

# **FINANCIAL REPORT**

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**2012 – 2013**

**NORTHERN MICHIGAN UNIVERSITY**

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## **Board of Trustees**

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Terms ending December 31 in year shown

Leigh Garnet Lewis  
*Chair*  
Freeland  
2016

Richard M. Popp  
*Vice Chair*  
Northville Township  
2018

Stephen F. Adamini  
Marquette  
2014

Stephen L. Gulis, Jr.  
Rockford  
2018

Steven M. Mitchell  
West Bloomfield  
2020

H. Sook Wilkinson  
Bloomfield Hills  
2016

Gilbert L. Ziegler  
Charlevoix  
2014

Thomas H. Zurbuchen  
Ann Arbor  
2020

David S. Haynes  
President of the University  
*Ex Officio*

## **Executive Officers**

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David S. Haynes  
President

Martha B. Haynes  
Vice President for Advancement

Paul L. Lang  
Provost and Vice President for Academic Affairs

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

## **Finance and Administration Staff**

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Jill M. Compton  
Internal Auditor

Felecia J. Flack  
Director - Information Technology, Information Services

Arthur J. Gischia  
Sr. Associate Vice President for Administration

Sandra S. Haavisto  
Controller

David W. Maki  
Chief Technology Officer

Kathy A. Richards  
Associate Vice President for Engineering and Facilities

Ann M. Sherman  
Director of Human Resources

Sherri A. Towers  
Sr. Director of Budget and Business Services

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Northern Michigan University**

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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, 2013, 2012 and 2011. 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 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.

#### **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 and liabilities. 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 reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of \$49.1 million for the year ended June 30, 2013, and \$48.8 million for the year ended June 30, 2012, as restated. 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, capital, financing, and investing activities.

#### **Financial Highlights**

Net position for the year ended June 30, 2013 of \$231.7 million increased by \$4.7 million from the prior year of \$227.0 million, as restated, and included recognition of \$40.8 million in State appropriation revenue

Operating revenues for the year ended June 30, 2013 of \$102.0 million decreased by \$0.2 million from the prior year. Student tuition and fees totaling \$61.8 million is the largest component of operating revenue and increased by \$0.7 million over the prior year. All other operating revenues of \$40.2 million netted to a \$1.0 million decrease. Nonoperating revenues totaling \$58.9 million increased by \$2.7 million from the prior year. The largest components of this increase were a \$2.5 million increase in State appropriations, a \$0.8 million increase in investment income, and a \$0.6 million decrease in all other nonoperating revenues.

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

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**Financial Highlights (continued)**

Operating revenues for the year ended June 30, 2012 of \$102.3 million increased by \$5.0 million from the prior year. Student tuition and fees totaling \$61.1 million is the largest component of operating revenue and increased by \$5.1 million over the prior year. Residential life totaling \$19.3 million increased by \$1.7 million and all other operating revenues of \$21.9 million decreased by \$1.8 million. Nonoperating revenues totaling \$56.2 million decreased by \$10.7 million from the prior year. The largest components of this decrease were an \$8.1 million decrease in State appropriations and State fiscal stabilization funds and a \$1.9 million decrease in investment income.

Operating and nonoperating expenses of \$155.5 million for the year ended June 30, 2013 decreased by \$0.7 million from the prior year total of \$156.2 million, as restated. Operating expenses increased by \$0.1 million and nonoperating expenses decreased by \$0.8 million as the result of one time bond issuance costs in the prior year of \$0.4 million and interest on capital debt decreasing by \$0.4 million. A full year of interest payments totaling \$0.8 million for the 2012 bond issue began in the current year with \$0.5 million being capitalized as part of construction. On a functional basis, instructional expenses increased \$0.8 million, operations and maintenance of plant decreased \$1.5 million, institutional support increased \$0.4 million, student aid decreased \$0.7 million, academic support increased \$0.4 million, residential life increased \$0.4 million, and other costs decreased by \$0.5 million. The decrease in operations and maintenance was mainly attributable to the completion of Phase II of performance contracting to upgrade energy management and control systems and is offset by the startup of the security and fire alarm system replacement.

Operating and nonoperating expenses of \$156.2 million for the year ended June 30, 2012, as restated, decreased by \$0.9 million from the prior year total of \$157.1 million. In adopting GASB 65 to write off bond issue costs, other than bond insurance, and adjusting operations and maintenance expense for a correction to the capital cost of a roof, the University recognized an additional \$1.1 million in operating and nonoperating expenses. On a functional basis, instructional expenses increased \$0.3 million, public service decreased by \$0.9 million, operations and maintenance, as restated, increased by \$0.4 million, interest on capital assets related debt decreased \$0.2 million, student aid decreased \$1.1 million, depreciation expense decreased by \$0.2 million, residential life increased \$1.2 million, and other costs decreased \$0.4 million.

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

**Condensed Financial Information**

Condensed Statements of Net Position

	June 30		
	2013	2012 Restated	2011 Restated
<b>Assets</b>			
Current assets	\$31,379,227	\$47,867,891	\$66,898,399
Noncurrent assets			
Capital	231,919,717	227,100,610	223,637,005
Other	99,731,121	89,067,894	57,971,656
Total noncurrent assets	<u>331,650,838</u>	<u>316,168,504</u>	<u>281,608,661</u>
Total assets	<u>363,030,065</u>	<u>364,036,395</u>	<u>348,507,060</u>
Deferred outflows of resources			
Deferred charge on refunding	3,768,043	4,008,998	4,249,951
Total deferred outflows of resources	<u>3,768,043</u>	<u>4,008,998</u>	<u>4,249,951</u>
<b>Liabilities</b>			
Current liabilities	25,403,301	26,711,174	22,695,966
Noncurrent liabilities	109,677,443	114,289,671	99,902,100
Total liabilities	<u>135,080,744</u>	<u>141,000,845</u>	<u>122,598,066</u>
<b>Net position</b>			
Net investment in capital assets	129,606,895	120,777,966	128,103,562
Restricted			
Nonexpendable	811,171	741,644	783,998
Expendable	7,190,005	15,910,010	4,197,186
Unrestricted	94,109,293	89,614,928	91,529,323
Total net position	<u>\$231,717,364</u>	<u>\$227,044,548</u>	<u>\$224,614,069</u>

Current assets totaled \$31.4 million at June 30, 2013 and \$47.9 million at June 30, 2012. The ratio of current assets to current liabilities was 1.2 for the year ended June 30, 2013, and 1.4 for the year ended June 30, 2012 when excluding bond funds of \$0.7 million and \$10.7 million respectively. Cash and cash equivalents of \$11.7 million decreased by \$6.7 million from the prior year total of \$18.4 million as the result of the University lowering the targeted amount of cash on hand for operational needs. State appropriations receivable totaled \$7.4 million at June 30, 2013 and \$7.0 million at June 30, 2012.

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

**Condensed Financial Information (continued)**

Long-term debt including notes and bonds payable is the largest liability totaling \$102.3 million at June 30, 2013, and \$106.3 million at June 30, 2012. Bonds and Notes Payable at June 30, 2013 included \$17.2 million of 2012 General Revenue Fixed Rate Bonds, \$86.2 million of 2008 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of \$1.1 million.

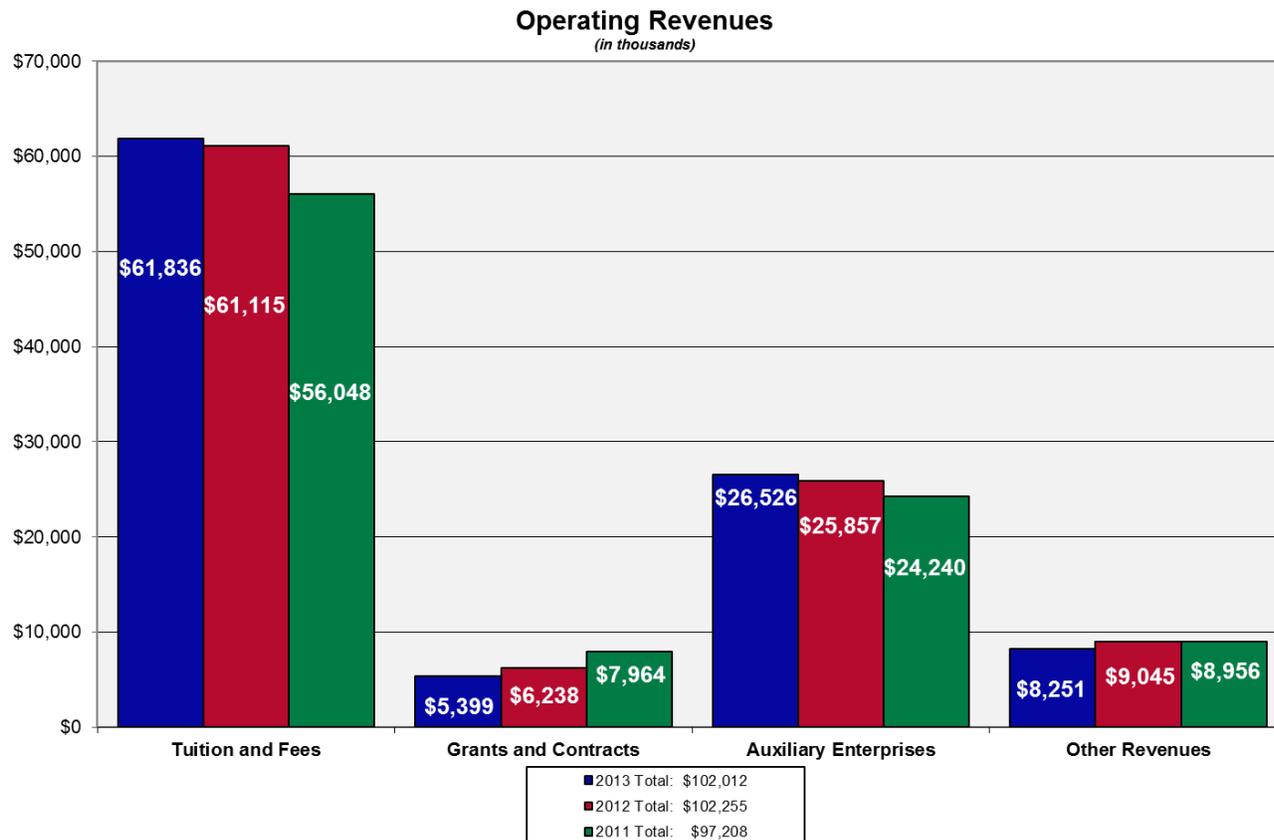
Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2013	2012 Restated	2011 Restated
Operating revenues			
Tuition and fees, net	\$61,835,937	\$61,114,827	\$56,047,514
Grants and contracts	5,398,959	6,238,100	7,964,124
Auxiliary enterprises, net	26,526,172	25,857,193	24,239,679
Other operating revenues	8,251,269	9,044,468	8,956,319
Total operating revenues	<u>102,012,337</u>	<u>102,254,588</u>	<u>97,207,636</u>
Operating expenses	<u>(151,101,097)</u>	<u>(151,038,098)</u>	<u>(152,091,858)</u>
Operating loss	(49,088,760)	(48,783,510)	(54,884,222)
Nonoperating revenues (expenses)			
State appropriations	40,844,960	38,357,900	45,127,868
Pell grant revenue	13,648,807	14,202,460	15,126,978
Other nonoperating revenues (expenses)-net	<u>(15,108)</u>	<u>(1,543,832)</u>	<u>1,654,968</u>
Net nonoperating revenues (expenses)	<u>54,478,659</u>	<u>51,016,528</u>	<u>61,909,814</u>
Income (loss) before other revenues	<u>5,389,899</u>	<u>2,233,018</u>	<u>7,025,592</u>
Capital grants and gifts	12,000	205,092	299,963
Loss on asset disposal	<u>(729,083)</u>	<u>(7,631)</u>	<u>(1,440,086)</u>
Total other (expenses) revenues	<u>(717,083)</u>	<u>197,461</u>	<u>(1,140,123)</u>
Total increase in net position	4,672,816	2,430,479	5,885,469
Net position			
Net position – beginning of the year	228,633,388	225,135,831	219,277,330
Cumulative effect of change in accounting principle	(904,643)	(521,762)	(548,730)
Prior period adjustment-correction of capital acquisition costs	<u>(684,197)</u>		
Net position – beginning of year, as restated	<u>227,044,548</u>	<u>224,614,069</u>	<u>218,728,600</u>
Net position – end of year	<u>\$231,717,364</u>	<u>\$227,044,548</u>	<u>\$224,614,069</u>

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

**Condensed Financial Information (continued)**

Total operating revenues were \$102.0 million for fiscal year 2013 and \$102.3 million for fiscal year 2012. 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

	2012-2013	2011-2012	2010-2011
Undergraduate, resident	\$8,709	\$8,414	\$7,864
Undergraduate, nonresident	\$13,605	\$13,142	\$12,280
Graduate, resident	\$10,497	\$10,130	\$9,448
Graduate, nonresident	\$14,829	\$14,318	\$13,366

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

**Room and Board**

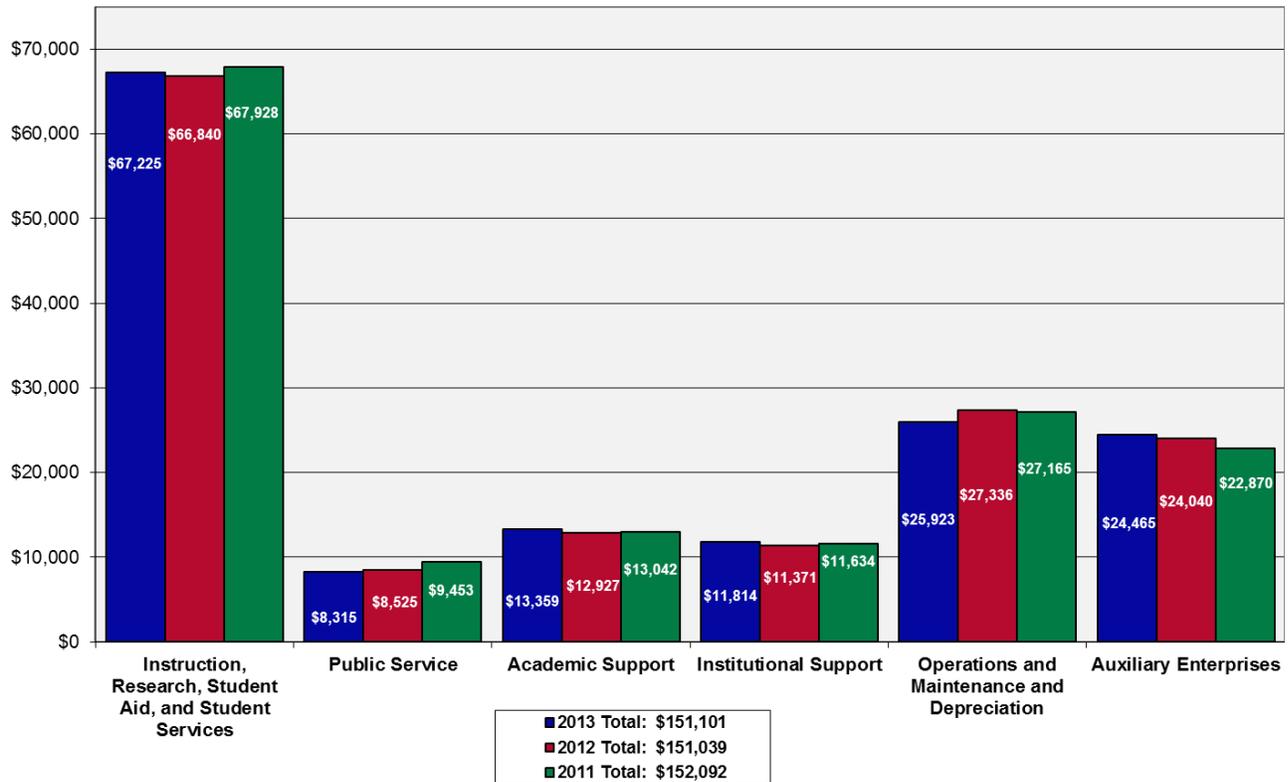
The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$8,404 for 2012-2013, \$8,174 for 2011-2012, and \$8,026 for 2010-2011. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Ten residence halls which house 2,611 students currently have a mean occupancy of 2,413 (2012 – 2,389) and are at 92% capacity (2012 – 91% capacity). Campus apartments total 367 units with occupancy varying depending on the ratio of single students to student families and the size of the household. Approximately 95% of apartments are rented during the academic year. 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, 2013, including depreciation of \$9.5 million, totaled \$151.1 million. Of this total, \$66.4 million, or 44.0%, was used for instruction, student aid, and student services, \$25.9 million, or 17.2% was used for operation, maintenance, and depreciation, and \$24.4 million, or 16.2%, was used for auxiliary enterprises. Operating expenses for June 30, 2012, including depreciation of \$9.4 million, totaled \$151.0 million, as restated.

The breakout by functional expense is highlighted below:

**Operating Expenses by Function**  
*(in thousands)*



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

**Other**

The State appropriations of \$40.8 million for the year ended June 30, 2013, and \$38.4 million for the year ended June 30, 2012, 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 \$4.4 million for the year ended June 30, 2013, and \$4.8 million for the year ended June 30, 2012. Interest of \$0.5 million was capitalized as part of construction costs during the current fiscal year.

**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		
	2013	2012 Restated	2011 Restated
Cash provided (used) by:			
Operating activities	(\$41,006,977)	(\$36,454,186)	(\$46,696,250)
Noncapital financing activities	56,166,446	55,521,979	61,618,376
Capital and related financing activities	(23,987,912)	(6,514,843)	(18,113,312)
Investing activities	2,192,121	(40,858,108)	1,556,143
Net decrease in cash and cash equivalents	(6,636,322)	(28,305,158)	(1,635,043)
Cash and cash equivalents – beginning of year	18,374,288	46,679,446	48,314,489
Cash and cash equivalents – end of year	<u>\$11,737,966</u>	<u>\$18,374,288</u>	<u>\$46,679,446</u>

Major sources of funds included in operating activities are student tuition and fees of \$61.6 million, grants and contracts of \$5.4 million and auxiliary sales of \$26.6 million for the year ended June 30, 2013; and student tuition and fees of \$61.2 million, grants and contracts of \$6.4 million and auxiliary sales of \$25.7 million for the year ended June 30, 2012. The major source of funds included in noncapital financing activities are State appropriations of \$40.4 million and Pell grant revenue of \$13.6 million for the year ended June 30, 2013; and, State appropriations of \$39.6 million and Pell grant revenue of \$14.2 million for the year ended June 30, 2012.

**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.

For the year ended June 30, 2013, net assets of \$31.1 million increased \$2.8 million for the year ended. This change included a \$1.0 million increase in gifts and contributions, a \$1.4 million increase in investment income, and other changes totaling \$0.4 million.

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

**Northern Michigan University Foundation (continued)**

For the year ended June 30, 2012, net assets decreased \$0.2 million as compared to a \$4.3 million increase in the fiscal year ended June 30, 2011. This change was primarily the result of a decrease in investment income of \$4.3 million over the prior year total of \$4.4 million. 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.

**Factors Impacting Future Periods**

**Enrollment**

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.

Academic Year	Fall Headcount Enrollment			Fiscal Year Equated Students	Annual Total Credit Hours Taken		
	Undergraduate Students	Graduate Students	Total		Undergraduate Students	Graduate Students	Total
2009	8,598	749	9,347	8,417	239,850	9,942	249,792
2010	8,684	744	9,428	8,588	245,822	9,463	255,285
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

For the 2012-13 academic year, fifty percent (50%) of the University's students represent Upper Peninsula Michigan residents, thirty-one percent (31%) of the University's students came from Michigan's Lower Peninsula, and the remaining nineteen percent (19%) came from other states and foreign countries.

**Admissions**

Working within the realm of significant declines in the prospective freshman demographic in Michigan and the surrounding Midwest states, NMU has engaged the consulting services and products of a nationally recognized higher education enrollment firm. Using predictive modeling and financial aid leveraging tools by the staff in Admissions and Financial Aid, along with an examination and augmentation of the communication flow and messaging, NMU is maintaining its new freshman enrollment strength in the Upper Peninsula and has seen increased enrollment rates from Michigan's Lower Peninsula.

It is anticipated that with a full recruitment cycle during which to realize the full impact of these changes, the University will be able to maintain the enrollment success in those markets. We will continue to experience challenges in the non-Michigan and transfer markets. New branding and recruitment publications will impact the fall 2015 entering class, and an increased focus on sub-markets should help offset the demographic challenges.

Our strategies to engage the whole campus for student success are beginning to also see positive results. With systematic approaches to enhance the academic success of new freshmen, preliminary data is showing higher second year retention rates for students admitted on probation and good standing. Career Services has developed innovative ways of connecting students with professionals by developing the "CAT Track" program. This program continues to experience a high level of participation and we expect even higher levels will result with enhanced marketing during the academic year. Our commitment to inclusive excellence has brought us rewarding results not only for degree completions, but also for other post-secondary education experience in the certificate and diploma areas.

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

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Admissions (continued)

Several of the steps taken to maintain the domestic student enrollments at NMU are also being employed in a proactive manner to grow the number of international students. New international program leadership and consulting services have been examining NMU's entire international enrollment management system and student support services, and the University is developing a comprehensive strategic plan that is aimed at creating and maintaining a robust international presence at NMU. The strategic plan, encompassing all areas of the campus, will be finalized and implemented in the fall 2013 semester.

The University is also working to modify and develop high quality graduate programs that meet the personal and professional needs of our students. This has included creating tools that help us better monitor and distribute data for admissions and recruitment. Also, as part of our strategic plan, we have established committees for both evaluation of current programs and development of new graduate programs.

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	Applications	Percent	Total New	Percent
	<u>Received</u>	<u>Accepted</u>	<u>Accepted</u>	<u>Enrolled</u>	<u>Enrolled</u>
2008	5,608	4,367	77.9	1,902	43.6
2009	5,955	4,338	72.8	1,829	42.2
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

By August 7, 2013, the University had received 6,868 freshman applications (as compared to 6,964 as of August 1, 2012) and had granted 4,911 acceptances (as compared to 4,591 as of August 1, 2012)

Transfer Student Admissions

Fall Semester	Applications	Applications	Percent	Students	Percent
	<u>Received</u>	<u>Accepted</u>	<u>Accepted</u>	<u>Enrolled</u>	<u>Enrolled</u>
2008	1,134	704	62.1	437	62.1
2009	1,294	780	60.3	523	67.1
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

By August 7, 2013, the University had received 1,647 transfer applications (as compared to 1,649 as of August 1, 2012) and had granted 841 acceptances (as compared to 834 as of August 1, 2012).

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

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**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.

A solid biomass fuel facility connecting to the current Ripley Heating plant was completed the first part of July 2013. Combined Phase I and Phase II costs of \$16.5 million were incurred at June 30, 2013. This facility is one component of the University's plan to optimize energy utilization costs and create an environmentally efficient campus. In the upcoming fiscal year, the University plans to continue with its efforts to reduce energy and operational costs through implementing Phase III of performance contracting. This phase will focus on housing facilities, the Thomas Fine Arts complex, and the Superior Dome. The University expects the cost savings identified through energy conservation audits by the energy service company will fund the projects based on a period of 12 years or less.

The construction of a new \$33.4 million John X. Jamrich Hall began in April 2013. A modern, high-tech classroom facility that improves academic delivery, and reduces operational and maintenance costs will replace the existing facility that serves as the University's primary general use classroom building. Construction costs totaled \$3.3 million at June 30, 2013 with the building expected to be completed in the fall of 2014. A new enclosed pedestrian link will connect the new facility to the Learning Resources Center building allowing for improved barrier free accessibility and direct access to technology support services. A parking lot servicing the new facility was completed in the fall of 2012. The project is funded with \$25.0 million in State Building Authority funds and \$8.5 in University resources. The University is required to spend \$8.5 million before receiving the State Building Authority's proportionate share.

Renovations in fiscal year 2014 will include the replacement of the fire alarm and mass notification system with an estimated cost of \$2.1 million. Renovation projects beyond fiscal year 2013 include modernization of the Learning Resources Center to provide an interactive and multi-media instructional development center for students and faculty, address maintenance items in various academic buildings, upgrades to residence halls, and renovations of the Sam M. Cohodas Hall.

The University issued General Revenue Fixed Rate Bonds of \$18.2 million in February 2012 for the construction of the biomass fuel facility including an energy efficiency steam optimization project, steam tunnel improvements, roof replacements, and improvements of campus housing and dining facilities. Unspent funds were \$2.8 million at June 30, 2013. In fiscal year 2008, the University had issued \$100.0 million in General Revenue Fixed Rate Bonds to refund all outstanding maturities of the General Revenue Bonds Series 2001, 2005, and 2006, and to finance the renovation of Hunt Hall, a residence hall in the University's Quad II complex.

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

**Capital Plan (continued)**

Bonds and notes payable at June 30, 2013 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
12/01/2013	3.500%	3.150%	3,155,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
12/01/2014	3.750%	3.320%	3,500,000
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
06/01/2014	5.000%	0.810%	1,000,000
06/01/2015	5.000%	1.130%	1,015,000
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
12/01/2013	5.000%	3.150%	100,000
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
12/01/36-12/01/2038	5.000%	5.120%	1,700,000
12/01/2032-12/01/2035	5.125%	5.110%	11,075,000
Total			<u>\$103,380,000</u>

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

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**Teaching, Learning, and Communication (TLC) Initiative**

The University's high-tech learning environment plays a critical role in student achievement with over 9,100 notebook computers distributed as part of NMU's tuition and fees. Featuring wired and wireless network connectivity, each computer is replaced on a three-year cycle and provides students with all of the software and internet service necessary for course related learning systems. In the fall of 2013, Student laptops will feature Windows 8 with touch screen technology.

A key component of the University's technology portfolio has been the deployment of a carrier-grade WiMAX wireless network that now encompasses ten cities surrounding NMU. In the next four years, the University plans to migrate from its current WiMAX service to Long Term Evolution (LTE) service in response to a change in industry standards. The new service will allow for the transfers of larger data files at faster speeds thereby improving off-campus wireless broadband support.

Northern Michigan University's Public Broadcasting facility, WNMU-TV, added three new cameras that enable local program production in high definition (HD). The station's studio facility was upgraded with high definition production capability in fiscal year 2012. Students in the Media Productions/New Technologies program will now gain training and work experience in a state of the art production environment.

The station is currently in the grant writing process to upgrade from its primary standard definition (SD) channel to HD which will offer viewers greater picture clarity and a much wider range of programming. The addition of new encoding, storage and program playback capabilities would permit the University to use additional channels for the delivery of specialty programming such as health news and patient care information, college telecourses and datacast services.

**State Appropriations**

The University expects to receive \$41.7 million in State Appropriations for the upcoming fiscal year. This is an increase of \$0.9 million from the prior year funding level of \$40.8 million. The University has set student tuition and fees at 3.75% above last fiscal year and has met the state tuition restraint requirements.

**INDEPENDENT AUDITORS' REPORT**

September 10, 2013

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, 2013 and 2012, 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 audit. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 13 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 September 10, 2013, 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	
	2013	2012 Restated	2013	2012
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 11,737,966	\$ 18,374,288	\$ 674,660	\$ 880,501
Short-term investments	677,000	10,680,000		
State appropriation receivable	7,428,476	6,975,892		
Accounts receivable (less allowance 2013--\$2,803,654; 2012--\$2,573,437)	6,956,089	6,817,957		
Student notes receivable (less allowance 2013--\$586,044; 2012--\$598,439)	1,497,757	1,619,526		
Investment receivable	4,531	13,419		
Pledges receivable (less allowance 2013--\$23,054; 2012--\$9,468)			408,535	628,275
Inventories	1,354,168	1,415,242		
Other assets	1,723,240	1,971,567	296,891	295,283
<b>Total current assets</b>	<b>31,379,227</b>	<b>47,867,891</b>	<b>1,380,086</b>	<b>1,804,059</b>
<b>Noncurrent assets</b>				
Long-term investments	92,084,619	81,545,247	25,922,391	23,213,676
Student notes receivable (less allowance 2013--\$2,566,424; 2012--\$2,364,132)	6,573,704	6,397,967		
Other long-term investments	194,962	194,962	1,641,305	1,629,177
Pledges receivable (less allowance 2013--\$11,876; 2012--\$4,876)			689,200	640,335
Unamortized bond insurance	877,836	929,718		
Capital assets, net	231,919,717	227,100,610	1,583,073	1,587,113
<b>Total noncurrent assets</b>	<b>331,650,838</b>	<b>316,168,504</b>	<b>29,835,969</b>	<b>27,070,301</b>
<b>Total assets</b>	<b>363,030,065</b>	<b>364,036,395</b>	<b>31,216,055</b>	<b>28,874,360</b>
<b>Deferred outflows of resources</b>				
Deferred charge on refunding	3,768,043	4,008,998		
<b>Total deferred outflows of resources</b>	<b>3,768,043</b>	<b>4,008,998</b>		
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	9,056,911	9,882,715	87,371	549,753
Accrued payroll and benefits	7,695,266	7,965,106		
Unearned revenue (unearned student fees and deposits)	3,978,118	4,440,925		
Long-term liabilities-current portion	4,673,006	4,422,428		
<b>Total current liabilities</b>	<b>25,403,301</b>	<b>26,711,174</b>	<b>87,371</b>	<b>549,753</b>
<b>Noncurrent liabilities</b>				
Annuities payable			22,911	31,243
Long-term liabilities-net of current portion	109,677,443	114,289,671		
<b>Total noncurrent liabilities</b>	<b>109,677,443</b>	<b>114,289,671</b>	<b>22,911</b>	<b>31,243</b>
<b>Total liabilities</b>	<b>135,080,744</b>	<b>141,000,845</b>	<b>110,282</b>	<b>580,996</b>
<b>Net position</b>				
Net investment in capital assets	129,606,895	120,777,966		
Restricted for:				
Nonexpendable				
Scholarships and fellowships	60,102	55,031	2,544,191	2,521,761
Loans	52,615	47,349		
Instruction	698,454	639,264		
Expendable				
Instruction	889,222	813,910	3,540,349	6,996,073
Scholarships and fellowships	430,695	399,593	19,857,199	14,984,018
Loans	2,886,411	2,828,622		
Research	138,105	129,179		
Academic, student and public service	78,555	71,900	2,554,093	2,399,396
Capital project	2,767,017	11,666,806		
Unrestricted	94,109,293	89,614,928	2,609,941	1,392,116
<b>Total net position</b>	<b>\$ 231,717,364</b>	<b>\$ 227,044,548</b>	<b>\$ 31,105,773</b>	<b>\$ 28,293,364</b>

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	
	2013	2012 Restated	2013	2012
<b>Operating revenues</b>				
Student tuition and fees (less allowance 2013--\$19,005,000; 2012--\$18,917,000)	\$ 61,835,937	\$ 61,114,827		
Gifts and contributions			\$ 4,128,609	\$ 3,114,846
Endowment income			809,934	58,417
Federal grants and contracts	3,889,423	4,560,560		
State and local grants and contracts	361,635	400,631		
Nongovernmental grants and contracts	1,147,901	1,276,909		
Sales and services of educational activities	8,251,269	9,044,468		
Auxiliary enterprise				
Residential life (less allowance 2013--\$5,571,000; 2012--\$5,383,000)	19,697,022	19,250,070		
Other auxiliary	6,829,150	6,607,123		
Other operating revenues			38,167	165,526
<b>Total operating revenues</b>	<u>102,012,337</u>	<u>102,254,588</u>	<u>4,976,710</u>	<u>3,338,789</u>
<b>Operating expenses</b>				
Educational and general				
Instruction	44,042,281	43,226,155		
Research	810,397	771,558		
Public service	8,315,340	8,524,806		
Academic support	13,359,462	12,927,217		
Student services	14,568,078	14,356,568		
Institutional support	11,813,653	11,370,617	1,577,533	1,431,822
Operations and maintenance of plant	16,376,876	17,911,617		
Student aid	7,804,045	8,485,388		
Depreciation	9,546,253	9,424,122		
Auxiliary enterprise				
Residential life	16,848,888	16,455,597		
Other	7,615,824	7,584,453		
<b>Total operating expenses</b>	<u>151,101,097</u>	<u>151,038,098</u>	<u>1,577,533</u>	<u>1,431,822</u>
<b>Operating (loss) income</b>	<u>(49,088,760)</u>	<u>(48,783,510)</u>	<u>3,399,177</u>	<u>1,906,967</u>
<b>Nonoperating revenues (expenses)</b>				
State appropriations	40,844,960	38,357,900		
Pell grant revenue	13,648,807	14,202,460		
Gifts (including 2013--\$1,671,000 and 2012--\$1,740,000 from the NMU Foundation)	1,684,468	1,740,858		
Payments to and on behalf of the University			(2,067,140)	(2,168,541)
Investment income (net of investment expense for the University 2013--\$349,300 and 2012--\$295,100; and for the NMU Foundation 2013--\$114,400 and 2012--\$116,800)	2,719,603	1,900,192	1,480,372	69,329
Debt issuance costs		(420,882)		
Interest on capital asset-related debt	(4,419,179)	(4,764,000)		
<b>Net nonoperating revenues (expenses)</b>	<u>54,478,659</u>	<u>51,016,528</u>	<u>(586,768)</u>	<u>(2,099,212)</u>
<b>Income before other revenues (expenses)</b>	<u>5,389,899</u>	<u>2,233,018</u>	<u>2,812,409</u>	<u>(192,245)</u>
Capital grants and gifts (including 2013--\$0.0 and 2012--\$40,000 from the NMU Foundation)	12,000	205,092		
Loss on asset disposal	(729,083)	(7,631)		
<b>Total other revenues (expenses)</b>	<u>(717,083)</u>	<u>197,461</u>		
<b>Increase (decrease) in net position</b>	<u>4,672,816</u>	<u>2,430,479</u>	<u>2,812,409</u>	<u>(192,245)</u>
<b>Net position - beginning of year</b>	228,633,388	225,135,831	28,293,364	28,485,609
Cumulative effect of change in accounting principle	(904,643)	(521,762)		
Prior period adjustment-correction of capital acquisition costs	(684,197)			
<b>Net position - beginning of year, as restated</b>	<u>227,044,548</u>	<u>224,614,069</u>	<u>28,293,364</u>	<u>28,485,609</u>
<b>Net position - end of year</b>	<u>\$231,717,364</u>	<u>\$227,044,548</u>	<u>\$31,105,773</u>	<u>\$28,293,364</u>

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

**NORTHERN MICHIGAN UNIVERSITY**  
**Statements of Cash Flows**

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012 Restated</b>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 61,649,713	\$ 61,218,186
Grants and contracts	5,399,891	6,380,544
Payments to suppliers	(44,173,129)	(44,839,052)
Payments to employees	(90,762,079)	(86,019,890)
Payments for scholarships and fellowships	(7,804,045)	(8,485,387)
Loans issued to students and employees	(1,560,026)	(2,292,955)
Collection of loans to students and employees	1,505,134	2,465,994
Auxiliary enterprise		
Residential life	19,787,067	19,151,821
Other	6,806,758	6,532,775
Other receipts	8,143,739	9,433,778
<b>Net cash used by operating activities</b>	<b>(41,006,977)</b>	<b>(36,454,186)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	40,392,376	39,589,336
Pell grant revenue	13,648,806	14,202,460
William D. Ford direct lending receipts	40,212,181	42,538,065
William D. Ford direct lending disbursements	(40,211,371)	(41,684,027)
Gifts and grants received for other than capital purposes	1,684,468	1,740,858
Other	439,986	(864,713)
<b>Net cash provided by noncapital financing activities</b>	<b>56,166,446</b>	<b>55,521,979</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants and gifts received		139,703
Purchases of capital assets	(15,048,906)	(12,271,948)
Principal paid on capital debt	(4,030,000)	(8,825,000)
Interest paid on capital debt	(4,909,006)	(4,690,862)
Net proceeds from sale of revenue bonds		19,133,264
<b>Net cash used by capital and related financing activities</b>	<b>(23,987,912)</b>	<b>(6,514,843)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	35,993,572	40,283,787
Interest on investments	4,702,058	2,884,749
Purchase of investments	(38,503,509)	(84,026,644)
<b>Net cash provided by (used in) investing activities</b>	<b>2,192,121</b>	<b>(40,858,108)</b>
Net decrease in cash and cash equivalents	(6,636,322)	(28,305,158)
<b>Cash and cash equivalents - beginning of the year</b>	<b>18,374,288</b>	<b>46,679,446</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 11,737,966</b>	<b>\$ 18,374,288</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	(\$49,058,404)	(\$48,137,314)
Depreciation expense	9,546,253	9,424,122
Amortization of bond insurance	51,882	89,883
Change in assets and liabilities:		
Receivables, net	169,035	(100,953)
Inventories	61,075	(38,699)
Other assets	197,552	224,045
Accounts payable	(1,203,219)	1,071,307
Unearned revenue	(455,117)	736,449
Accrued payroll and benefits	(316,034)	276,974
<b>Net cash used by operating activities</b>	<b>(41,006,977)</b>	<b>(36,454,186)</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**June 30, 2013**

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**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

*CHANGES IN ACCOUNTING PRINCIPALS*

*GASB 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB 63 was effective for the University’s year ended June 30, 2013 and the change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current preferred industry practice. In adopting GASB 63, the University reclassified the difference between the reacquisition price of new debt and the net carrying amount of the old debt to a deferred outflows of resources. The Statements of Net Assets has been renamed to the Statements of Net Position. Additionally, the Statement of Revenues, Expenses, and Changes in Net Assets has been renamed to the Statement of Revenues, Expenses and Changes in Net Position.

*GASB 65 Financial Reporting of Items Previously Reported as Assets and Liabilities*

While the provisions of GASB 65 are effective for financial statements for periods beginning after December 15, 2012, the University has early adopted GASB 65. The change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current preferred industry practice. Under GASB 65, bond issuance costs, exclusive of prepaid insurance, were reclassified to a non-operating expense. The fiscal year 2012 financial statements have been restated to reflect retroactive applications of this change in accounting principle.

The effect of the change was to reduce beginning net position by the following amounts as of June 30:

	<u>2013</u>	<u>2012</u>
Net position, beginning of year as originally reported	\$228,633,388	\$225,135,831
Effect of change in accounting principal	(904,643)	(521,762)
Prior period adjustment, correction of capital acquisition costs	<u>(684,197)</u>	
Net position, beginning of year as restated	<u>\$227,044,548</u>	<u>\$224,614,069</u>

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

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

GASB 67 *Financial Reporting for Pension Plans*

This standard is effective for the University's fiscal year 2014 and establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the University's fiscal year, or be rolled forward to that date by the actuary.

Because the University does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the University at this time.

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 its pension plan. Universities that maintain their own pension plans (either single employer or agent multiple-employer) will 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 will 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 this standard, universities will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the university-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the university's proportionate share of the plan.

GASB 67 and 68 are only applicable to pension plans; however, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

PRIOR PERIOD ADJUSTMENT

The 2012 financial statements have been restated to reflect a reduction to the ending net position of \$684,197. Capital acquisitions for 2012 were reduced and maintenance expense increased to reflect an adjustment to the costs capitalized incorrectly for a roofing project.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

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**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, 2013 and 2012, the Foundation made distributions of \$2.1 million and \$2.2 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)**

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**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.

Short-Term Investments

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

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 2013 and 2012 was approximately \$9,546,000 and \$9,424,000 respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

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.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

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

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).

Reclassifications

Certain 2012 balances have been reclassified to conform to the 2013 presentation.

**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:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$11,737,966	\$18,374,288
Short-term investments	677,000	10,680,000
Long-term investments	92,084,619	81,545,247
Other long-term investments	194,962	194,962
Total	<u>\$104,694,547</u>	<u>\$110,794,497</u>

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

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**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, 2013 and 2012, the carrying amount of the University's deposits was \$6,744,155 and \$11,404,636, respectively. The bank balance of the University's deposits at June 30, 2013 and 2012 was \$11,835,218 and \$27,475,478, respectively. Of that amount, \$750,000 and \$630,843, respectively, was insured. The remaining \$11,085,218 and \$26,844,635 at June 30, 2013 and 2012, 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, 2013 and 2012, the University's bond mutual funds, money market mutual funds, and certificates of deposits 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 \$3,355,348 and \$2,198,818 for the years ended June 30, 2013 and 2012 respectively.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)**

At June 30, 2013, the University had the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
Money Market Mutual Funds	\$2,945,174	\$2,945,174			
Bond Mutual Funds	78,506,084		\$43,805,248	\$34,700,836	
Equity Mutual Funds	10,197,554				\$10,197,554
Certificates of Deposit	677,000	677,000			
Stock & ETFs	3,380,981				3,380,981
Real Estate	194,962				194,962
<b>Total</b>	<b>95,901,755</b>	<b>\$3,622,174</b>	<b>\$43,805,248</b>	<b>\$34,700,836</b>	<b>\$13,773,497</b>
Less Investments Reported as "Cash Equivalents" on Statements of Net Position	(2,945,174)				
<b>Total Investments</b>	<b>\$92,956,581</b>				

At June 30, 2012, the University had the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
Money Market Mutual Funds	\$4,453,577	\$4,453,577			
Bond Mutual Funds	72,489,169		\$37,999,714	\$33,893,970	\$595,485
Equity Mutual Funds	8,798,224				8,798,224
Other Mutual Funds	216,815				216,815
Certificates of Deposit	10,680,000	10,680,000			
Equity Stock	41,039		41,039		
Real Estate	194,962				194,962
<b>Total</b>	<b>96,873,786</b>	<b>\$15,133,577</b>	<b>\$38,040,753</b>	<b>\$33,893,970</b>	<b>\$9,805,486</b>
Less Investments Reported as "Cash Equivalents" on Statements of Net Position	(4,453,577)				
<b>Total Investments</b>	<b>\$92,420,209</b>				

**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 Prudent Management of Institutional Funds Act (UPMIFA). 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.

Investment income consists of at June 30:

	<b>2013</b>	<b>2012</b>
Gain on sale of investments, net	\$1,835,920	\$809,176
Interest and dividends	566,445	616,751
Distributions to beneficiaries	(12,825)	(4,082)
Management fee	(114,398)	(116,758)
Decrease in fair value of investments	(794,770)	(1,235,758)
<b>Total</b>	<b>\$1,480,372</b>	<b>\$69,329</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

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**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 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.

Fair value measurement for the Foundation investments is based upon quoted prices. All of the Foundation investments are Level 1, except the \$207,735 and \$223,735 at June 20, 2013 and 2012 respectively, described below.

Fair value measurement for annuity payment liabilities and split interest agreements is based upon estimated rate of return, anticipated future payments to be made to donors during the donors' lives, donor's life expectancies and an assumed discount rate of 6%. Fair value measurement for life insurance policies is based on current cash surrender value.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE C—INVESTMENTS—FOUNDATION (continued)**

Fair value measurement for the Foundation investments is based upon quoted prices. The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2013.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$7,573,500			\$7,573,500
Balanced funds	3,397,177			3,397,177
Growth funds	2,688,423			2,688,423
Fixed income funds	11,530,620			11,530,620
Total mutual funds	<u>25,189,720</u>			<u>25,189,720</u>
Money market	<u>732,671</u>			<u>732,671</u>
Total investments at fair value	<u>\$25,922,391</u>			<u>\$25,922,391</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Money market	\$848,404			\$848,404
Index funds	7,438,397			7,438,397
Balanced funds	3,551,865			3,551,865
Growth funds	2,882,236			2,882,236
Fixed income funds	9,454,754			9,454,754
Other funds	315,285			315,285
Total mutual funds	<u>24,490,941</u>			<u>24,490,941</u>
US and Municipal Government Securities	5,103			5,103
Common stocks				
Consumer	18,314			18,314
Energy	7,472			7,472
Financials	21,000			21,000
Healthcare	12,271			12,270
Industrials	11,575			11,575
Telecommunications	25,988			25,988
Other	26,454			26,455
Total common stocks	<u>123,074</u>			<u>123,075</u>
Total investments at fair value	<u>\$24,619,118</u>			<u>\$24,619,118</u>

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE C—INVESTMENTS—FOUNDATION (continued)**

**Stocks not Publicly Traded**

Fair value measurement for the Foundation's other stock is based on internal valuation by the company. The following table sets forth the Foundation's other stock at fair value as of June 30:

	<b>2013</b>	<b>2012</b>
	<b>Stock Not Publicly Traded</b>	<b>Stock Not Publicly Traded</b>
Balance, beginning of the year	\$23,500	\$39,000
Change in value	(16,000)	(15,500)
Balance, end of year	\$7,500	\$23,500

**Split-Interest Agreements**

**Beneficial Interest in Charitable Remainder Trust**

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

The following table sets forth a summary of changes in the fair value of the Foundation's Trust Receivable net fair value for the year ended June 30, 2013:

	<b>Level 1</b>	<b>Level 3</b>	<b>Contributions Receivable from Remainder Trusts</b>
Balance, beginning of the year	\$49,339	\$200,235	\$249,574
Change in value	(364)		(364)
Balance, end of year	\$48,975	\$200,235	\$249,210

The following table sets forth the Foundation's Trust Receivable at fair value as of June 30, 2012:

	<b>Level 1</b>	<b>Level 3</b>	<b>Contributions Receivable from Remainder Trusts</b>
Balance, beginning of the year	\$48,926	\$200,235	\$249,574
Change in value	413		
Balance, end of year	\$49,339	\$200,235	\$249,574

The Foundation's annuity and life income agreements require payments during the life of the annuitant at various rates up to 8.3% of the principal amounts. The obligation for annuity obligations payable is reported at the present value of the future payments based on the life expectancy tables and an implied rate of discount of 6%. Changes in the value of annuity obligations payable are reported in the statement of activities. The Foundation's liabilities recorded at fair value on a recurring basis consisted of annuity payment liabilities and split interest agreements which are classified as Level 3.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE C—INVESTMENTS—FOUNDATION (continued)**

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 annuity payable liabilities at fair value for the year ended June 30.

	<u>2013</u>	<u>2012</u>
Balance, beginning of the year	\$31,243	\$98,991
Annuity payment	(14,907)	(60,879)
Change in value	<u>6,575</u>	<u>(6,869)</u>
Balance, end of the year	<u>\$22,911</u>	<u>\$31,243</u>

**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	20%	60%
Alternative Investments	10%	30%
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 Wells Fargo Bank and Trust 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:

	<b>2013</b>	<b>2012</b>
State appropriations - net	\$7,428,476	\$6,975,892
Student notes receivable – net	8,071,461	8,017,493
Charter schools	4,054,196	3,199,340
NMU Foundation	27,798	499,195
State, federal and private grants	680,674	339,933
Students, employees, and vendors - net	2,193,421	2,779,489
Investment receivable	4,531	13,419
<b>Total</b>	<b>\$22,460,557</b>	<b>\$21,824,761</b>

For the years ended June 30, 2013 and 2012, the University received \$22,269,074 and \$17,618,424 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, 2013:

	<b>Beginning Balance Restated</b>	<b>Additions and Reclassifications</b>	<b>Retirements</b>	<b>Ending Balance</b>
Land	\$6,131,741	\$14,290		\$6,146,031
Land improvements	10,681,204	344,661	(\$947,254)	10,078,611
Buildings and improvements	279,984,190	430,880	(1,066,134)	279,348,936
Infrastructure	18,775,039			18,775,039
Equipment	45,277,497	2,857,322	(604,889)	47,529,930
Books	9,344,912	186,618	(183,122)	9,348,408
Construction in progress	9,441,373	11,260,672		20,702,045
<b>Totals at historical cost</b>	<b>379,635,956</b>	<b>15,094,443</b>	<b>(2,801,399)</b>	<b>391,929,000</b>
Less accumulated depreciation for:				
Land improvements	5,894,512	410,091	424,652	5,879,951
Buildings and improvements	100,833,296	6,132,796	940,321	106,025,771
Infrastructure	11,477,651	616,139		12,093,790
Equipment	26,797,628	2,128,781	543,712	28,382,697
Books	7,532,259	258,446	163,631	7,627,074
<b>Total accumulated depreciation</b>	<b>152,535,346</b>	<b>9,546,253</b>	<b>2,072,316</b>	<b>160,009,283</b>
<b>Capital assets, net</b>	<b>\$227,100,610</b>	<b>\$5,548,190</b>	<b>(\$729,083)</b>	<b>\$231,919,717</b>

**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, 2012:

	<b>Beginning Balance</b>	<b>Additions and Reclassifications Restated</b>	<b>Retirements</b>	<b>Ending Balance Restated</b>
Land	\$6,101,671	\$30,070		\$6,131,741
Land improvements	10,681,204			10,681,204
Buildings and improvements	276,293,717	3,690,473		279,984,190
Infrastructure	18,661,280	113,759		18,775,039
Equipment	43,824,583	1,529,220	\$76,306	45,277,497
Books	9,185,507	578,350	418,945	9,344,912
Construction in progress	2,487,887	6,953,486		9,441,373
Totals at historical cost	<u>367,235,849</u>	<u>12,895,358</u>	<u>495,251</u>	<u>379,635,956</u>
Less accumulated depreciation for:				
Land improvements	5,437,198	457,314		5,894,512
Buildings and improvements	94,789,810	6,043,486		100,833,296
Infrastructure	10,878,898	598,753		11,477,651
Equipment	24,643,880	2,222,423	68,675	26,797,628
Books	7,849,058	102,146	418,945	7,532,259
Total accumulated depreciation	<u>143,598,844</u>	<u>9,424,122</u>	<u>487,620</u>	<u>152,535,346</u>
Capital assets, net	<u>\$223,637,005</u>	<u>\$3,471,236</u>	<u>\$7,631</u>	<u>\$227,100,610</u>

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 \$27,156,000 and \$11,898,000 at June 30, 2013 and 2012, 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.

Construction began on a modern high-tech classroom facility that will replace the current John X. Jamrich Hall at a cost of \$33.4 million. This project is scheduled to be financed by \$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. The remaining \$8.4 million will be paid from University funds. During the lease term the SBA will hold title to the building and the University will pay all operating and maintenance costs. Construction costs to June 30, 2013 totaled \$3.3 million and are 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.

The University is in the process of completing a solid biomass fuel facility to connect to the current Ripley Heating Plant. Since the University did not take control of the facility until July 2013, combined Phase I and Phase II construction costs of \$16.5 are recorded in construction in progress.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**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>2013</u>	<u>2012</u>
Accrued payroll and benefits	\$7,695,266	\$7,965,106
Construction contractors	1,731,174	2,096,722
Charter schools	3,932,570	3,103,360
Vendors	2,995,004	4,276,040
Interest payable	398,163	406,593
Total	<u>\$16,752,177</u>	<u>\$17,847,821</u>

**NOTE H—NON-CANCELABLE LEASES**

The University has entered into non-cancelable leases for computers. The following table is a summary of the non-cancelable operating lease payments:

<u>Year ending June 30</u>	<u>Amount</u>
2014	\$1,840,440
2015	1,078,230
2016	214,860
Total	<u>\$3,133,530</u>

Lease expense for 2013 and 2012 was approximately \$2,349,000 and \$2,587,000, respectively.

**NOTE I—BONDS AND NOTES PAYABLE**

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.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE I—BONDS AND NOTES PAYABLE (continued)**

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.

As of June 30, 2013, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2014	\$4,255,000	\$4,749,869	\$9,004,869
2015	4,515,000	4,576,531	9,091,531
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
Total Five Years	22,640,000	21,817,618	44,457,618
<b>Thereafter</b>			
2019-2023	24,570,000	16,151,475	40,721,475
2024-2028	24,165,000	10,543,013	34,708,013
2029-2033	21,810,000	4,960,931	26,770,931
2034-2038	9,600,000	1,036,753	10,636,753
2039	595,000	14,875	609,875
Total	103,380,000	\$54,524,665	\$157,904,665
Deferred charge on refunding, net	(3,768,043)		
Deferred re-offering premium	2,700,866		
Total	\$102,312,823		

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Bonds Payable:</b>					
Bonds payable	\$107,410,000		\$4,030,000	\$103,380,000	\$4,255,000
Premium on bond issuance	2,921,641		220,775	2,700,866	220,775
Total notes and bonds payable	110,331,641		4,250,775	106,080,866	4,475,775
<b>Other liabilities:</b>					
Compensated absences	2,317,863	\$2,099,789	1,983,491	2,434,161	197,231
Federal capital contribution of Perkins Loan Program	6,062,595		227,173	5,835,422	
Total other liabilities	8,380,458	2,099,789	2,210,664	8,269,583	197,231
Total long-term liabilities	\$118,712,099	\$2,099,789	\$6,461,439	\$114,350,449	\$4,673,006

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE I—BONDS AND NOTES PAYABLE (continued)**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds Payable:					
Bonds payable	\$98,045,000	\$18,190,000	\$8,825,000	\$107,410,000	\$4,030,000
Premium on bond issuance	1,738,394	1,334,712	151,465	2,921,641	220,775
Total notes and bonds payable	99,783,394	19,524,712	8,976,465	110,331,641	4,250,775
Other liabilities:					
Severance benefits	267,219		267,219		
Compensated absences	2,285,970	2,046,012	2,014,119	2,317,863	171,653
Federal capital contribution of Perkins Loan Program	6,313,640		251,045	6,062,595	
Total other liabilities	8,866,829	2,046,012	2,532,383	8,380,458	171,653
Total long-term liabilities	\$108,650,223	\$21,570,724	\$11,508,848	\$118,717,099	\$4,422,428

**NOTE J—OPERATING EXPENSES**

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

	<b>2013</b>	<b>2012 Restated</b>
Salaries, wages and benefits	\$90,455,789	\$89,571,472
Supplies and support services	36,699,830	36,977,779
Utilities	6,595,180	6,579,337
Depreciation expense	9,546,253	9,424,122
Scholarships	7,804,045	8,485,388
Total	\$151,101,097	\$151,038,098

**NOTE K—RETIREMENT PLANS**

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

MPERS has defined benefit cost sharing multiple employer retirement plans ("DB Plans") and effective February 1, 2013, defined contribution 401(k) plans ("DC Plans"). The DC plans include a defined benefit component and a defined contribution component. Members keep service credits accumulated before February 1, 2013, and then switch to the DC plan for future service. Benefit provisions and contribution requirements of MPERS are established and may be amended by state statute. Because of the State of Michigan House Bill HB4047, University employees hired after December 31, 1995 can no longer participate in this retirement plan, unless they were previously enrolled in the plan at the University or one of the other six universities that are part of MPERS. Pension data for MPERS is contained in MPERS' Comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE K—RETIREMENT PLANS (continued)**

The following represents the employer's share of retirement contributions for MPSERS DB plans:

- Pension Normal Cost: The contribution rate is determined each year by the retirement system's actuary and is charged to the seven universities formally participating in MPSERS as a percentage of their covered MPSERS payroll excluding any DB plan retirees returning to work. For the State's fiscal year 2013, this rate was 3.21%, and was applied to payrolls occurring on or after October 1, 2012. For the State's fiscal year 2012, this rate was 3.21%, and was applied to payrolls occurring on or after October 1, 2011. For the State's fiscal year 2011, this rate was 4.11%, and was applied to payrolls occurring on or after October 1, 2010.
- Pension Unfunded Liability: The contribution rate is determined each year by the retirement system's actuary and is charged to the seven universities formally participating in MPSERS as a percentage of their combined member and non-member/non-optional retirement programs payrolls. For the State's fiscal year 2013, this rate is 13.41% and is applied to payrolls occurring on or after October 1, 2012. For the State's fiscal year 2012, this rate was 13.41% and was applied to payrolls occurring on or after October 1, 2011. For the State's fiscal year 2011, this rate was 9.73% and was applied to payrolls occurring on or after October 1, 2010.
- Retiree Health Insurance: For its fiscal year 2004, the State changed its method for calculating retiree health insurance. The new calculation is based on the University's retirees who are covered on the Retirement System's health plan including specific insurance coverage and corresponding premium subsidy. The University has been asked to pay the lower of the monthly amount of the calculated annual cost or the amount calculated monthly under the new method. The new method is expected to reduce the University's overall payment. For the year ended June 30, 2013, which encompasses 9 months of the State's fiscal year 2013 and 3 months of the State's fiscal year 2012, the University's total cost for retiree's health insurance was \$2,340,966. For the year ended June 30, 2012, which encompasses 9 months of the State's fiscal year 2012 and 3 months of the State's fiscal year 2011, the University's total cost for retiree's health insurance was \$2,565,965. For the year ended June 30, 2011, which encompasses 9 months of the State's fiscal year 2011 and 3 months of the State's fiscal year 2010, the University's total cost for retiree's health insurance was \$2,642,390.

The MPSERS DC plans do not distinguish between pre and post retirement qualified participants. Employers contribute 4.0% of employee wages. Employees vest at 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Vesting is based on the original date of hire. Defined contributions made by the employer are invested in the State of Michigan 401 (k).

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.

The University's contributions to the plans are as follows for the year ended June 30, 2013:

	<b>TIAA-CREF</b>	<b>MPSERS</b>	<b>University Total</b>
University Contributions	\$6,271,740	\$4,957,727	\$11,229,467
Covered Payroll	\$43,628,385	\$9,093,371	\$52,721,756

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(continued)**

**NOTE K—RETIREMENT PLANS (continued)**

The University's contributions to the plans are as follows for the year ended June 30, 2012:

	<b>TIAA-CREF</b>	<b>MPSERS</b>	<b>University Total</b>
University Contributions	\$6,059,656	\$4,963,504	\$11,023,160
Covered Payroll	\$41,542,437	\$9,128,655	\$50,671,102

The University's contributions to the plans are as follows for the year ended June 30, 2011:

	<b>TIAA-CREF</b>	<b>MPSERS</b>	<b>University Total</b>
University Contributions	\$6,113,223	\$4,653,064	\$10,766,287
Covered Payroll	\$41,386,413	\$9,830,024	\$51,216,437

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

**NOTE L—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 \$15,970,452 at June 30, 2012, based on the last published financial statements.

Self-insurance

The University is self-insured for health, workers' compensation, and short-term disability for all employees. Dental and vision benefits are self-insured for all employees except the NMU-FA union group which has a purchased plan. 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 \$15.9 million and \$15.3 million in aggregate for fiscal year ended June 30, 2013 and 2012, 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, 2013 and 2012, the aggregate excess insured maximum liability is \$5,000,000.

**NOTES TO FINANCIAL STATEMENTS**  
**Northern Michigan University**  
**(concluded)**

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**NOTE M—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.