

FINANCIAL REPORT

2014 – 2015

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

Richard M. Popp
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Northville Township
2018

H. Sook Wilkinson
Vice Chair
Bloomfield Hills
2016

Scott Holman
Freeland
2018

L. Garnet Lewis
Saugatuck
2016

Robert E. Mahaney
Marquette
2022

Steven M. Mitchell
West Bloomfield
2020

Tami M. Seavoy
Marquette
2022

Thomas H. Zurbuchen
Ann Arbor
2020

Fritz J Erickson
President of the University
Ex Officio

Executive Officers

Fritz J Erickson
President

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Vice President for Advancement

Lesley A. Larkin
Acting Provost/Chief Academic Officer

R. Gavin Leach
Vice President for Finance & Administration and
Treasurer of the Board of Trustees

Steven R. Neiheisel
Vice President for Enrollment Management & Student Services

Steven P. VandenAvond
Vice President for Extended Learning & Community Engagement

Finance and Administration Staff

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Internal Auditor

Rhea E. Dever
Director of Human Resources

Felecia J. Flack
Assistant Vice President for Information Services

Sandra S. Haavisto
Controller

David W. Maki
Chief Technology Officer

Kathy A. Richards
Associate Vice President for Engineering & Planning/Facilities

Sherri A. Towers
Assistant Vice President for Budget & Finance

MANAGEMENT'S DISCUSSION AND ANALYSIS Northern Michigan University

This section of Northern Michigan University's (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2015, 2014 and 2013. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

Northern Michigan University is an institution of higher education and is considered to be a component unit of the State of Michigan because its Board of Trustees is appointed by the Governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discretely presented component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, payments to State retirement programs for University employees, and reimbursements for capital outlay projects.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statements presented focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and inflows of resources. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the university reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of \$57.7 million for the year ended June 30, 2015, and \$57.3 million for the year ended June 30, 2014. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Financial Highlights

Net position for the year ended June 30, 2015 of \$218.3 million decreased by \$33.2 million from the prior year of \$251.5 million before restatement. This large decrease resulted mainly from the University booking its proportionate share of the Michigan Public School Employees' Retirement System (MPERS) net pension liability of \$35.9 million as an adjustment of beginning net position. This adjustment resulted from the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*. Additionally, a loss before other revenues and expenses of \$1.9 million that included an additional \$0.6 million for pension expense was offset by state appropriations of \$4.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2015 of \$101.2 million decreased by \$0.2 million from the prior year. Student tuition and fees totaling \$60.2 million is the largest component of operating revenue and decreased by \$0.5 million from the prior year. All other operating revenues of \$41.0 million netted to a \$0.3 million increase. Nonoperating revenues totaling \$60.4 million decreased by \$2.4 million from the prior year. The largest component of this decrease was a \$5.1 million decrease in investment income that was offset by a \$2.9 million increase in State appropriations and a \$0.3 million decrease in all other nonoperating revenues.

Operating revenues for the year ended June 30, 2014 of \$101.4 million decreased by \$0.6 million from the prior year. Student tuition and fees totaling \$60.7 million is the largest component of operating revenue and decreased by \$1.1 million over the prior year. All other operating revenues of \$40.7 million netted to a \$0.5 million increase. Nonoperating revenues totaling \$62.8 million increased by \$3.9 million from the prior year. The largest components of this increase were a \$1.1 million increase in State appropriations, a \$2.6 million increase in investment income, and a \$0.2 million increase in all other nonoperating revenues.

Operating and nonoperating expenses of \$163.5 million for the year ended June 30, 2015 remained unchanged from the prior year. On a functional basis, instructional expenses decreased \$1.0 million after excluding \$3.4 million for an Early Retirement Incentive Program (ERIP) from the prior year's total, operation and maintenance of plant increased by \$1.4 million, academic support increased by \$1.0 million, institutional support increased \$0.9 million, public service increased by \$0.7 million and other costs increased by \$0.4 million.

Operating and nonoperating expenses of \$163.5 million for the year ended June 30, 2014 increased by \$8.0 million from the prior year total of \$155.5 million. Operating expenses increased by \$7.6 million and nonoperating expenses increased by \$0.4 million. On a functional basis, instructional expenses increased \$7.6 million, residential life increased \$0.7 million, institutional support increased \$0.2 million, operations and maintenance decreased by \$0.9 million and other costs increased by \$0.4 million. The increase in instructional expense included \$3.4 million for an Early Retirement Incentive Program (ERIP), \$2.3 million in compensation incentives and filling of vacant positions, and \$1.9 million in increased support.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2015	2014	2013
Assets			
Current assets	\$39,251,434	\$38,135,325	\$31,379,227
Noncurrent assets			
Capital	247,516,107	252,880,260	231,919,717
Other	93,950,347	95,805,909	99,731,121
Total noncurrent assets	<u>341,466,454</u>	<u>348,686,169</u>	<u>331,650,838</u>
Total assets	<u>380,717,888</u>	<u>386,821,494</u>	<u>363,030,065</u>
Total deferred outflows of resources	7,056,953	3,527,089	3,768,043
Liabilities			
Current liabilities	28,880,778	31,833,652	25,403,301
Noncurrent liabilities	137,012,929	106,986,662	109,677,443
Total liabilities	<u>165,893,707</u>	<u>138,820,314</u>	<u>135,080,744</u>
Total deferred inflows of resources	3,536,793		
Net position			
Net investment in capital assets	153,932,926	154,802,258	129,606,895
Restricted			
Nonexpendable	880,587	912,453	811,171
Expendable	4,690,570	5,299,154	7,200,317
Unrestricted	<u>58,840,258</u>	<u>90,514,404</u>	<u>94,098,981</u>
Total net position	<u>\$218,344,341</u>	<u>\$251,528,269</u>	<u>\$231,717,364</u>

Current assets totaled \$39.3 million at June 30, 2015, \$38.1 million at June 30, 2014, and \$31.4 million for June 30, 2013. The ratio of current assets to current liabilities was 1.4 for the year ended June 30, 2015, 1.2 for the year ended June 30, 2014, and 1.2 for the year ended June 30, 2013 when excluding bond funds of \$0.0, \$0.6 million, and \$0.7 million, respectively. Cash and cash equivalents of \$15.2 million increased by \$4.4 million from the prior year total of \$10.8 million. State appropriations receivable totaled \$8.5 million, including capital state appropriations receivable for the construction of the new John X. Jamrich building of \$0.5 million, at June 30, 2015, \$6.6 million at June 30, 2014, and \$7.4 million at June 30, 2013.

Current liabilities decreased by \$3.0 million and included decreases of \$3.0 million in accounts payable and accrued liabilities, \$0.3 million in unearned revenue, \$0.2 million in accrued payroll and benefits and an increase of \$0.5 million for the current portion of the early retirement incentive program.

Long-term debt including notes and bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling \$93.6 million at June 30, 2015, \$98.1 million at June 30, 2014, and \$102.3 at June 30, 2013. Bonds and notes payable at June 30, 2015 included \$15.2 million of 2012 General Revenue Fixed Rate Bonds, \$79.4 million of 2008 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of \$1.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Condensed Financial Information (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

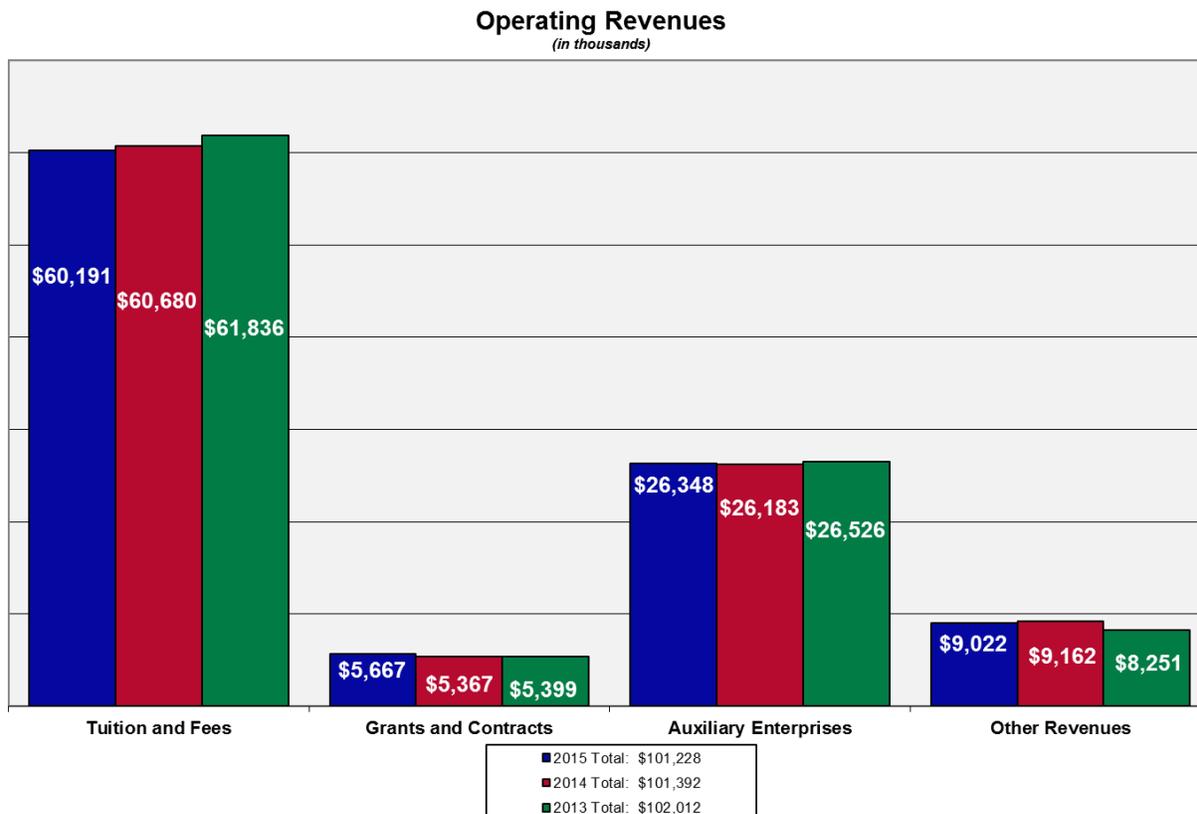
	June 30		
	2015	2014	2013
Operating revenues			
Tuition and fees, net	\$60,191,614	\$60,680,460	\$61,835,937
Grants and contracts	5,666,732	5,366,836	5,398,959
Auxiliary enterprises, net	26,347,703	26,183,387	26,526,172
Other operating revenues	9,022,380	9,161,493	8,251,269
Total operating revenues	<u>101,228,429</u>	<u>101,392,176</u>	<u>102,012,337</u>
Operating expenses	<u>(158,899,283)</u>	<u>(158,710,990)</u>	<u>(151,101,097)</u>
Operating loss	(57,670,854)	(57,318,814)	(49,088,760)
Nonoperating revenues (expenses)			
State appropriations	44,914,789	42,010,665	40,844,960
Pell grant revenue	12,829,117	13,541,626	13,648,807
Other nonoperating revenues (expenses)-net	<u>(1,965,605)</u>	<u>2,539,352</u>	<u>(15,108)</u>
Net nonoperating revenues (expenses)	<u>55,778,301</u>	<u>58,091,643</u>	<u>54,478,659</u>
Income before other revenues	<u>(1,892,553)</u>	<u>772,829</u>	<u>5,389,899</u>
Capital appropriation grants and gifts	4,815,807	20,207,571	12,000
Loss on asset disposal	<u>(162,089)</u>	<u>(1,169,495)</u>	<u>(729,083)</u>
Total other (expenses) revenues	<u>4,653,718</u>	<u>19,038,076</u>	<u>(717,083)</u>
Total increase in net position	2,761,165	19,810,905	4,672,816
Net position – beginning of the year	251,528,269	231,717,364	227,044,548
Cumulative effect of change in accounting principle	<u>(35,945,093)</u>		
Adjusted net position – beginning of year	<u>215,583,176</u>		
Net position – end of year	<u>\$218,344,341</u>	<u>\$251,528,269</u>	<u>\$231,717,364</u>

The cumulative effect of implementing GASB 68, a change in accounting principle, is recorded to the beginning balance of fiscal year 2015. Information from MPSERS is not available for fiscal 2014 and 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Condensed Financial Information (continued)

Total operating revenues were \$101.2 million for fiscal year 2015, \$101.4 million for fiscal year 2014, and \$102.0 for fiscal year 2013. The most significant sources of operating revenue for the University are tuition and fees, auxiliary enterprises, and grants and contracts, as shown below:



Tuition and Fees

The University currently has the second lowest annual tuition and fees out of the 15 state universities in Michigan. As part of tuition and fees, each full-time undergraduate student is provided the use of a notebook computer. A full-time undergraduate student normally takes 15 credit hours per semester and a full-time graduate student 12 credit hours per semester. The following table sets forth the average annual student tuition and fees for full-time on-campus students for the academic year indicated.

Average Annual Full-Time Student Tuition and Fees

	<u>2014-2015</u>	<u>2013-2014</u>	<u>2012-2013</u>
Undergraduate, resident	\$9,324	\$9,038	\$8,709
Undergraduate, nonresident	\$14,556	\$14,114	\$13,605
Graduate, resident	\$11,244	\$10,897	\$10,497
Graduate, nonresident	\$15,660	\$15,397	\$14,829

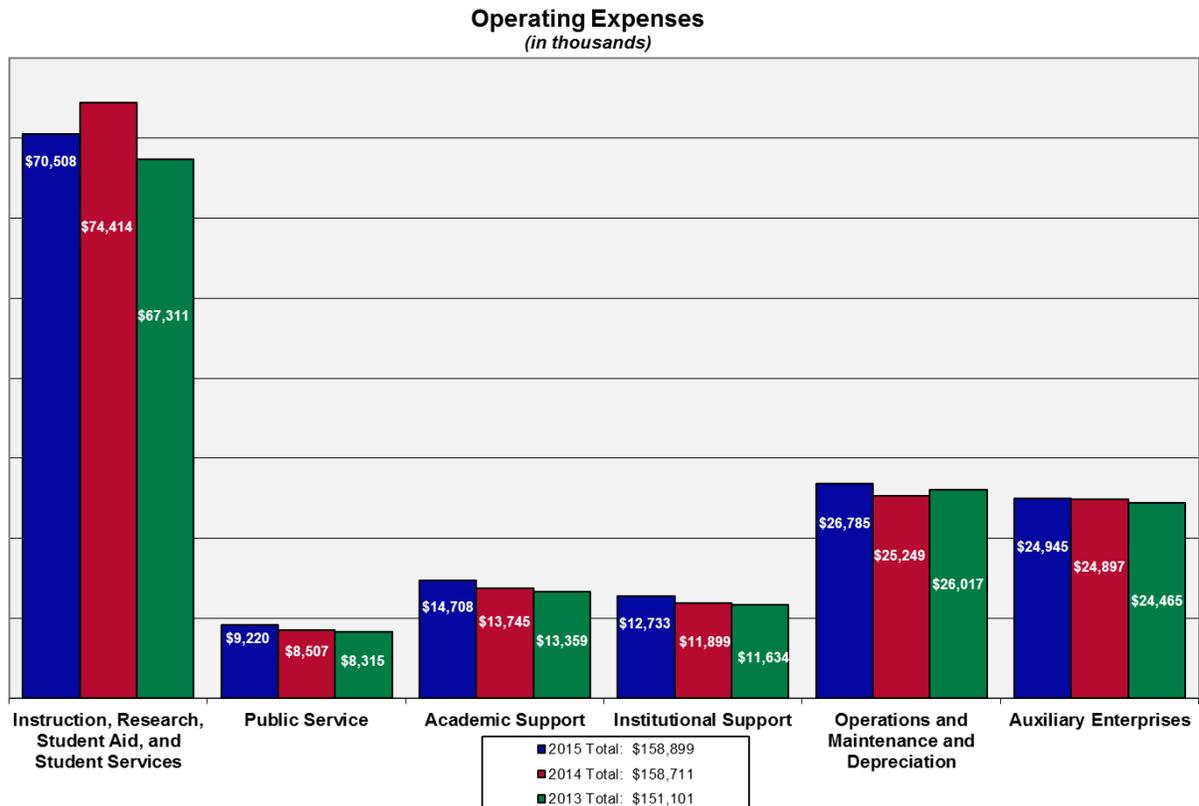
MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$8,954 for 2014-2015, \$8,696 for 2013-2014, and \$8,404 for 2012-2013. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Ten residence halls which house 2,614 students currently have an average occupancy of 2,376 (2014 – 2,331) and are at 91% capacity (2014 – 90% capacity). Campus apartments total 365 units. Most apartments are rented during the academic year with occupancy varying depending on the ratio of single students to student families and the size of the household. All residence hall students are required to be on one of four different meal plans which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2015, including depreciation of \$9.8 million, totaled \$158.9 million. Of this total, \$70.5 million, or 44.4%, was used for instruction, research, student aid, and student services, \$26.8 million, or 16.9% was used for operation, maintenance, and depreciation, and \$24.9 million, or 15.7% was used for auxiliary enterprises. Operating expenses for June 30, 2014, including depreciation of \$9.7 million, totaled \$158.7 million. Of this total, \$74.6 million, or 47.0%, was used for instruction, research, student aid, and student services, \$25.2 million, or 15.9% was used for operation, maintenance, and depreciation, and \$24.9 million, or 15.7%, was used for auxiliary enterprises. Operating expenses for June 30, 2013, including depreciation of \$9.5 million, totaled \$151.1 million. Of this total, \$67.3 million, or 44.5%, was used for instruction, research, student aid, and student services, \$26.0 million, or 17.2% was used for operation, maintenance, and depreciation, and \$24.4 million, or 16.2%, was used for auxiliary enterprises, as shown below:



MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Other

The State appropriations of \$44.9 million for the year ended June 30, 2015, \$42.0 million for the year ended June 30, 2014, and \$40.8 million for the year ended June 30, 2013 is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was \$4.6 million for the year ended June 30, 2015, \$4.8 million for the year ended June 30, 2014, and \$4.4 million for the year ended June 30, 2013. Interest capitalized as part of construction costs was \$0.0 for the year ended June 30, 2015, \$0.03 million for the year ended June 30, 2014, and \$0.5 million for the year ended June 30, 2013.

The Statements of Cash Flows

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the University during the year.

Condensed Statements of Cash Flows

	June 30		
	2015	2014	2013
Cash provided (used) by:			
Operating activities	(\$47,898,496)	(\$44,124,988)	(\$41,006,977)
Noncapital financing activities	57,966,898	57,135,689	56,166,466
Capital and related financing activities	(6,654,218)	(23,785,417)	(23,987,912)
Investing activities	974,322	9,862,963	2,192,121
Net decrease in cash and cash equivalents	(4,388,507)	(911,753)	(6,636,322)
Cash and cash equivalents – beginning of year	10,826,213	11,737,966	18,374,288
Cash and cash equivalents – end of year	<u>\$15,214,720</u>	<u>\$10,826,213</u>	<u>\$11,737,966</u>

Major sources of funds included in operating activities are student tuition and fees of \$60.1 million, grants and contracts of \$5.5 million and auxiliary sales of \$26.3 million for the year ended June 30, 2015; and student tuition and fees of \$60.5 million, grants and contracts of \$5.8 million and auxiliary sales of \$26.1 million for the year ended June 30, 2014. The major source of funds included in noncapital financing activities are State appropriations of \$44.5 million and Pell grant revenue of \$12.8 million for the year ended June 30, 2015; and, State appropriations of \$41.8 million and Pell grant revenue of \$13.5 million for the year ended June 30, 2014. See additional cash flow information related to capital assets and long-term debt within the footnotes.

Northern Michigan University Foundation

The mission of the Northern Michigan University Foundation (the "Foundation") is to cultivate and promote the private philanthropic support of the University's mission through a comprehensive advancement effort.

Net assets of \$36.2 million increased \$1.1 million for the year ended June 30, 2015 as compared to an increase of \$4.0 million for the year ended June 30, 2014. This change of \$2.9 million was primarily the result of a decrease in investment income of \$3.4 million. Net assets of \$35.1 million increased \$4.0 million for the year ended June 30, 2014 as compared to \$2.8 million for the year ended June 30, 2013. This change was primarily the result of an increase in gifts and contributions of \$1.0 million and an increase in investment income of \$1.4 million. For the year ended June 30, 2013, net assets increased \$2.8 million as compared to a \$0.2 million decrease in the fiscal year ended June 30, 2012. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Factors Impacting Future Periods

Enrollment Management and Student Services

The Enrollment Management and Student Services division was established in fiscal year 2014 with the hiring of a new vice president. This division's focus is on enrollment planning and growth as well as support for student services and student experiences. Foundation to their work is selective, targeted, and segmented marketing and communications supported by a new Constituent Customer Relationship Management system and predictive modeling and financial aid leveraging tools. The vice president leads an enrollment management steering workgroup made up of campus representatives that develop and plan for specific enrollment growth strategies such as expanding on-line programs, broadening current high demand programs, establishing new academic programs, and expanding of campus offerings.

Enrollment Data

The following table indicates the total fall headcount enrollment of undergraduate and graduate students. Also indicated are the fiscal year equated students and total annual credit hours for all students attending the University.

For the 2014-15 academic year, forty-eight percent (48%) of the University's students represent Upper Peninsula Michigan residents, thirty-three percent (33%) of the University's students came from Michigan's Lower Peninsula, and the remaining nineteen percent (19%) came from other states and foreign countries.

Academic Year	Fall Headcount Enrollment			Fiscal Year Equated Students	Annual Total Credit Hours Taken		
	Undergraduate Students	Graduate Students	Total		Undergraduate Students	Graduate Students	Total
2011	8,719	698	9,417	8,611	246,682	9,308	255,990
2012	8,712	693	9,405	8,569	245,854	8,978	254,832
2013	8,474	685	9,159	8,258	237,352	8,314	245,666
2014	8,221	697	8,918	8,033	230,704	8,100	238,804
2015	8,001	780	8,781	7,621	220,447	8,524	228,971

Enrollment for fiscal year 2016 is expected to decline as high school graduates in the State of Michigan and surrounding mid-west region continue a downward trend. Comprehensive enrollment management and marketing planning began in fiscal year 2014 with several initiatives being immediately implemented. Additional recruitment and retention initiatives and expanded strategic marketing activities continued during fiscal years 2015 and into 2016. These are expected to positively impact enrollment for the fall semester of 2016 which is the 2017 fiscal year. Recruitment, retention, and marketing efforts will be assessed and enhanced through a comprehensive enrollment management planning process on an annual basis during the fall of each fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Factors Impacting Future Periods (continued)

Admissions

The tables below set forth the total number of first year (including associate degree, vocational and one-year certificate students) and transfer applications received and accepted and the number of students enrolled for the fall semesters indicated.

First Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2010	6,014	4,334	72.1	1,730	39.9
2011	6,298	4,546	72.2	1,837	40.4
2012	6,841	4,636	67.8	1,766	38.1
2013	6,859	5,030	73.3	1,749	34.8
2014	6,841	4,940	72.2	1,663	33.7

By August 12, 2015, the University had received 5,953 freshman applications (as compared to 6,816 as of August 14, 2014) and had granted 4,058 acceptances (as compared to 4,934 as of August 14, 2014).

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2010	1,509	878	58.2	570	64.9
2011	1,537	899	58.5	577	64.2
2012	1,593	882	55.4	551	62.5
2013	1,507	862	57.2	503	58.4
2014	1,502	745	49.6	439	58.9

By August 12, 2015, the University had received 1,221 transfer applications (as compared to 1,489 as of August 14, 2014) and had granted 657 acceptances (as compared to 740 as of August 14, 2014).

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Capital Plan

The University has in place a five-year strategic capital plan that is reviewed and updated annually. The plan addresses long term maintenance issues and renovations or replacement of existing facilities that seek to transform existing facilities to state-of-the-art instructional facilities. Campus facilities continued to be renovated through the use of internal resources and funds from bond proceeds.

The University began replacement of the existing Honeywell fire alarm system in December of 2013 with a total cost for state side buildings of \$3.2 million. Costs included in construction in progress at June 30, 2015 were \$1.9 million. Phase II of the new Fire Alarm/Mass Notification system began in July 2015 and is expected to be complete by the end of the next fiscal year. Replacement of the fire alarm system in the housing facilities will occur when each hall is renovated and is expected to cost \$1.0 million.

A new Alumni Welcome and U.P. Heritage Center is planned for the first floor of Gries Hall and will be funded by a private donor. A new façade and entrance will create an identifiable and central location to greet alumni and visitors to campus. Construction is expected to begin in September 2015 and is expected to cost \$1.1 million.

Beginning in the 2016 fiscal year, the University will begin the process of replacing campus apartments located at Summit and Center streets. Requests for information will focus on the use of private and public partnerships to build a modern student focused housing experience. This project could expand to include replacement of several residential halls with apartment style housing. In addition, renovation or replacement of the main campus conference center is under review with plans expected to be finalized no later than the 2017 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Capital Plan (continued)

Bonds and notes payable at June 30, 2015 consist of the following:

<u>Maturity Dates</u>	<u>Interest Rates</u>		<u>Maturity Value</u>
	<u>Coupon</u>	<u>Yield</u>	
06/01/2025	3.000%	2.940%	\$875,000
06/01/2026	3.000%	3.060%	900,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
12/01/2015	4.000%	3.490%	3,530,000
12/01/2019	4.000%	4.160%	760,000
12/01/2020	4.125%	4.340%	1,835,000
12/01/2020	4.350%	4.340%	2,700,000
12/01/2021	4.625%	4.500%	2,535,000
12/01/2022	4.625%	4.610%	3,970,000
12/01/2023	4.750%	4.690%	4,165,000
12/01/2024	4.750%	4.790%	4,260,000
12/01/2025	4.875%	4.850%	3,860,000
06/01/2016	5.000%	1.340%	1,070,000
06/01/2017	5.000%	1.570%	1,120,000
06/01/2018	5.000%	1.820%	640,000
06/01/2019	5.000%	2.030%	670,000
06/01/2020	5.000%	2.220%	705,000
06/01/2021	5.000%	2.410%	740,000
12/01/2016	5.000%	3.650%	3,710,000
12/01/2017	5.000%	3.820%	3,800,000
12/01/2018	5.000%	3.980%	4,070,000
12/01/2019	5.000%	4.130%	3,655,000
12/01/2021	5.000%	4.370%	1,350,000
12/01/2026	5.000%	4.860%	3,610,000
12/01/2027	5.000%	4.910%	3,775,000
12/01/2028	5.000%	4.960%	4,005,000
12/01/2029	5.000%	5.000%	4,210,000
12/01/2030	5.000%	5.030%	4,385,000
12/01/2031	5.000%	5.060%	2,475,000
12/01/2036-12/01/2038	5.000%	5.120%	1,700,000
12/01/2032-12/01/2035	5.125%	5.110%	11,075,000
Total			<u>\$94,610,000</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(concluded)

Teaching, Learning, and Communication (TLC) Initiative

Wired and wireless network connectivity leads the University's high-tech learning environment. The WiMAX network which covers approximately 35 square miles not only enhances the educational capabilities of NMU students and employees, but provides the educational opportunities for K-12 schools within the network's boundaries, as well as public safety agencies from cities and townships in Marquette County.

Over the past two years the University began transitioning to Long Term Evolution (LTE) technology with the goal of replacing the WiMAX by 2017. NMU has installed its initial LTE system in the Marquette area which will become operational for fall semester 2015 and will offer improved data transfer speeds. Both WiMAX and LTE will run parallel through careful coordination of available Educational Broadband Service channels authorized to the University. NMU intends to continue to deploy additional LTE sites in partnership with other education institutions around the Upper Peninsula.

This fall, new first-time, full-time freshmen will receive Lenovo's Premium XI Carbon notebook as they enter the University and keep the device for four years. If the student attends NMU for four years at full-time status and graduates at the end of four years, the computer is theirs to keep at no additional charge. This change is also being made for the Art and Design students that are issued Apple Mac Books.

State Appropriations

The University expects to receive \$45.6 million in State Appropriations for the upcoming fiscal year. This is an increase of \$1.1 million from the prior year funding level of \$44.5 million. The University has set student tuition and fees at 3.2% above last fiscal year and has met the state tuition restraint requirements.

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INDEPENDENT AUDITORS' REPORT

November 25, 2015

Board of Trustees
Northern Michigan University
Marquette, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of *Northern Michigan University* (the "University"), a component unit of the State of Michigan, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Northern Michigan University Foundation discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Northern Michigan University Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northern Michigan University as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68

As described in Notes A and K, the University implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of business-type activities as of July 1, 2014 was restated. Application of this new standard to July 1, 2013, the earliest year presented, is not practical as complete information is not available. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 14 and the schedules for the pension plan on page 46 be presented to supplement the basic financial statements. Such information, 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, under separate cover, our report dated November 25, 2015, on our consideration of Northern Michigan University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Rehmann Lobson LLC

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University		Component Unit	
	June 30		NMU Foundation	
	2015	2014	2015	2014
Assets				
Current assets				
Cash and cash equivalents	\$ 15,214,720	\$ 10,826,213	\$ 3,094,314	\$ 5,910,430
State appropriation receivable	8,506,350	14,182,773		
Accounts receivable (less allowance 2015--\$2,912,000; 2014--\$2,630,000)	10,291,131	8,481,544		
Student notes receivable (less allowance 2015--\$884,000; 2014--\$548,000)	1,924,844	1,399,656		
Pledges receivable (less allowance 2015--\$1,170; 2014--\$21,323)			70,936	572,685
Inventories	1,499,129	1,319,458		
Other assets	1,815,260	1,925,681	343,731	309,520
Total current assets	<u>39,251,434</u>	<u>38,135,325</u>	<u>3,508,981</u>	<u>6,792,635</u>
Noncurrent assets				
Long-term investments	87,468,420	88,200,806	27,375,491	25,120,779
Student notes receivable (less allowance 2015--\$2,533,000; 2014--\$2,569,000)	5,512,893	6,584,187		
Other long-term investments	194,962	194,962	1,618,669	1,699,694
Pledges receivable (less allowance 2015--\$36,563; 2014--\$10,300)			2,207,665	280,186
Unamortized bond insurance	774,072	825,954		
Capital assets, net	247,516,107	252,880,260	1,701,858	1,760,005
Total noncurrent assets	<u>341,466,454</u>	<u>348,686,169</u>	<u>32,903,683</u>	<u>28,860,664</u>
Total assets	<u>380,717,888</u>	<u>386,821,494</u>	<u>36,412,664</u>	<u>35,653,299</u>
Deferred outflows of resources				
Deferred charge on refunding	3,286,135	3,527,089		
Deferred pension amounts	3,770,818			
Total deferred outflows of resources	<u>7,056,953</u>	<u>3,527,089</u>		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	10,345,707	13,309,747	180,373	548,564
Accrued payroll and benefits	8,072,393	8,292,786		
Unearned revenue (unearned student fees and deposits)	3,723,378	3,976,931		
Long-term liabilities-current portion	6,739,300	6,254,188		
Total current liabilities	<u>28,880,778</u>	<u>31,833,652</u>	<u>180,373</u>	<u>548,564</u>
Noncurrent liabilities				
Annuities payable			62,186	48,243
Net pension liability	36,787,546			
Long-term liabilities-net of current portion	100,225,383	106,986,662		
Total noncurrent liabilities	<u>137,012,929</u>	<u>106,986,662</u>	<u>62,186</u>	<u>48,243</u>
Total liabilities	<u>165,893,707</u>	<u>138,820,314</u>	<u>242,559</u>	<u>596,807</u>
Deferred inflows of resources				
Deferred pension amounts	3,536,793			
Total deferred inflows of resources	<u>3,536,793</u>			
Net position				
Net investment in capital assets	153,932,926	154,802,258	1,701,858	1,760,005
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	65,104	3,954,113	3,933,673
Loans	60,038	59,760		
Instruction	756,792	787,589		
Expendable				
Instruction	963,464	1,002,677	489,641	1,124,392
Scholarships and fellowships	477,765	481,723	20,333,004	18,861,209
Loans	3,020,676	2,953,526		
Research	143,551	139,517		
Academic, student and public service	85,114	88,578	2,839,672	2,797,281
Capital project		633,133		
Unrestricted	58,840,258	90,514,404	6,851,817	6,579,932
Total net position	<u>\$ 218,344,341</u>	<u>\$ 251,528,269</u>	<u>\$ 36,170,105</u>	<u>\$ 35,056,492</u>

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Position

	Northern Michigan University		Component Unit	
	Year Ended June 30		NMU Foundation	
	2015	2014	2015	2014
Operating revenues				
Student tuition and fees (less allowance 2015--\$20,967,000; 2014--\$20,415,000)	\$ 60,191,614	\$ 60,680,460		
Gifts and contributions			\$ 5,068,204	\$ 4,073,163
Endowment income			829,853	760,766
Federal grants and contracts	4,123,870	3,872,789		
State and local grants and contracts	338,480	271,993		
Nongovernmental grants and contracts	1,204,382	1,222,054		
Sales and services of educational activities	9,022,380	9,161,493		
Auxiliary enterprise				
Residential life (less allowance 2015--\$6,335,000; 2014--\$6,052,000)	20,226,200	19,871,725		
Other auxiliary	6,121,503	6,311,662		
Other operating revenues			132,952	230,515
Total operating revenues	<u>101,228,429</u>	<u>101,392,176</u>	<u>6,031,009</u>	<u>5,064,444</u>
Operating expenses				
Educational and general				
Instruction	47,214,999	51,633,789		
Research	986,289	952,253		
Public service	9,219,698	8,498,210		
Academic support	14,708,277	13,684,007		
Student services	15,313,351	15,000,423		
Institutional support	12,733,145	11,786,923	2,084,294	1,854,261
Operations and maintenance of plant	16,982,303	15,597,312		
Student aid	6,993,646	7,008,758		
Depreciation	9,802,672	9,651,733		
Auxiliary enterprise				
Residential life	17,528,960	17,551,666		
Other	7,415,943	7,345,916		
Total operating expenses	<u>158,899,283</u>	<u>158,710,990</u>	<u>2,084,294</u>	<u>1,854,261</u>
Operating (loss) income	<u>(57,670,854)</u>	<u>(57,318,814)</u>	<u>3,946,715</u>	<u>3,210,183</u>
Nonoperating revenues (expenses)				
State appropriations	44,914,789	42,010,665		
Pell grant revenue	12,829,117	13,541,626		
Gifts (including 2015--\$2,374,000 and 2014--\$1,998,000 from the NMU Foundation)	2,374,309	1,998,218		
Payments to and on behalf of the University			(2,524,580)	(2,362,376)
Investment income(loss) [net of investment expense for the University 2015--\$345,800 and 2014--\$341,200; and for the NMU Foundation 2015--\$53,146 and 2014--\$64,100]	241,939	5,297,621	(308,522)	3,102,912
Interest on capital asset-related debt	(4,581,853)	(4,756,487)		
Net nonoperating revenues (expenses)	<u>55,778,301</u>	<u>58,091,643</u>	<u>(2,833,102)</u>	<u>740,536</u>
(Loss) Income before other revenues (expenses)	<u>(1,892,553)</u>	<u>772,829</u>	<u>1,113,613</u>	<u>3,950,719</u>
Capital grants and gifts (including 2015--\$138,000 and 2014--\$362,000 from the NMU Foundation)	223,014	361,976		
Capital State appropriations	4,592,793	19,845,595		
Loss on asset disposal	(162,089)	(1,169,495)		
Total other revenues (expenses)	<u>4,653,718</u>	<u>19,038,076</u>		
Increase in net position	<u>2,761,165</u>	<u>19,810,905</u>	<u>1,113,613</u>	<u>3,950,719</u>
Net position - beginning of year	251,528,269	231,717,364	35,056,492	31,105,773
Cumulative effect of change in accounting principle	(35,945,093)			
Adjusted net position - beginning of year	<u>215,583,176</u>	<u>231,717,364</u>	<u>35,056,492</u>	<u>31,105,773</u>
Net position - end of year	<u><u>\$218,344,341</u></u>	<u><u>\$251,528,269</u></u>	<u><u>\$36,170,105</u></u>	<u><u>\$35,056,492</u></u>

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2015	2014
Cash Flows from Operating Activities		
Tuition and fees	\$ 60,101,437	\$ 60,501,722
Grants and contracts	5,494,970	5,848,889
Payments to suppliers	(48,008,372)	(44,664,989)
Payments to employees	(94,334,141)	(93,372,369)
Payments for scholarships and fellowships	(6,993,646)	(7,008,759)
Loans issued to students and employees	(1,376,986)	(1,313,985)
Collection of loans to students and employees	1,923,092	1,399,656
Auxiliary enterprise		
Residential life	20,223,225	19,709,398
Other	6,063,771	6,360,296
Other receipts	9,008,154	8,415,153
Net cash used by operating activities	(47,898,496)	(44,124,988)
Cash Flows from Noncapital Financing Activities		
State appropriations	44,453,732	41,849,793
Pell grant revenue	12,829,117	13,541,626
William D. Ford direct lending receipts	39,096,496	41,330,768
William D. Ford direct lending disbursements	(39,096,496)	(41,330,654)
Gifts and grants received for other than capital purposes	2,379,615	2,001,222
Other	(1,695,566)	(257,066)
Net cash provided by noncapital financing activities	57,966,898	57,135,689
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	138,374	361,976
Purchases of capital assets	(8,431,333)	(28,367,226)
Principal paid on capital debt	(4,515,000)	(4,255,000)
Interest paid on capital debt	(4,576,531)	(4,777,337)
Capital state appropriations	10,730,272	13,252,170
Net cash used by capital and related financing activities	(6,654,218)	(23,785,417)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	35,050,098	56,689,352
Interest on investments	2,324,656	2,160,144
Purchase of investments	(36,400,432)	(48,986,533)
Net cash provided by investing activities	974,322	9,862,963
Net increase (decrease) in cash and cash equivalents	4,388,507	(911,753)
Cash and cash equivalents - beginning of the year	10,826,213	11,737,966
Cash and cash equivalents - end of year	\$ 15,214,720	\$ 10,826,213
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	(\$57,670,854)	(\$57,318,814)
Depreciation expense	9,802,672	9,651,733
Amortization of bond insurance	51,882	51,882
Long and short term incentive accrual		3,357,955
Change in assets and liabilities:		
Receivables, net	479,292	(469,507)
Inventories	(179,671)	34,710
Other assets	112,440	(198,365)
Accounts payable and accrued liabilities	(598,351)	175,809
Unearned revenue	(259,893)	(2,839)
Accrued payroll and benefits	363,987	592,448
Net cash used by operating activities	(47,898,496)	(44,124,988)

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2015

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of Northern Michigan University (University) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the “business-type” activities requirements of GASB Statement No. 34, rather than issuing fund-type financial statements and has the following components in the financial statements:

- Management’s discussion and analysis
- Basic financial statements including statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows for the University as a whole
- Notes to the financial statements
- Required supplementary information

CHANGES IN ACCOUNTING PRINCIPLES

GASB 68 Accounting and Financial Reporting for Pensions

This standard is effective for the University’s fiscal year 2015 and establishes new requirements for universities to report a “net pension liability” for the unfunded portion of the pension plan benefits provided to University employees. Universities that maintain their own pension plans (either single employer or agent multiple-employer) report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Universities that participate in a cost sharing plan report a liability for their “proportionate share” of the “net pension liability” of the entire system.

Historically, universities have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of GASB 68, universities are required to report a net pension liability based on the current funded status of their pension plans. This liability is limited to the university-wide financial statements and proprietary funds. Changes in this liability from year to year are largely reflected on the statement of revenues, expenses, and changes in net position, though certain amounts deferred and amortized over varying periods. As a result of this change, the University recognized a net pension liability of \$38,481,086 and deferred outflows of resources of \$2,535,993, which resulted in a decrease in net position of \$35,945,093 as of July 1, 2014. Application of this new standard to July 1, 2013, the earliest year presented, is not practical as complete information is not available. More detailed information can be found in Note K.

GASB 68 is only applicable to pension plans; however, the GASB has issued GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, a similar standard for other postemployment benefits (e.g., retiree healthcare) with an implementation date for fiscal years beginning after June 15, 2017 (the Universities 2018 fiscal year).

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

REPORTING ENTITY

Northern Michigan University is an institution of higher education and is considered to be a component unit of the State of Michigan because its Board of Trustees is appointed by the Governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, payments to State retirement programs for University employees, and reimbursements for capital outlay projects.

The Northern Michigan University Foundation (Foundation) is a legally separate, tax-exempt organization supporting Northern Michigan University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The thirty-three member Board of Trustees of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University.

During the years ended June 30, 2015 and 2014, the Foundation made distributions of \$2.5 million and \$2.4 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements.

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. These revenues represent revenue earned from exchange transactions and are reported net of discounts. Transactions related to capital and related financing activities, investing activities, State appropriations, and Federal Pell Grants are components of nonoperating and other revenues. Restricted and unrestricted resources are spent and tracked at the University level within the guidelines of donor restrictions.

Basis of Accounting—Component Unit

The Foundation is a nonprofit organization that reports under the provisions of Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Cash Equivalents

Cash equivalents include all highly liquid investments with original maturity dates of 90 days or less.

Investments (including component unit)

All investments are stated at fair value. Investments in publicly traded securities are stated at fair value as established by major securities markets. Non-publicly traded investments are valued based on estimates considering market prices of similar investments. Investment income includes realized and unrealized gains and losses on investments, interest, and dividends.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out method, or market.

Capital Assets

Capital assets are stated at cost when purchased and at appraised value for other acquisitions. At the time of disposal, capital assets are removed from the records and any gain or loss is recognized in the statement of revenues, expenses, and changes in net position.

Depreciation is provided for physical properties on a straight line basis over the estimated useful lives, 50 years for buildings, 5 to 50 years for building and land improvements, 10 to 30 years for infrastructure, 5 years for books, and 5 to 20 years for equipment.

Depreciation expense for 2015 and 2014 was approximately \$9,803,000 and \$9,652,000 respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The University reports deferred outflows of resources for certain pension-related amounts, such as change in expected and actual experience, change in assumptions and certain contributions made to the plan subsequent to the measurement date, as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. More detailed information for the pension related amounts can be found in Note K.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The University reports deferred inflows of resources for changes between expected and actual investment earnings provided in its pension plans. More detailed information can be found in Note K.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

State Appropriations

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

Non-Exchange Transactions

In accordance with generally accepted accounting principles, gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

Compensated Absences

University employees earn vacation benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation. Certain limitations have been placed on the hours of vacation that employees may accumulate. Unused hours exceeding these limitations are forfeited.

Unearned Revenue

Unearned revenue consists primarily of advance payment for sports camps, laptop sales, sales for athletic events, summer school tuition not earned during the current year, and contract and sponsored program advances.

Income Taxes

The University is classified as a political subdivision of the State of Michigan under Internal Revenue Code Section 115 (A) and is therefore exempt from Federal Income Taxes. Certain activities of the University, to the extent profitable, may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The Foundation is exempt from Federal Income Taxes under Internal Revenue Code Section 501 (c) (3).

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE A—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Reclassifications

Certain 2014 balances have been reclassified to conform to the 2015 presentation.

Subsequent Events

Subsequent to June 30, 2015, the University purchased laptops supplied in the normal course of business to students and employees (Note H).

See additional subsequent event disclosure at Note K.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY

Investment of Operating Funds

The operating portfolio is invested in accordance with the Statement of Investment Policy for Operating Cash as established by the Board of Trustees. The Finance Committee, acting on behalf of the Board of Trustees, selects investments to provide maximum financial resources while balancing investment risk and investment rate of return.

Short term investment pool accounts will provide funds for current expenditures and have maturities of one year or less. Intermediate term investment pool accounts will include funds with maturities between one to three years. Long term investment pool accounts will include funds with maturities greater than three years. Target asset allocation guidelines include: \$10 to \$40 million for the short term pool, \$10 to \$40 million for the intermediate pool, and \$10 to \$50 million for the long term pool.

Investment of Endowed Funds

The Finance Committee, acting on behalf of the Board of Trustees, oversees the management of endowment investments. The performance objective is long-term growth without undue exposure to risk over a 5-year moving period. Asset allocation guidelines have been established to maintain a diversified portfolio and include equity, emerging markets, fixed income, and public real estate. The University, through this long-term investment strategy, seeks to provide resources to support the University in providing quality service.

The University's cash and investments are included in the Statements of Net Position under the following classifications:

	2015	2014
Cash and cash equivalents	\$15,214,720	\$10,826,213
Long-term investments	87,468,420	88,200,806
Other long-term investments	194,962	194,962
Total	<u>\$102,878,102</u>	<u>\$99,221,981</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's investment policy limits the average weighted maturities and the maximum maturities of its investments. For investments expected to be expended within one year, the average weighted maturity cannot exceed one year. For investments expected to be liquidated between one and three years, the average weighted maturity must be between one and three years; and, for investments held longer than three years, the duration shall be no greater than +/- 20% that of the Barclays Aggregate Bond Index.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. At June 30, 2015 and 2014, the carrying amount of the University's deposits was \$8,284,022 and \$6,540,417, respectively. The bank balance of the University's deposits at June 30, 2015 and 2014 was \$8,743,522 and \$10,567,430, respectively. Of that amount, \$750,000 was insured in 2015 and 2014. The remaining \$7,993,522 and \$9,817,430 at June 30, 2015 and 2014, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits. To limit its exposure to custodial credit risk for investments, the University intends to select and retain only pooled/mutual funds that will meet the requirements set forth in the investment policy. The University currently has stocks in its Student Managed Fund and limits its investments to \$150,000.

Credit Risk – Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. To limit its exposure to credit risk, the University's investment policy limits the average credit rating of its portfolios, as well as the minimum acceptable credit rating of individual investments. For investments expected to be expended within one year, the weighted average credit quality must be AAA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be AA. For intermediate pooled investments, the weighted average credit quality must be AA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be BBB. For long term pooled investments, the weighted average credit quality shall be no less than A (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be no less than B. At June 30, 2015 and 2014, the University's bond mutual funds, and money market mutual funds are not rated. Investments in the endowment portfolio shall have a weighted average credit rating of A or better, and the minimum acceptable credit rating is Baa/BBB.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. For short term funds, the maximum investment with any one organization is limited to no more than \$20 million. For intermediate and long term funds, the maximum investment with any one organization is limited to no more than \$15 million. No more than eight percent of the endowment portfolio may be invested in one issuer or company for equities and no more than five percent for fixed income, except investment in U.S. government securities which is not limited.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. Under the University's Investment Policy for Operating Cash, all investments will be dollar denominated. The University holds investments of endowed funds in various international mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were \$3,643,061 and \$3,660,841 for the years ended June 30, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

At June 30, 2015, the University had the following investments and maturities:

	Fair Market Value	Years			More Than 10
		Less Than 1	1 - 5	6 - 10	
Money Market Mutual Funds	\$6,930,698	\$6,930,698			
Bond Mutual Funds	75,644,018		\$39,128,373	\$36,515,645	
Equity Mutual Funds	9,602,972	1,459,106			\$8,143,866
Stock & ETFs	3,680,536				3,680,536
Real Estate	194,962				194,962
Total	96,053,186	\$8,389,804	\$39,128,373	\$36,515,645	\$12,019,364
Less Investments Reported as "Cash Equivalents" on Statements of Net Position	<u>(8,389,804)</u>				
Total Investments	<u>\$87,663,382</u>				

At June 30, 2014, the University had the following investments and maturities:

	Fair Market Value	Years			More Than 10
		Less Than 1	1 - 5	6 - 10	
Money Market Mutual Funds	\$2,730,870	\$2,730,870			
Bond Mutual Funds	74,413,253		\$40,770,458	\$33,642,795	
Equity Mutual Funds	9,958,757				\$9,958,757
Stock & ETFs	3,828,796				3,828,796
Real Estate	194,962				194,962
Total	91,126,638	\$2,730,870	\$40,770,458	\$33,642,795	\$13,982,515
Less Investments Reported as "Cash Equivalents" on Statements of Net Position	<u>(2,730,870)</u>				
Total Investments	<u>\$88,395,768</u>				

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION

The Foundation, a legally separate, tax exempt organization, manages its investments under an investment policy separate from the University. The primary objective of the Foundation investments for endowed funds is to provide for long-term growth of principal without undue exposure risk, through capital appreciation, income, donor development and gifts.

The purpose of this policy is to provide a disciplined approach to moving money from the endowment to fulfill donor intentions on a timely, predictable, and consistent basis while preserving intergenerational equity.

The Foundation is committed to administering and investing endowed funds in compliance with all relevant Foundation bylaws, organizational concerns, industry standards, and federal and state laws and regulations, including the Uniform State of Michigan Prudent Management of Institutional Funds Act (USMPMIFA). The Foundation will calculate funds available for spending according to the following:

1. If the fund has existed for at least twelve months and the market value is greater than 95% of the historic gift value, use the prior year award multiplied by the consumer price index (CPI) to come up with a divisor. The divisor is divided by the market value to calculate a percentage. If the calculated percent is within a range of 3.5% to 5% take the calculated percent and multiply by the market value to get the award amount. If the calculated percentage is above 5%, use 5% multiplied by the market value to get the award. If the calculated percentage is below 3.5%, then used 3.5% multiplied by the market value to get the award.
2. If the fund has existed for at least twelve months and the market value is between 85% and 95% of the historic gift value, then use 2.5% multiplied by the market value to get the award amount.
3. If the fund has existed for at least twelve months and the market value is less than 85% of the historic gift value, no award will be given that year.

Resources have been pooled and invested through a national financial institution. Investment guidelines are established for each manager, consistent with their investment style, and Foundation return/risk/liquidity objectives. Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. Gains and losses, as well as investment interest, have been allocated to the participating programs based on their net asset balance percentage participation less an operating fee. The net asset balance percentage participation is recalculated on a quarterly basis with investment earnings, gains and losses allocated to the respective funds.

	2015	2014
Gain on sale of investments, net	\$9,847	\$1,530,245
Interest and dividends	1,026,236	685,544
Distributions to beneficiaries	(829,853)	(760,766)
Management fee	(53,146)	(64,057)
(Decrease) increase in fair value of investments	(461,606)	1,711,946
Total	<u>(\$308,522)</u>	<u>\$3,102,912</u>

Investments are not insured by the Federal Deposit Insurance Corporation (FDIC).

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. To limit its exposure to credit risk, the Foundation's investment policy limits the average credit rating of its portfolios, as well as the minimum acceptable credit rating of individual investments. For the investments expected to be expended within one year, the average weighted credit rating must be A+. The Foundation's investment policy allows up to 25% of the portfolio to be invested in debt investments rated between CCC to BB, with at least 80% consisting of B or BB rated securities. The minimum credit rating for international fixed income securities is B at the time of purchase.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit exposure to fair value loss by limiting investments by maturity.

Fair Value Hierarchy

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, the Foundation groups its investments, contributions receivable from remainder trusts, annuity payment liabilities and split interest agreements at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1:

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

Level 2:

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

Level 3:

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2015 are as follows:

	Balance at June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	\$11,176,091	\$11,176,091		
Balanced funds	6,172,256	6,172,256		
Growth funds	5,534,520	5,534,520		
Fixed income funds	3,078,077	3,078,077		
Private equity funds	81,438			\$81,438
Cash and equivalents	1,333,109	1,333,109		
Held by third party	1,418,434			1,418,434
Other assets	200,235			200,235
Total assets	\$28,994,160	\$27,294,053		\$1,700,107
Liabilities				
Liabilities on annuity contracts and trusts	\$62,186			\$62,186

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2014:

	Balance at June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	\$10,824,667	\$10,824,667		
Balanced funds	5,992,638	5,992,638		
Growth funds	4,895,369	4,895,369		
Fixed income funds	2,553,228	2,553,228		
Cash and equivalents	854,877	854,877		
Held by third party	1,446,836			\$1,446,836
Other assets	252,858			252,858
Total assets	\$26,820,473	\$25,120,779		\$1,699,694
Liabilities				
Liabilities on annuity contracts and trusts	\$48,243			\$48,243

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

Held by third party assets categorized as Level 3 consists of a perpetual trust and an irrevocable trust. Assets held within the trusts are all Level 1 investments and the Foundation is the 100% beneficiary of future distributions. As of June 30, 2015, the Foundation estimates the value of these trusts to be \$1,418,434; however, this amount could change.

Other assets categorized as Level 3 consists of irrevocable charitable remainder trusts. Contribution revenue was recognized at the date the trusts were 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 Foundation's statement of activities. As of June 30, 2015, the Foundation estimates the value of these trusts to be \$200,235; however, this amount could change.

Alternative Investments categorized as Level 3 consist of private equity funds. They are valued as the sum of the value of the underlying components on a quarterly basis. As of June 30, 2015, the Foundation estimates the value of these Alternative Investments to be \$81,438; however, this amount could change.

Liabilities on annuity contracts and trusts characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The agreements require payments during the life of the annuitant at various rates up to 8.3% of the principal amounts. The Foundation estimates the fair value of these contributions based on estimated rate of return, anticipated future payments to be made to donors during the donors' lives, donors' life expectancies and an assumed discount rate of 6%. Changes in the value of annuity obligations payable are reported in the Foundation's statement of activities.

The Foundation's policy is to recognize transfers in and transfers out of level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer.

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

	Balance at June 30, 2014	Total realized gains (losses) included in change in net assets	Total realized gains (losses) included in change in net assets	Gross additions and purchases	Gross sales and maturities	Balance at June 30, 2015
Assets						
Investments:						
Private equity funds				\$81,438		\$81,438
Irrevocable trust receivable	\$1,699,694		(\$81,025)			\$1,618,669
Liabilities						
Liabilities on annuity contracts and trusts	\$48,243		\$37,773		(\$23,830)	\$62,186

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Concentration of Credit Risk

The Foundation recognizes that, over the long term, equity investments provide the best opportunity to achieve the objectives and goals of the Endowment Fund; however, a degree of diversification in other forms of investments is prudent. To accomplish the endowment investment objectives, investment managers are authorized to utilize portfolios of equity securities, fixed-income securities, alternative investments, and short-term investments (cash and cash equivalents). The total portfolio shall be maintained within the following ranges:

	Minimum	Maximum
Equities	40%	80%
Fixed Income	50%	30%
Alternative Investments	10%	40%
Cash/Short-term Investments	0%	10%

The investments shall be reviewed quarterly to ensure the Endowment assets are within these ranges. To ensure diversification in the investment portfolio, the Foundation's investment policy limits investment in an individual common stock to ten percent of a given investment manager's portfolio based on market value. For the fixed income portfolio, with the exception of securities guaranteed by the U.S. Government, the securities of single issuers should not exceed five percent of the market value of the investment manager's portfolio.

Custodial Credit Risk

The Foundation has engaged Morgan Stanley to serve as custodian of the endowment investments. The custodian maintains physical possession of securities owned by the Foundation, collects dividend and interest payments, redeems maturing securities, and affects receipt and delivery following purchases and sales. The custodian also performs regular accounting of all assets owned, purchased or sold.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Foreign Currency Risk

The Foundation's investment policy also allows up to ten percent of its portfolio to be invested in foreign-denominated securities; all other investments must be denominated in U.S. dollars. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at quoted fair value. Both realized and unrealized gains and losses are included in net increase (decrease) in fair value of investments in the statement of activities. Investments acquired by gift or bequest are recorded at the market value on the date of donation and thereafter carried in accordance with the above provision.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	<u>2015</u>	<u>2014</u>
State appropriations - net	\$8,506,350	\$14,182,773
Student notes receivable – net	7,437,737	7,983,843
Charter schools	6,202,921	4,796,650
NMU Foundation		259,139
State, federal and private grants	700,347	347,740
Students, employees, and vendors - net	<u>3,387,863</u>	<u>3,078,015</u>
Total	<u>\$26,235,218</u>	<u>\$30,648,160</u>

For the years ended June 30, 2015 and 2014, the University received approximately \$34,467,000 and \$26,546,000 respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTE E—CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions and Reclassifications</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable assts:				
Land improvements	\$10,078,611	\$138,885		\$10,217,496
Buildings and improvements	285,700,469	30,151,353		315,851,822
Infrastructure	18,775,039	108,466		18,883,505
Equipment	60,297,290	1,490,593	\$1,180,719	60,607,164
Books	9,112,363	153,073	175,915	9,089,521
Subtotal depreciable assets	<u>383,963,772</u>	<u>32,042,370</u>	<u>1,356,634</u>	<u>414,649,508</u>
Nondepreciable assets:				
Land	6,259,031			6,259,031
Construction in progress	29,392,406	(27,441,762)		1,950,644
Subtotal nondepreciable assets	<u>35,651,437</u>	<u>(27,441,762)</u>		<u>8,209,675</u>
Total depreciable and nondepreciable assets	<u>419,615,209</u>	<u>4,600,608</u>	<u>1,356,634</u>	<u>422,859,183</u>
Less accumulated depreciation for:				
Land improvements	6,307,279	435,938		6,743,217
Buildings and improvements	110,143,553	6,207,031		116,350,584
Infrastructure	12,695,804	590,032		13,285,836
Equipment	30,201,255	2,366,606	1,062,948	31,504,913
Books	7,387,058	203,065	131,597	7,458,526
Total accumulated depreciation	<u>166,734,949</u>	<u>9,802,672</u>	<u>1,194,545</u>	<u>175,343,076</u>
Capital assets, net	<u>\$252,880,260</u>	<u>(\$5,202,064)</u>	<u>(\$162,089)</u>	<u>\$247,516,107</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E—CAPITAL ASSETS (continued)

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2014:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	\$10,078,611			\$10,078,611
Buildings and improvements	279,348,936	\$9,414,533	\$3,063,000	285,700,469
Infrastructure	18,775,039			18,775,039
Equipment	47,529,930	13,377,874	610,514	60,297,290
Books	9,348,408	186,003	422,048	9,112,363
Subtotal depreciable assets	391,929,000	31,781,771	4,095,562	419,615,209
Nondepreciable assets:				
Land	6,146,031	113,000		6,259,031
Construction in progress	20,702,045	8,690,361		29,392,406
Subtotal nondepreciable assets	26,848,076	8,803,361		35,651,437
Total depreciable and nondepreciable assets	391,929,000	31,781,771	4,095,562	419,615,209
Less accumulated depreciation for:				
Land improvements	5,879,951	427,328		6,307,279
Buildings and improvements	106,025,771	6,194,226	2,076,444	110,143,553
Infrastructure	12,093,790	602,014		12,695,804
Equipment	28,382,697	2,331,587	493,029	30,201,255
Books	7,627,074	116,578	356,594	7,387,058
Total accumulated depreciation	160,009,283	9,651,733	2,926,067	166,734,949
Capital assets, net	\$231,919,717	\$22,130,038	\$1,169,495	\$252,880,260

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E—CAPITAL ASSETS (continued)

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$500,000 and \$5,375,000 at June 30, 2015 and 2014, respectively.

Northern Michigan University received grants from the U.S. Department of Commerce under the Public Telecommunication Facilities Program to assist in the purchase of equipment for WNMU-TV and WNMU-FM. Total acquisition costs under this program consisted of approximately \$778,800 through fiscal year 2009. In accordance with established regulations, the federal government will maintain a priority lien on this equipment for a period of ten years.

During 2015, construction was completed on a modern high-tech classroom facility that replaced the current John X. Jamrich Hall. Total construction costs at June 30, 2015 of \$32.5 million included the building, parking, and related furnishings and equipment. This project utilized \$8.4 million in University funds and is scheduled to be financed by up to \$25 million in State Building Authority (SBA) bonds which will be secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease term the SBA will hold title to the building and the University will pay all operating and maintenance costs. Total construction costs for Jamrich Hall as of June 30, 2014 totaled \$28.2 million and was recorded in construction in progress.

Additional facilities financed in whole or in part by the SBA are the Heating Plant, the Service Building, the Art Annex, the Seaborg Center Complex, the Art and Design addition, the Hedgcock building, and the Thomas Fine Arts building. At the expirations of the individual leases, the SBA has agreed to sell each building to the University for one dollar. The cost and accumulated depreciation for these facilities are recorded in the Statement of Net Position.

NOTE F—COLLECTIONS

The University has the Moses Coit Tyler Collection that has not been capitalized. This collection is maintained for public exhibition and education.

NOTE G—PAYABLES

Payables of the University include the following at June 30:

	<u>2015</u>	<u>2014</u>
Accrued payroll and benefits	\$8,072,393	\$8,292,786
Construction contractors	1,303,974	5,653,456
Charter schools	6,016,833	4,652,751
Vendors	2,655,153	2,618,937
Interest payable	369,747	384,603
Total	<u>\$18,418,100</u>	<u>\$21,602,533</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE H—NON-CANCELABLE LEASES

The University has entered into non-cancelable leases for computers to be used by students and employees. The following table is a summary of the future non-cancelable operating lease payments:

<u>Year ending June 30</u>	<u>Amount</u>
2016	\$1,449,365
2017	582,730
2018	27,936
Total	<u>\$2,060,031</u>

Lease expense for 2015 and 2014 was approximately \$2,527,000 and \$2,491,000, respectively. Subsequent to year end, the University purchased approximately 1,900 additional laptops using tax exempt bank financing over a four year period. Total principal and interest over the four year period will be \$2,014,000 and is a normal part of University operations.

NOTE I—LONG-TERM LIABILITIES

In February 2012, the University issued fixed rate General Revenue Bonds, Series 2012, in the amount of \$18,190,000 for construction of a new solid biomass fuel combined heat and power plant as an addition to the existing Ripley Heating Plant to generate steam and electricity for the University's campus, an energy efficiency steam optimization project, steam tunnel improvements, and various building and renovation projects. Bonds issued for the heating plant addition totaled \$15,750,000 and mature in varying amounts through 2032. Bonds issued for the remaining projects totaled \$2,440,000 and mature in varying amounts through 2017. The University received a reoffering premium of \$1.3 million in the issuance of the 2012 Revenue Bonds and coupon rates range from 3.25% to 5.0%.

In March 2008, the University issued fixed rate General Revenue Bonds, Series 2008, in the amount of \$100,935,000 to currently refund \$91,230,000 in outstanding variable rate General Revenue Bonds, Series 2001, 2005, and 2006 including termination of interest rate swaps associated with each of these issues, and to provide \$9,705,000 in new monies for residence hall renovation. The 2008 Revenue Bonds bear interest rates from 3.25% to 5.125% and mature in varying amounts through 2039.

The refunding was undertaken to reduce future debt service payments and lock in fixed interest rates. The reacquisition price exceeded the net carrying amount of the old debt by \$5.0 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I—LONG-TERM LIABILITIES (continued)

As of June 30, 2015, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2016	\$4,600,000	\$4,389,556	\$8,989,556
2017	4,830,000	4,172,706	9,002,706
2018	4,440,000	3,928,956	8,368,956
2019	4,740,000	3,700,206	8,440,206
2020	5,120,000	3,458,381	8,578,381
Total Five Years	<u>23,730,000</u>	<u>19,649,805</u>	<u>43,379,805</u>
Thereafter			
2021-2025	24,850,000	13,871,069	38,721,069
2026-2030	24,250,000	8,325,619	32,575,619
2031-2035	17,115,000	3,060,544	20,175,544
2036-2039	4,665,000	291,228	4,956,228
Total	94,610,000	<u>\$45,198,265</u>	<u>\$139,808,265</u>
Deferred charge on refunding, net	(3,286,135)		
Deferred re-offering premium	<u>2,259,316</u>		
Total	<u>\$93,583,181</u>		

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I—LONG-TERM LIABILITIES (continued)

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	\$99,125,000		\$4,515,000	\$94,610,000	\$4,600,000
Premium on bond issuance	2,480,091		220,775	2,259,316	220,776
Total notes and bonds payable	101,605,091		4,735,775	96,869,316	4,820,776
Other liabilities:					
Severance benefits	3,357,954	\$8,235	1,232,197	2,133,992	1,718,934
Compensated absences	2,467,362	2,144,286	2,176,028	2,435,620	199,590
Federal capital contribution of Perkins Loan Program	5,810,443		284,688	5,525,755	
Total other liabilities	11,635,759	2,152,521	3,692,913	10,095,367	1,918,524
Total long-term liabilities	\$113,240,850	\$2,152,521	\$8,428,688	\$106,964,683	\$6,739,300

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	\$103,380,000		\$4,255,000	\$99,125,000	\$4,515,000
Premium on bond issuance	2,700,866		220,775	2,480,091	220,775
Total notes and bonds payable	106,080,866		4,475,775	101,605,091	4,735,775
Other liabilities:					
Severance benefits		\$3,357,954		3,357,954	1,332,641
Compensated absences	2,434,161	2,015,900	1,982,699	2,467,362	185,772
Federal capital contribution of Perkins Loan Program	5,835,422		24,979	5,810,443	
Total other liabilities	8,269,583	5,373,854	2,007,678	11,635,759	1,518,413
Total long-term liabilities	\$114,350,449	\$5,373,854	\$6,483,453	\$113,240,850	\$6,254,188

NOTE J—OPERATING EXPENSES

Operating expenses by natural classification for the years ended June 30 were as follows:

	2015	2014
Salaries, wages and benefits	\$94,698,128	\$97,322,771
Supplies and support services	40,625,389	37,086,107
Utilities	6,779,448	7,641,621
Depreciation expense	9,802,672	9,651,733
Scholarships	6,993,646	7,008,758
Total	\$158,899,283	\$158,710,990

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS

The University has two retirement plans: Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF) and the Michigan Public School Employees' Retirement System (MPERS). New University employees hired after January 1, 1996 can only participate in TIAA-CREF based on changes in state legislation during 1995.

The University does not provide health care benefits to retirees. During fiscal year 2013, the University discontinued allowing retirees to purchase healthcare benefits at cost.

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

The TIAA-CREF plan is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract, and has no liability beyond its own contribution. As of June 30, 2015 and 2014, the plan had 860 and 820 participants, respectively.

The University's contributions to the TIAA-CREF plans are as follows for the years ended June 30:

	2015	2014	2013
University Contributions	\$6,598,091	\$6,514,706	\$6,271,740
Covered Payroll	\$46,849,597	\$45,339,008	\$43,628,385

Michigan Public School Employees' Retirement System (MPERS)

Plan Description

The University contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multi-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees' Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPSERS) (continued)

Plan Description (continued)

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

Benefits Provided

MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

<u>Plan</u>	<u>Eligibility Based on Years of Service</u>	<u>Vesting</u>
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

Contributions

Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. Employer contribution requirements for pension and retiree healthcare, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The University's contributions to MPSERS under all pension plans as described above for the years ended June 30, 2015, 2014, and 2013 were \$3,315,213, \$3,020,523, and \$2,623,723 respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (continued)

Pension Liability

At June 30, 2015, the University reported a liability of \$36,787,546 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The University's proportion of the net pension liability was based on statutorily required contributions in relation to all reporting units statutorily required contributions for the measurement period. At September 30, 2014, the University's proportion (as calculated by MPERS) was 9.80724%.

Actuarial Assumptions

The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation rate	3.5%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-living pension adjustments	3% annual non-compounded for MIP members
Investment rate of return	8% (7% for the Pension Plus plan), net of pension plan investment expense, including inflation

The healthy life post-retirement mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection Scale BB. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

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

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (continued)

Pension Liability (continued)

Asset Class	Target Allocation	Long- Term Expected Real Rate of Return*	Expected Money- Weighted Rate of Return
Domestic equity pools	28.0%	4.8%	1.34 %
Alternative investment pools	18.0	8.5	1.53
International equity pools	16.0	6.1	0.98
Fixed income pools	10.5	1.5	0.16
Real estate and infrastructure pools	10.0	5.3	0.53
Absolute return pools	15.5	6.3	0.98
Short-term investment pools	<u>2.0</u>	(0.2)	<u>(0.02)</u>
Total	<u>100.0%</u>		5.50%
Inflation			<u>2.50</u>
Investment rate of return			<u>8.00%</u>

*Long term expected real rate of return does not include 2.5% inflation.

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus Plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the 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 those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the University, calculated using the discount rate of 8.0%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Single Discount Rate Assumption (8.0%)	1% Increase (9.0%)
University's proportionate share of net pension liability	\$46,040,815	\$36,787,546	\$28,814,097

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (continued)

Pension Liability (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2015, the University reported a payable of \$252,513 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

For the year ended June 30, 2015, the University recognized pension expense of \$3,999,736. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$1,095,977	
Net difference between projected and actual earnings on pension plan investments		\$3,536,793
Changes in proportion and differences between University contributions and proportionate share of contributions	1,169	
	1,097,146	3,536,793
University contributions subsequent to the measurement date	2,673,672	
Total	\$3,770,818	\$3,536,793

The amount of deferred outflows of resources related to University contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Amount
2016	\$212,948
2017	(884,198)
2018	(884,198)
2019	(884,199)
Total	(\$2,439,647)

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (continued)

Pension Liability (continued)

The University received \$9,419,428 on September 30, 2015 from the Office of Retirement Service as a refund of employer contributions that were paid in since 1997 in excess of pension contributions required by law. The Office of Retirement Services identified the overpayment during the implementations of GASB 68. This amount will be recorded as an increase to pension liability in the 2016 fiscal year.

Other Postemployment Benefits

Retirees enrolled in MPERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The University's contributions to MPERS for other postemployment benefits amounted to \$1,875,032 and \$2,192,222 for the years ended June 30, 2015 and 2014, respectively.

NOTE L—EARLY RETIREMENT INCENTIVE PLAN

During fiscal 2014 the University established an Early Retirement Incentive Plan (ERIP) available to all current full-time faculty who completed ten years of service and attained age 62 by June 30, 2014. Employees had to apply for ERIP no later than June 16, 2014 and give up all tenure rights on June 30, 2014. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The ERIP is expected to be paid over a three-year period beginning in fiscal year ending 2015. The ERIP liability was approximately \$2,100,000 and approximately \$3,400,000 at June 30, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE M—LIABILITY INSURANCE

The University participates in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.), which provides indemnity to members against comprehensive general liability, property and casualty, and errors and omissions losses, commonly covered by insurance and provides risk management and loss control services and programs. M.U.S.I.C. provides coverage for claims in excess of agreed upon deductibles.

Loss coverages are structured on a three layer basis with each member retaining a portion of its losses; M.U.S.I.C. covering the second layer 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.

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled \$17,411,833 at June 30, 2014, based on the last published financial statements.

Self-insurance

The University is self-insured for health, dental, vision, workers' compensation, and short-term disability for all employees. Liabilities for estimates of losses retained by the University under self-insurance programs have been established.

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits, including prescription drugs, and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to \$16.0 million and \$13.2 million in aggregate for the fiscal year ended June 30, 2015 and 2014, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$350,000 for fiscal years ended June 30, 2015 and 2014, the aggregate excess insured maximum liability is \$5,000,000. Changes in the estimated liability for the fiscal years ended June 30, 2015, and 2014 for health benefits were as follows:

Claims activity for the year ended June 30, 2015 is as follows:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	\$3,294,478	\$9,592,618	(\$9,954,825)	\$2,932,271
Workers' compensation	83,656	38,119	(57,065)	64,710
Total	<u>\$3,378,134</u>	<u>\$9,630,737</u>	<u>(\$10,011,890)</u>	<u>\$2,996,981</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(concluded)

NOTE M—LIABILITY INSURANCE (continued)

Claims activity for the year ended June 30, 2014 is as follows:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	\$3,089,166	\$10,830,545	(\$10,625,233)	\$3,294,478
Workers' compensation	61,623	68,646	(46,613)	83,656
Total	<u>\$3,150,789</u>	<u>\$10,899,191</u>	<u>(\$10,671,846)</u>	<u>\$3,378,134</u>

NOTE N—CONTINGENCIES

In the normal course of its activities, the University is a party in various legal actions. The University and its legal counsel are of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
Northern Michigan University
June 30, 2015

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

Schedule of Northern Michigan University's Proportionate Share of the Net Pension Liability
As of June 30 of each Fiscal Year

	2015
A. University's proportion of net pension liability (%)	9.80724%
B. University's proportionate share of net pension liability	\$36,787,546
C. University's covered-employee payroll	\$8,338,570
D. University's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	441.17%
E. Plan fiduciary net position as a percentage of total pension liability	63%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule will be built prospectively until a full 10-year trend is presented.

Schedule of Northern Michigan University's Contributions
As of June 30 of each Fiscal Year

	2015
Contractually required contribution	\$3,315,213
Contributions in relation to the contractually required contribution	(3,315,213)
Contribution deficiency (excess)	\$ -
University's covered-employee payroll	\$7,750,117
Contributions as a percentage of covered employee payroll	42.78%

GASB 68 was implemented in fiscal year 2015. This schedule will be built prospectively until a full 10-year trend is presented.

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