June 30, 2021.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2023, LSSU reported a liability of \$(1,146,603) for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. LSSU’s proportionate share of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. As of September 30, 2022, the University’s proportionate share was 3.06256%. The University reported a liability of \$(1,311,936) as of June 30, 2022, and the University’s proportionate share was 3.05969% as of the September 30, 2021 measurement date.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

The University recognized OPEB expense of \$(265,361) for the year ended June 30, 2023 and \$(1,433,176) for the year ended June 30, 2022.

At June 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 93,989	\$ -
Changes of assumptions	-	-
Net difference between projected and actual OPEB plan investment earnings	-	-
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	4,757	-
	\$ 98,746	\$ -

At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual OPEB plan investment earnings	-	750,526
Changes in proportionate and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	194,826	-
	\$ 194,826	\$ 750,526

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2023	\$ (7,226)
2024	(22,181)
2025	(39,154)
2026	162,550
	\$ 93,989

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

Valuation Date:September 30, 2021

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

Wage Inflation Rate:2.75%

Investment Rate of Return:6.0%

Projected Salary Increases:2.75 – 11.55%, including wage inflation at 2.75%

Health-care Cost Trend Rate:Pre-65 7.75% Year 1 and Post-65 5.25% Year 1 both graded to 3.50% Year 15; 3.00% Year 120

Mortality: RP-2014 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. This assumption was first used for the September 30, 2017 valuation of the System. For retirees, 82% of the table rates were used for males and 78% of the table rates were used for females. For active members, 100% of the table rates were used.

Other assumptions:

Opt Out Assumptions 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree’s death.

Coverage Election at Retirement 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using U.S. generally accepted actuarial procedures, including the experience study.
- Recognition period for OPEB liabilities is the average of the expected remaining service lives of all employees which in years is 1.0217.
- Recognition period for OPEB assets in years is 5.0000.
- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets: The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation are summarized in the following table as of September 30:

Investment Category	Target Allocation	2022	2021
		Long-term Expected Real Rate of Return	Long-term Expected Real Rate of Return
Domestic Equity Pools	25.0%	5.1%	5.4%
Private Equity Pools	16.0	8.7	9.1
International Equity Pools	15.0	6.7	7.5
Fixed Income Pools	13.0	(0.2)	(0.7)
Real Estate & Infrastructure Pools	10.0	5.3	5.4
Absolute Return Pools	9.0	2.7	2.6
Real Return/Opportunistic Pools	10.0	5.8	6.1
Short Term Investment Pools	2.0	(0.5)	(1.3)
Total	100.0%		

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (4.99)% and for the fiscal year ended September 30, 2021 was 27.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate: A discount rate of 6.00% was used to measure the total OPEB liability for fiscal year 2022. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. The projection of cash flows used to determine this discount rate assumed

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. In fiscal year 2021, the single discount rate used to measure the total OPEB liability was 6.95%.

Sensitivity of LSSU's proportionate share of the net OPEB liability to changes in the discount rate: The following presents LSSU's proportionate share of the net OPEB liability calculated using the discount rate of 6.00%, as well as what LSSU's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage higher:

At June 30, 2023:

1.0% decrease (5.00%)	Current Discount Rate (6.00%)	1.0% increase (7.00%)
\$ (613,395)	\$ (1,146,603)	\$ (1,599,553)

At June 30, 2022:

1.0% decrease (5.95%)	Current Discount Rate (6.95%)	1.0% increase (7.95%)
\$ (802,793)	\$ (1,311,936)	\$ (1,747,753)

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

At June 30, 2023:

1.0% decrease (5.00%)	Current Health-care Cost Trend Rate (6.00%)	1.0% increase (7.00%)
\$(1,627,985)	\$(1,146,603)	\$(594,488)

At June 30, 2022:

1.0% decrease (5.95%)	Current Health-care Cost Trend Rate (6.95%)	1.0% increase (7.95%)
\$(1,780,480)	\$(1,311,936)	\$(777,542)

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2022 MPSERS ACFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan: As of June 30, 2023, the University reported a payable of \$289 for the outstanding amount of contributions to the defined benefit OPEB plan required for the year then ended for the statutorily required OPEB contributions related to accrued labor expense.

Compensated Absences

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

Accumulated Sick Leave Benefits

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

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

	2023				
	July 1 2022	Additions	Payments	June 30 2023	Current Portion
Compensated absences	\$ 745,939	\$ 126,606	\$ 169,717	\$ 702,828	\$ 135,805
Accumulated sick leave benefits	<u>153,335</u>	<u>10,000</u>	<u>33,035</u>	<u>130,301</u>	<u>44,599</u>
Total employee benefit programs	<u>\$ 899,274</u>	<u>\$ 136,606</u>	<u>\$ 202,752</u>	<u>\$ 833,129</u>	<u>\$ 180,404</u>
	2022				
	July 1 2021	Additions	Payments	June 30 2022	Current Portion
Compensated absences	\$ 731,656	\$ 165,141	\$ 150,858	\$ 745,939	\$ 130,000
Accumulated sick leave benefits	<u>182,037</u>	<u>10,000</u>	<u>38,702</u>	<u>153,335</u>	<u>64,599</u>
Total employee benefit programs	<u>\$ 913,693</u>	<u>\$ 175,141</u>	<u>\$ 189,560</u>	<u>\$ 899,274</u>	<u>\$ 194,599</u>

Other Postemployment Health Benefits

The University allows retirees who are not covered by the MPSERS health-care plan to purchase health-care benefits at cost and has 16 retirees participating in this health coverage as of June 30, 2023 and 17 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 January 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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

required to pay all monthly premiums, there is no liability to the University; accordingly, no postemployment health-care liability has been recorded in the accompanying statements of net position.

13. SELF INSURANCE

Liability and Property

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

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

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

Insurance Reserves

Effective September 1, 2018, the University changed from self-insured to commercial insurance for workers' compensation coverage. Beginning January 1, 2019, the University changed from self-insured to a hybrid plan for health insurance coverage. The University purchases commercial insurance for workers' compensation and health insurance claims in excess of coverage provided by the self insurance reserves. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The University reserves an amount within unrestricted net position for health and maintenance reserves and records a liability for workers' compensation insurance. These reserves are determined by MUSIC for losses relating to claims and amounted to \$1,910,456 as of June 30, 2023 and \$1,822,467 as of June 30, 2022. The workers' compensation claims liability of \$ -0- for the years ending as of June 30, 2023 and 2022, which is included in accounts payable and accrued expenses, is based on the requirements of U.S. 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, 2023 were \$-0- and \$6,000 as of June 30, 2022, and, accordingly, a related liability has been recorded in the accompanying statements of net position.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

14. NET ASSETS CATEGORIES - FOUNDATION

Net assets with donor restrictions as of June 30 consist of the following:

	2023	2022
Subject to expenditure for a specified purpose:		
University programs	\$ 3,785,964	\$ 2,853,554
Subject to the endowment spending policy and appropriation for donor specified purpose:		
Permanent endowment funds	14,252,027	13,753,796
Investment appreciation and income	7,312,508	5,602,638
The corpus of the endowment funds are held in perpetuity; the spendable income from which supports scholarships, athletics and other University programs		
Subject to appropriation and expenditure when a specified event occurs (death of the donor):		
Charitable remainder agreements-scholarships	42,620	68,352
Total with donor restriction	\$ 25,393,119	\$ 22,278,340

Net assets without donor restrictions as of June 30 consist of the following:

	2023	2022
Board designated for:		
Fund for LSSU grant program	\$ 74,100	\$ 84,659
University athletic programs	73,834	57,486
University Investment Club	62,992	51,245
Total board designated	210,926	193,390
Undesignated	254,197	229,727
Underwater endowment funds	(119,557)	(257,852)
Total without donor restriction	345,566	165,265
Total net assets	\$ 25,738,685	\$ 22,443,605

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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

	2023		
	Without donor restriction	With donor restriction	Totals
Revenue, gains, and other support			
Contributions	\$ 198,554	\$ 2,215,138	\$ 2,413,692
Contributions of nonfinancial assets	328,210	-	328,210
Change in value of split interest agreements	-	(17,616)	(17,616)
Investment return, net	38,256	2,699,103	2,737,359
Net assets released from restrictions	1,781,846	(1,781,846)	-
Total revenue, losses, and other support	2,346,866	3,114,779	5,461,645
Expenses			
Operating expenses	(699,280)	-	(699,280)
Distributions to Lake Superior State University	(1,467,285)	-	(1,467,285)
Changes in net assets	180,301	3,114,779	3,295,080
Net assets, beginning of year	165,265	22,278,340	22,443,605
Net assets, end of year	\$ 345,566	\$ 25,393,119	\$ 25,738,685

	2022		
	Without donor restriction	With donor restriction	Totals
Revenue, gains, and other support			
Contributions	\$ 317,192	\$ 2,375,617	\$ 2,692,809
Contributions of nonfinancial assets	136,848	-	136,848
Change in value of split interest agreements	-	(4,689)	(4,689)
Investment return, net	8,920	(3,664,110)	(3,655,190)
Net assets released from restrictions	1,179,285	(1,179,285)	-
Total revenue, gains, and other support	1,642,245	(2,472,467)	(830,222)
Expenses			
Operating expenses	(455,422)	-	(455,422)
Distributions to Lake Superior State University	(1,557,027)	-	(1,557,027)
Changes in net assets	(370,204)	(2,472,467)	(2,842,671)
Net assets, beginning of year	535,469	24,750,807	25,286,276
Net assets, end of year	\$ 165,265	\$ 22,278,340	\$ 22,443,605

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

15. FUNCTIONAL EXPENSES - FOUNDATION

Fund raising expenditures are directly charged to the functional areas. Salaries and benefits for administrative staff are all charged to management and general.

Following is a summary of the Foundation's functional expenses for the years ended June 30:

2023				
	Program Services	Management and General	Fund Raising	Totals
Operating expenses				
Salaries, wages and benefits	\$ -	\$ 309,711	\$ 4,561	\$ 314,272
Services and professional fees	-	91,186	-	91,186
Meals, travel and entertainment	-	14,544	10,926	25,470
Office expenses	-	9,287	458	9,745
Rent	-	20,810	-	20,810
Charitable annuity payments	-	30,940	-	30,940
Other expenses	-	206,857	-	206,857
Total	-	683,335	15,945	699,280
Distributions to Lake Superior State University	1,467,285	-	-	1,467,285
Totals	\$ 1,467,285	\$ 683,335	\$ 15,945	\$ 2,166,565

2022				
	Program Services	Management and General	Fund Raising	Totals
Operating expenses				
Salaries, wages and benefits	\$ -	\$ 310,465	\$ 2,101	\$ 312,566
Services and professional fees	-	76,906	890	77,796
Meals, travel and entertainment	-	10,824	8,029	18,853
Office expenses	-	18,579	333	18,912
Rent	-	20,100	-	20,100
Charitable annuity payments	-	5,201	-	5,201
Other expenses	-	1,664	330	1,994
Total	-	443,739	11,683	455,422
Distributions to Lake Superior State University	1,557,027	-	-	1,557,027
Totals	\$ 1,557,027	\$ 443,739	\$ 11,683	\$ 2,012,449

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

16. CONTRIBUTED NONFINANCIAL ASSETS (IN-KIND CONTRIBUTIONS) – FOUNDATION

The Foundation received contributed personnel services and rent from the University. Payroll and related expenses are valued and reported at their estimated fair value in the financial statements based on the costs incurred by the University. The Foundation uses these services in its advancement activities and would have to be purchased if they were not provided as contributions. Contributed rent is valued and reported at its estimated fair value based on the square footage of the spaced used by the Foundation at a rate comparable to a prevailing rental rate. The amounts of contributed services consisted of the following.

	<u>2023</u>	<u>2022</u>
Personnel services	\$ 307,400	\$ 116,748
Rent	20,810	20,100
	<u>\$ 328,210</u>	<u>\$ 136,848</u>

These amounts are included in revenue and program expenses in the statement of activities and functional expenses. There are no associated donor restrictions on the contributed services.

17. FOUNDATION ENDOWMENT

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

Interpretation of Relevant Law

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

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 with donor restrictions for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Endowment net assets, beginning of year	\$ 19,098,582	\$ 22,134,240
Investment return, net	2,699,126	(3,663,313)
Contributions	543,327	1,400,198
Appropriation of endowment assets for expenditure	(878,440)	(767,854)
Change in value	<u>(17,616)</u>	<u>(4,689)</u>
Endowment net assets, end of year	<u>\$ 21,444,979</u>	<u>\$ 19,098,582</u>

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.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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.

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions. Underwater endowment funds totaled \$119,557 at June 30, 2023. Underwater endowment funds totaled \$257,852 at June 30, 2022.

18. FOUNDATION LIQUIDITY AND AVAILABILITY

The Foundation has financial assets available within one year of the balance sheet date to meet cash needs for general expenditures as shown in the table below. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets as of June 30 include the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 304,221	\$ 278,373
Short-term investments	1,595,283	1,482,283
Other current assets	-	5,976
Current portion of unconditional promises to give, net	1,140,305	175,211
Total financial assets	<u>3,039,809</u>	<u>1,941,843</u>
Less amounts not available to be used within one year:		
Assets whose use is limited	<u>2,775,362</u>	<u>1,715,054</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 264,447</u>	<u>\$ 226,789</u>

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

19. 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 July 8, 2021. The Faculty Association contract was ratified effective July 15, 2022. 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, 2025
Faculty	Michigan Education Association/ National Education Association	June 30, 2027
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 three buildings: the Center for Freshwater Research and Education (August, 2022), the R. W. Considine Business Building (formerly South Hall) (September, 2017), and the Arts Classroom Building (January, 2005). The buildings were financed with SBA revenue bonds, State appropriations, University general revenue bonds, gifts and grants.

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 most recently terminated lease was for the Crawford Hall Addition and Remodel which was conveyed to the University in 2006.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

The cost and accumulated depreciation for these facilities is included in the accompanying statements of net position.

20. **IMPACT OF COVID-19 AND CORONA VIRUS RELIEF ACTS**

On March 13, 2020, the President of the United States of America issued a proclamation, "Declaring a National Emergency concerning the Novel Coronavirus Disease (COVID-19) Outbreak." On March 10, 2020, the Governor of the State of Michigan issued executive order 2020-04 declaring a state of emergency due to COVID-19 and on March 23, 2020 issued a statewide stay-at-home order to fight the outbreak of COVID-19. Effective Monday, March 16, 2020 LSSU suspended face-to-face instruction for lecture and discussion classes and moved to online or remote instruction for the balance of spring semester 2020. Summer semester instruction was also online or remote. Effective March 18, 2020 many faculty and staff began working from home and then on March 23, 2020 all but essential workers moved to working from home. The table below shows when HEERF funds were expended and the following verbiage further explains some of the impacts of COVID-19 on University operations and the financial statements.

	<u>CARES Act or HEERF I</u>			<u>CRRSA Act or HEERF II</u>			<u>ARP Act or HEERF III</u>			<u>Grand Total</u>
	<u>Student Emergency Relief</u>	<u>Institution Relief</u>	<u>Strengthen Institution s</u>	<u>Student Emergency Relief</u>	<u>Institution Relief</u>	<u>Strengthen Institutions</u>	<u>Student Emergency Relief</u>	<u>Institution Relief</u>	<u>Strengthen Institutions</u>	
Awarded:	\$ 801,132	\$ 801,131	\$ 79,508	\$ 801,132	\$ 2,044,474	\$ 120,601	\$ 2,555,521	\$ 2,540,008	\$ 225,131	\$ 9,968,638
Spent and Recognized as Non-operating Revenue:										
<u>Fiscal Year</u>										
2020	\$ 527,500	\$ 282,471	\$ 78,587	\$	\$	\$	\$	\$	\$	\$ 888,558
2021	273,632	518,660	921	582,000	2,004,446	120,601		665,496		4,165,756
2022				219,132	40,028		2,554,921	1,857,575	224,830	4,896,486
2023							600	16,937	301	17,838
Total	\$ 801,132	\$ 801,131	\$ 79,508	\$ 801,132	\$ 2,044,474	\$ 120,601	\$ 2,555,521	\$ 2,540,008	\$ 225,131	\$ 9,968,638

CARES Act or HEERF I

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law March 27, 2020, to provide economic relief from COVID-19. The University received the following grants under the CARES Act through the US Department of Education:

- \$801,132 Higher Education Emergency Relief Funding;
- \$801,131 Institutional Relief Funding; and
- \$ 79,508 Title III Strengthening the Institutions Relief Funding

The Higher Education Emergency Relief Funding provided funding to universities to use for emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus. As of June 30, 2021, the University had awarded grants totaling \$801,132 to students. This is included in nonoperating Federal corona virus relief funds revenue on the statements of revenues, expenses, and changes in net position.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

The Higher Education Emergency Relief Funding and the Institutional Relief Funding are awarded under Section 18004(a)(1) of the CARES Act. There is a requirement that of the combined funds, at the end of the grant period, at least 50 percent must be used for emergency financial aid grants to students. The Institutional Relief Funding allows the University to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. As of June 30, 2021, the University had drawn down and expended \$801,131 related to the Institutional Relief Funding and accordingly, recognized \$801,131 of revenue which is included in nonoperating Federal corona virus relief funds revenue on the statements of revenues, expenses, and changes in net position.

The Title III Strengthening the Institutions Relief Funding allows a university to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. Guidance issued by the US Department of Education specifically allow institutions to use this funding to cover the cost of technology associated with a transition to distance education, grants to cover the costs of attendance for eligible students, and faculty and staff trainings. Additionally, funds may be used to cover operational costs, such as lost revenue, reimbursements for prior expenses, and payroll. As a result, the University recovered \$79,508 of lost revenue.

A provision of the CARES Act would have allowed the University to defer payment of the employer portion of Social Security taxes through December 31, 2020. The University decided not to participate in this option.

The CARES or HEERF I funds were fully expended and drawn as of June 30, 2021 and thus there were no funds spent or drawn in the fiscal years ended June 30, 2023 or 2022.

CRRSA Act or HEERF II

The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act was passed by Congress and signed into law December 27, 2020, to provide additional economic relief from COVID-19. The University received the following grants under the CRRSA Act through the US Department of Education:

- \$ 801,132 Higher Education Emergency Relief Funding;
- \$2,044,474 Institutional Relief Funding; and
- \$ 120,601 Title III Strengthening the Institutions Relief Funding

The Higher Education Emergency Relief Funding provided funding to universities to use for emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus. As of June 30, 2022, the University had drawn down and awarded grants totaling \$801,132 to students. The University expended \$582,000 in the fiscal year ended June 30, 2021 and \$219,132 in the fiscal year ended June 30, 2022. These amounts were included in nonoperating Federal corona virus relief funds revenue on the statement of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2021 and June 30, 2022 respectively.

The Higher Education Emergency Relief Funding and the Institutional Relief Funding are awarded under Section 314(a)(1) of the CRRSA Act. The Institutional Relief Funding allows the University to cover costs associated with significant changes to the delivery of instruction due to the

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

coronavirus as well as recover lost revenue. As of June 30, 2023, the University had expended and drawn \$2,044,474 related to the Institutional Relief Funding. The University expended \$2,004,446 in the fiscal year ended June 30, 2021 and \$40,028 in the fiscal year ended June 30, 2022. The amounts of \$2,004,446 and \$40,028 were included in nonoperating Federal corona virus relief funds revenue on the statement of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2021 and June 30, 2022, respectively. The University also recognized accounts receivable of \$22,355 in the fiscal year ended June 30, 2022 and \$-0- in the fiscal year ended June 30, 2023. The final draw down was completed in fiscal year ended June 30, 2023.

The Title III Strengthening the Institutions Relief Funding allows a university to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. Guidance issued by the US Department of Education specifically allow institutions to use this funding to cover the cost of technology associated with a transition to distance education, grants to cover the costs of attendance for eligible students, and faculty and staff trainings. Additionally, funds may be used to cover operational costs, such as lost revenue, reimbursements for prior expenses, and payroll. As a result, the University recovered \$120,601 of lost revenue in the fiscal year ended June 30, 2021.

The CRRSA or HEERF II funds were fully expended as of June 30, 2022 and fully drawn as of June 30, 2023.

ARP Act or HEERF III

The American Rescue Plan (ARP), Public Law 117-2, signed into law on March 11, 2021, provided additional economic relief from COVID-19. The University received the following grants under the ARP through the US Department of Education:

- \$2,555,521 Higher Education Emergency Relief Funding;
- \$2,540,008 Institutional Relief Funding; and
- \$ 225,131 Title III Strengthening the Institutions Relief Funding

The Higher Education Emergency Relief Funding provided funding to universities to use for emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus. The University did not expend any of these funds in the fiscal year ended June 30, 2021. As of June 30, 2023, the University had expended and drawn \$2,555,521 of these Federal corona virus relief funds. The amounts of \$2,554,921 and \$600 were included in nonoperating Federal corona virus relief funds revenue on the statement of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2022 and June 30, 2023 respectively. The University also recognized accounts receivable of \$615 in the fiscal year ended June 30, 2022 and \$-0- in the fiscal year ended June 30, 2023. The final draw down was completed in fiscal year ended June 30, 2023

The Higher Education Emergency Relief Funding and the Institutional Relief Funding are awarded under Section 2003(a)(1) of the ARP Act. The Institutional Relief Funding allows the University to cover costs associated with significant changes to the delivery of instruction due to the coronavirus as well as recover lost revenue. As of June 30, 2023, the University had expended and drawn \$2,540,008 related to the Institutional Relief Funding. The University expended \$665,496 in the

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

fiscal year ended June 30, 2021, \$1,857,575 in the fiscal year ended June 30, 2022 and \$16,937 in the fiscal year ended June 30, 2023. The amounts of \$665,496, \$1,857,575 and \$16,937 were included in nonoperating Federal corona virus relief funds revenue on the statement of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2021, June 30, 2022 and June 30, 2023 respectively. The University also recognized accounts receivable of \$6,071 in the fiscal year ended June 30, 2022 and \$-0- in the fiscal year ended June 30, 2023. The final draw down was completed in fiscal year ended June 30, 2023.

The Title III Strengthening the Institutions Relief Funding awarded under Section 2003(a)(2) of the ARP Act allows a university to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. Guidance issued by the US Department of Education specifically allow institutions to use this funding to cover the cost of technology associated with a transition to distance education, grants to cover the costs of attendance for eligible students, and faculty and staff trainings. Additionally, funds may be used to cover operational costs, such as lost revenue, reimbursements for prior expenses, and payroll. As of June 30, 2023, the University had expended and drawn \$225,131 of these Federal corona virus relief funds. The amount of \$224,830 and \$301 were included in nonoperating Federal corona virus relief funds revenue on the statement of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2022 and June 30, 2023 respectively. The University also recognized accounts receivable of \$40,828 in the fiscal year ended June 30, 2022 and \$-0- in the fiscal year ended June 30, 2023. The final draw down was completed in fiscal year ended June 30, 2023.

The ARP or HEERF III funds were fully expended and drawn as of June 30, 2023.

State Appropriations - CARES Act Pass Through Funds

On July 22, 2020, the State of Michigan passed Senate Bill 373 which reduced the State appropriations funding for the University for the fiscal year ended June 30, 2020 by \$1,502,600. Accordingly, the accounts receivable, net on the statement of net position and the State appropriations nonoperating revenue on the statement of revenues, expenses, and changes in net position, have been reduced to reflect that subsequent reduction.

Also under Senate Bill 373, the State allocated \$1,502,600 from the federal funding awarded to the State under the CARES Act to the University. Since that award was made after June 30, 2020, no revenue from that allocation was reflected in the University's financial statements as of and for the fiscal year ended June 30, 2020. The federal pass through funding has the same restrictions as noted in the CARES Act for the funds awarded to the State. During the fiscal year ended June 30, 2021, the University recognized revenue from the pass-through funds equal to allowable expenditures incurred between March 1 and December 30, 2020.

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

21. NATURAL CLASSIFICATION OF EXPENSES

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

2023							
	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 11,448,114	\$ 875,894	\$ -	\$ -	\$ -	\$ -	\$ 12,324,008
Research	1,287,818	837,784	-	-	-	-	2,125,602
Public service	1,105,500	851,139	-	-	-	-	1,956,639
Academic support	2,204,226	878,541	-	-	-	-	3,082,767
Student services	1,815,787	350,196	-	-	-	-	2,165,983
Student aid	-	-	-	1,307,568	-	-	1,307,568
Institutional support	4,873,220	1,606,382	-	-	-	-	6,479,602
Operations and maintenance of plant	3,163,014	934,335	1,892,997	-	-	-	5,990,346
Auxiliary activities	4,823,683	5,791,000	914,430	-	-	-	11,529,113
Depreciation	-	-	-	-	5,219,909	-	5,219,909
Other	-	-	-	-	-	524,093	524,093
Total operating expenses	\$ 30,721,362	\$ 12,125,271	\$ 2,807,427	\$ 1,307,568	\$ 5,219,909	\$ 524,093	\$ 52,705,630

2022							
	Salaries, Wages and Benefits	Supplies and Equipment	Utilities	Scholarship Expenses	Depreciation	Other	Total
Instruction	\$ 9,812,329	\$ 1,385,353	\$ -	\$ -	\$ -	\$ -	\$ 11,197,682
Research	1,052,150	702,835	-	-	-	-	1,754,985
Public service	737,709	603,070	-	-	-	-	1,340,779
Academic support	1,822,592	944,928	-	-	-	-	2,767,520
Student services	1,469,006	330,623	-	-	-	-	1,799,629
Student aid	-	-	-	4,196,756	-	-	4,196,756
Institutional support	3,539,170	2,014,773	-	-	-	-	5,553,943
Operations and maintenance of plant	1,846,476	1,080,963	1,876,991	-	-	-	4,804,430
Auxiliary activities	4,305,280	4,885,084	973,100	-	-	-	10,163,464
Depreciation	-	-	-	-	4,984,267	-	4,984,267
Other	-	-	-	-	-	1,348,309	1,348,309
Total operating expenses	\$ 24,584,712	\$ 11,947,629	\$ 2,850,091	\$ 4,196,756	\$ 4,984,267	\$ 1,348,309	\$ 49,911,764

LAKE SUPERIOR STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

22. ISSUED BUT NOT ADOPTED ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, will enhance accounting and financial reporting requirements for accounting changes and error corrections by providing more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The standard is effective for fiscal years beginning after June 15, 2023, which will be the University's June 30, 2024 year-end.

GASB Statement No. 101, *Compensated Absences*, updates current guidance for recognizing and measuring compensated absences. It requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid. Liabilities for certain types of compensated absences—including parental leave, military leave, and jury duty leave—will not be recognized until the leave commences. Generally, the liability will be measured using an employee's pay rate as of the date of the financial statements. This standard is effective for fiscal years beginning after December 15, 2023 which will be the University's June 30, 2025 year-end.

The Foundation's financial statements are affected by Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

23. SUBSEQUENT EVENTS

In July 2023, Summit High School entered into a new lease of a building with Lake Superior State University. This lease cancelled the prior operating lease in Note 8. The terms of the lease agreement begin on July 1, 2023, and end June 30, 2033. The monthly rent is \$19,944 through June 30, 2024. Thereafter rent shall be increased by the annual base rent during the immediately preceding lease year plus an amount equal to the average monthly Consumer Price Index for the previous calendar year. But in no event shall the annual base rent for any lease year be less than the prior year rent.

LAKE SUPERIOR STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University's proportionate share of the net pension liability								
As a percentage	3.05019%	3.02355%	3.01459%	2.99202%	2.98699%	3.03438%	3.04194%	3.13198%
As an amount	\$ 9,751,506	\$ 16,987,951	\$ 20,590,273	\$ 20,034,283	\$ 19,087,979	\$ 17,455,598	\$ 17,042,144	\$ 17,182,038
University's covered payroll	\$ 6,917,000	\$ 6,781,000	\$ 6,648,000	\$ 6,518,000	\$ 6,389,927	\$ 6,484,275	\$ 6,265,000	\$ 2,025,982
University's proportionate share of the net pension liability, as a percentage of the University's covered payroll	140.98%	250.52%	303.65%	307.37%	298.72%	269.20%	272.02%	848.08%
MPSERS fiduciary net position as a percentage of the total pension liability	74.39%	52.26%	43.07%	44.24%	45.87%	47.42%	46.77%	47.45%

LAKE SUPERIOR STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required pension contribution	\$ 1,841,966	\$ 1,746,589	\$ 1,527,081	\$ 1,495,401	\$ 1,510,362	\$ 1,423,206	\$ 1,321,334	\$1,074,692
Pension contributions in relation to the actuarially determined contractually required contribution	<u>10,342,771</u>	<u>4,462,075</u>	<u>1,694,306</u>	<u>1,430,168</u>	<u>1,487,609</u>	<u>1,480,554</u>	<u>1,550,979</u>	<u>1,888,294</u>
Pension contribution excess	\$ 8,500,805	\$ 2,715,486	\$ 167,225	\$ (65,233)	\$ (22,753)	\$ 57,348	\$ 229,645	\$813,602
University's covered payroll	\$ 7,020,755	\$ 6,882,715	\$ 6,747,720	\$ 6,615,770	\$ 6,485,982	\$ 6,413,500	\$ 6,265,000	\$ 2,025,982
Pension contributions as a percentage of covered payroll	147.32%	64.83%	25.11%	21.62%	22.94%	23.08%	24.76%	93.20%

Notes to Required Pension Supplementary Information

There were no changes of benefit terms from October 1, 2014 through September 30, 2022. The assumed discount rate was reduced to 6.00 percent for the September 30, 2022 valuation from 6.80 percent at September 30, 2021.

The discount rate was also reduced to 6.80 percent for the September 30, 2019, 2020, and 2021 valuations from the 7.05 percent at September 30, 2018. In addition, the September 30, 2017 discount rate of 7.50 percent was reduced from 8.00 percent which was the discount rate for the years ended September 30, 2016 and 2015.

LAKE SUPERIOR STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
University's proportionate share of the net OPEB liability					
As a percentage	3.06256%	3.05969%	3.04614%	3.04502%	3.04790%
As an amount	\$ (1,146,603)	\$ (1,311,936)	\$ 1,287,123	\$ 2,794,718	\$ 3,616,044
University's covered payroll	\$ 6,917,000	\$ 6,781,000	\$ 6,648,000	\$ 6,518,000	\$ 6,389,927
University's proportionate share of the net OPEB liability, as a percentage of the University's covered payroll	(16.57)%	(19.35)%	19.36%	42.88%	56.59%
MPSERS fiduciary net position as a percentage of the total OPEB liability	121.19%	123.91%	80.04%	61.07%	51.90%

LAKE SUPERIOR STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required OPEB contribution	\$ 413,816	\$ 417,370	\$ 403,865	\$ 395,202	\$ 395,574
OPEB contributions in relation to the actuarially determined contractually required contribution	<u>(265,361)</u>	<u>(1,433,176)</u>	<u>(1,291,472)</u>	<u>(576,071)</u>	<u>(180,673)</u>
OPEB contribution deficiency	\$ 679,177	\$ 1,850,546	\$ 1,695,337	\$ 971,273	\$ 576,247
University's covered payroll	\$ 7,020,755	\$ 6,882,715	\$ 6,747,720	\$ 6,615,770	\$ 6,485,982
OPEB contributions as a percentage of covered payroll	(3.78)%	(20.82)%	(19.14)%	(8.71)%	(2.79)%

Notes to Required OPEB Supplementary Information

There were no changes of benefit terms from October 1, 2017 through September 30, 2022. The assumed discount rate was reduced to 6.00 percent for the September 30, 2022 valuation from 6.95 percent at September 30, 2021.

The discount rate was also reduced to 6.95 percent for the September 30, 2019, 2020, and 2021 valuations from the 7.15 percent at September 30, 2018.