FINANCIAL REPORT

2016 – 2017

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, 2017, 2016 and 2015. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

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

Using the Annual Report

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the university reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of $52.4 million for the year ended June 30, 2017, and $60.9 million for the year ended June 30, 2016. The operating loss of $60.9 million for the year ended June 30, 2016 includes an allocated expense from Michigan Public School Employees' Retirement System (MPSERS) of $3.9 million. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Financial Highlights

The University's net position for the year ended June 30, 2017 of $221.7 million increased by $5.3 million from the prior year balance of $216.4 million. The increase in net position of $5.3 million for fiscal year 2017 changed by $7.2 million from fiscal year 2016 decrease in net position of $(1.9) million. The increase of $7.2 million resulted from a $1.1 million decrease in operating and non-operating revenues, a $10.4 million decrease in operating and non-operating expenses, and a $2.1 million decrease in capital items. At the beginning of fiscal 2017, an external vendor began managing the bookstore and this change resulted in a decrease to operating revenues of $3.5 million and a decrease in operating expenses of $4.1 million. In addition, fiscal 2016 expenses included an additional $3.9 million in pension adjustments related to MPSERS.

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2017 of $99.4 million decreased by $1.8 million from the prior year. Student tuition and fees totaling $60.3 million is the largest component of operating revenue and increased by $0.9 million from the prior year. All other operating revenues of $39.1 million netted to a $ 2.7 million decrease. The decrease in operating revenues included $3.5 million for bookstore operations that were moved to an external vendor and a $0.8 million increase in all other revenue. Nonoperating revenues totaling $62.5 million increased by $0.7 million from the prior year. The largest component of this increase was a $1.3 million increase in State appropriations, a $0.8 million increase in investment income, and a decrease of $1.4 million in Pell grant revenues.

Operating revenues for the year ended June 30, 2016 of $101.2 million remained level with the prior year. Student tuition and fees totaling $59.4 million is the largest component of operating revenue and decreased by $0.8 million from the prior year. All other operating revenues of $41.8 million netted to a $0.8 million increase. Nonoperating revenues totaling $61.8 million increased by $1.4 million from the prior year. The largest component of this increase was a $1.9 million increase in investment income and a $0.5 million increase in State appropriations that was offset by a $1.2 million decrease in Pell grant revenues and a $0.2 million increase in all other nonoperating revenues.

Operating and nonoperating expenses totaling $156.1 million for the year ended June 30, 2017 decreased by $10.4 million from the prior year. Salaries, wages, and benefits of $94.9 million, the largest component of operating and non-operating expenses, decreased by $3.7 million. When excluding MPSERS pension adjustment of $3.9 million from the prior year expense, salaries, wages and benefits increased by $0.2 million. Supplies and support services of $34.2 million decreased by $6.4 million from the prior year total of $40.6 million. The change to an external vendor managing bookstore operations resulted in a $4.1 million decrease in supplies and support services with the balance of the decrease of $2.3 million spread across various operations. All other components of operating and nonoperating expenses decreased by $0.3 million.

Operating and nonoperating expenses totaling $166.5 million for the year ended June 30, 2016 increased by $3.0 million from the prior year. When excluding MPSERS pension adjustments of $3.9 million, operating expense would have decreased by $0.9 million. Salaries, wages, and benefits of $97.7 million, the largest component of operating and non-operating expenses, increased by $2.9 million. This increase was made up of a MPSERS pension adjustment of $3.9 million and a decrease of $1.0 million in all other salaries, wages, and benefits. Depreciation expense increased by $1.0 million as the result of new additions, a full year's depreciation on the new Jamrich instructional building and related equipment acquired in the prior year, and a change from leasing laptops in the prior year to a purchase program in the current year. All other components of operating and nonoperating expenses decreased by $0.9 million.

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2017	2016	2015
Assets			
Current assets	$40,556,837	$48,696,018	$39,251,434
Noncurrent assets			
Capital	237,894,189	242,046,486	247,516,107
Other	110,983,284	95,999,837	93,950,347
Total noncurrent assets	348,877,473	338,046,323	341,466,454
Total assets	389,444,310	386,742,341	380,717,888
Total deferred outflows of resources	6,160,953	7,518,510	7,056,953
Liabilities			
Current liabilities	27,992,526	27,297,922	28,880,778
Noncurrent liabilities	145,006,727	150,198,879	137,012,929
Total liabilities	172,999,253	177,496,801	165,893,707
Total deferred inflows of resources	875,737	354,781	3,536,793
Net position			
Net investment in capital assets	149,682,909	151,579,887	153,932,926
Restricted			
Nonexpendable	893,193	826,548	880,587
Expendable	5,001,462	4,730,960	4,690,570
Unrestricted	66,152,709	59,271,874	58,840,258
Total net position	$221,730,273	$216,409,269	$218,344,341

Current assets totaled $40.6 million at June 30, 2017, $48.7 million at June 30, 2016, and $39.3 million for June 30, 2015. The ratio of current assets to current liabilities was 1.5 for the year ended June 30, 2017, 1.8 for the year ended June 30, 2016, and 1.4 for the year ended June 30, 2015 when excluding bond funds of $0.6 million. Cash and cash equivalents and short-term investments of $15.9 million decreased by $8.0 million as funds returned from MPSERS in fiscal 2016 were transferred to long-term investments during fiscal 2017. Cash and cash equivalents of $23.9 million as of June 30, 2016 increased by $8.7 million from the June 30, 2015 total of $15.2 million and includes $9.4 million received from MPSERS as a refund of overpayments on pension funding. State appropriations receivable totaled $8.4 million at June 30, 2017, $8.2 million at June 30, 2016, and $8.5 million at June 30, 2015 including capital state appropriations receivable for the construction of the new John X. Jamrich building of $0.5 million.

Current liabilities of $28.0 million at June 30, 2017 increased $0.7 million from the prior year. Current liabilities of $27.3 million at June 30, 2016 decreased by $1.6 million from the prior year and included increases of $1.0 million in accounts payable and accrued liabilities and decreases of $2.3 million in accrued payroll and benefits and $0.3 million for long-term debt.

Condensed Financial Information (continued)

Long-term debt including notes and bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling $84.2 million at June 30, 2017, $89.0 million at June 30, 2016, and $93.6 million at June 30, 2015. Bonds and notes payable at June 30, 2017 included $13.0 million of 2012 General Revenue Fixed Rate Bonds, $72.2 million of 2008 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of $1.0 million.

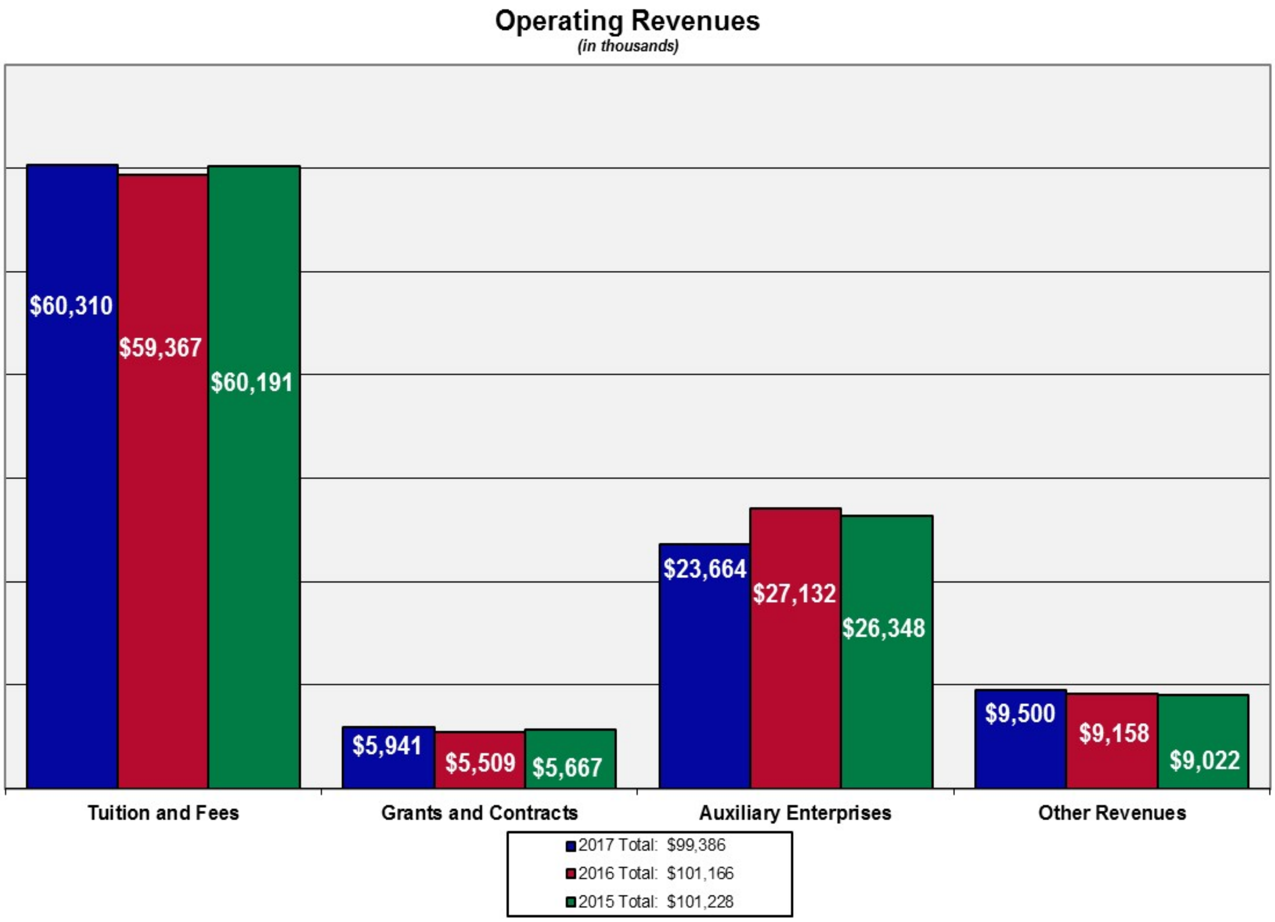
Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2017	2016	2015
Operating revenues			
Tuition and fees, net	$60,310,217	$59,366,510	$60,191,614
Grants and contracts	5,940,876	5,508,818	5,666,732
Auxiliary enterprises, net	23,663,666	27,132,291	26,347,703
Other operating revenues	9,500,377	9,158,495	9,022,380
Total operating revenues	99,415,136	101,166,114	101,228,429
Operating expenses	151,829,649	162,097,065	158,899,283
Operating loss	(52,414,513)	(60,930,951)	(57,670,854)
Nonoperating revenues (expenses)			
State appropriations	46,741,705	45,462,527	44,914,789
Pell grant revenue	10,209,560	11,606,363	12,829,117
Other nonoperating revenues (expenses)-net	1,272,397	332,777	(1,965,605)
Net nonoperating revenues	58,223,662	57,401,667	55,778,301
Income (loss) before other revenues	5,809,149	(3,529,284)	(1,892,553)
Capital appropriation grants and gifts	10,482	1,469,355	4,815,807
Loss (gain) on asset disposal	(498,627)	124,857	(162,089)
Total other (expenses) revenues	(488,145)	1,594,212	4,653,718
Total increase (decrease) in net position	5,321,004	(1,935,072)	2,761,165
Net position – beginning of the year	216,409,269	218,344,341	251,528,269
Cumulative effect of change in accounting principle			(35,945,093)
Adjusted net position – beginning of year	216,409,269	218,344,341	215,583,176
Net position – end of year	$221,730,273	$216,409,269	$218,344,341

The cumulative effect of implementing GASB 68, a change in accounting principle, is recorded to the beginning balance of fiscal year 2015.

Condensed Financial Information (continued)

Total operating revenues were $99.4 million for fiscal year 2017, $101.2 million for fiscal year 2016, and $101.2 for fiscal year 2015. 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. For the 2017 fiscal year, the University moved to a lower division-upper division model. Undergraduate students with more than 56 credits are considered upper division students.

Tuition and Fees (continued)

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

	Fiscal Year 2017	2016	2015
Undergraduate, resident		$9,620	$9,324
Lower Division	$9,766		
Upper Division	$10,282		
Undergraduate, nonresident		$15,020	$14,556
Lower Division	$15,262		
Upper Division	$16,030		
Graduate, resident	$12,550	$12,044	$11,244
Graduate, nonresident	$17,734	$17,036	$15,660

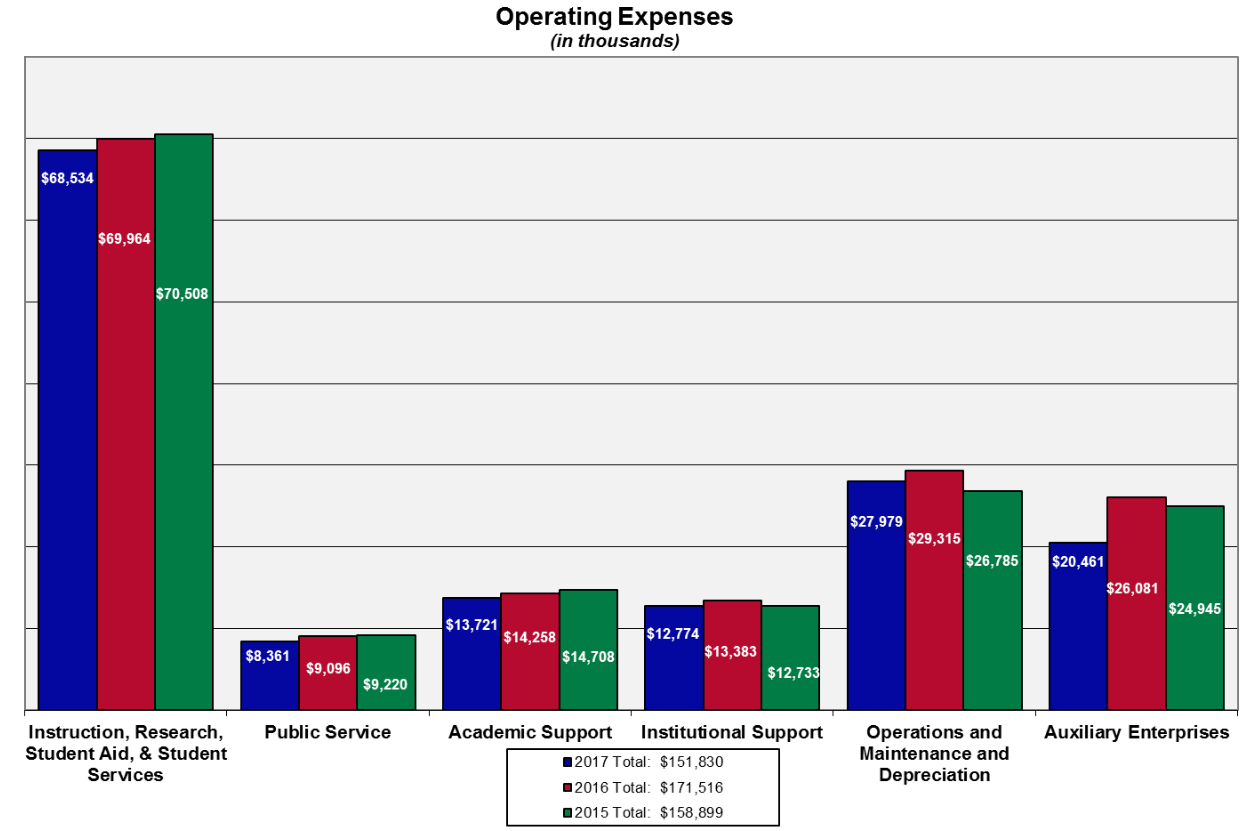
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was $9,838 for fiscal year 2017, $9,286 for fiscal year 2016, and $8,954 for fiscal year 2015. 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. Nine residence halls which house 2,320 students currently (ten residence hall which housed 2,614 in fiscal 2016) have an average occupancy of 2,089 (2016 – 2,290) and are at 90.1% capacity (2016 – 88.8% capacity). Campus apartments total 365 units. Most apartments are rented during the academic year with occupancy varying depending on the ratio of single students to student families and the size of the household. All residence hall students are required to be on one of four different meal plans which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2017, including depreciation of $11.3 million, totaled $151.8 million. Of this total, $68.5 million, or 45.1%, was used for instruction, research, student aid, and student services, $28.0 million, or 18.4% was used for operation, maintenance, and depreciation, and $20.5 million, or 13.5%, was used for auxiliary enterprises. Operating expenses for June 30, 2016, including depreciation of $10.8 million, totaled $162.1 million. During the fiscal year ending June 30, 2016 the University booked an additional $3.9 million in pension adjustment from MPSERS. Of this total, $70.0 million, or 44.4%, was used for instruction, research, student aid, and student services, $29.3 million, or 16.9% was used for operation, maintenance, and depreciation, and $26.1 million, or 16.1%, was used for auxiliary enterprises. Operating expenses for June 30, 2015, including depreciation of $9.8 million, totaled $158.9 million. Of this total, $70.5 million, or 44.4%, was used for instruction, research, student aid, and student services, $26.8 million, or 16.9% was used for operation, maintenance, and depreciation, and $24.9 million, or 15.7%, was used for auxiliary enterprises as shown below:

Operating Expenses (continued)



Other

The State appropriations of $46.7 million for the year ended June 30, 2017, $45.5 million for the year ended June 30, 2016, and $44.9 million for the year ended June 30, 2015 is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt and capital leases was $4.2 million for the year ended June 30, 2017, $4.4 million for the year ended June 30, 2016, and $4.6 million for the year ended June 30, 2015.

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		
	2017	2016	2015
Cash provided (used) by:			
Operating activities	($39,986,232)	($38,035,113)	($47,898,496)
Noncapital financing activities	58,655,751	58,382,270	57,966,898
Capital and related financing activities	(14,619,107)	(12,075,713)	(6,654,218)
Investing activities	(12,445,390)	530,602	(484,783)
Net (decrease) increase in cash and cash equivalents	(8,394,978)	8,802,046	2,929,401
Cash and cash equivalents – beginning of year	22,557,660	13,755,614	10,826,213
Cash and cash equivalents – end of year	$14,162,682	$22,557,660	$13,755,614

Major sources of funds included in operating activities are student tuition and fees of $60.5 million, grants and contracts of $5.5 million and auxiliary sales of $24.0 million for the year ended June 30, 2017; student tuition and fees of $59.3 million, grants and contracts of $5.8 million and auxiliary sales of $26.8 million for the year ended June 30, 2016; and student tuition and fees of $60.1 million, grants and contracts of $5.5 million and auxiliary sales of $26.3 million for the year ended June 30, 2015. The major source of funds included in noncapital financing activities are State appropriations of $46.5 million and Pell grant revenue of $10.2 million for the year ended June 30, 2017; State appropriations of $45.7 million and Pell grant revenue of $11.6 million for the year ended June 30, 2016; and, State appropriations of $44.5 million and Pell grant revenue of $12.8 million for the year ended June 30, 2015. Investment activities for fiscal year 2017 include $8.0 million returned from MPSERS at the end of fiscal year 2016. See additional cash flow information related to capital assets and long-term debt within the footnotes.

Northern Michigan University Foundation

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

Net assets of $37.0 million increased $3.4 million for the year ended June 30, 2017 as compared to a decrease in net assets of $2.6 million for the year ended June 30, 2016. The increase in net position of $3.4 million for fiscal year 2017 changed by $6.0 million from the decrease in net positon for fiscal year 2016 of $2.6 million. This change of $6.0 million was primarily the result of $1.5 million increase in contributions, a $3.8 million increase in investment income, a decrease of $0.9 in payments to and on behalf of the University and an increase of $0.2 in operating expenses.

Net assets of $33.6 million decreased $2.6 million for the year ended June 30, 2016 as compared to an increase in net assets of $1.1 million for the year ended June 30, 2015. This change of $3.7 million was primarily the result of revenues decreasing by $2.5 million and expenses increasing by $1.2 million. This change in revenue included a $1.0 million contribution in fiscal year 2015, current year contributions down by $0.6 million, investment income decreasing by $0.7 million, and other revenues down by $0.2 million. Expenses were up primarily due to recording a payable to the University for the Beaumier Alumni Welcome and U.P. Heritage Center.

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 Management and Student Services

Realignment plans developed in association with the newly adopted Strategic Plan were put into place during the 2016 fiscal year. Enrollment Management and Student Services was replaced with an enhanced and empowered enrollment and student services embedded in the operations within each of the current divisions.

A cross divisional enrollment management team meets directly with the president to provide recommendations for enhancements to student enrollment strategies. In the 2017 fiscal year, the University implemented several new software programs to improve communications across administrative and academic departments:

- StarFish – utilized by administrative and academic counselors to improve student retention.
- Tableau – utilized by Admissions, Institutional Research, and Finance team. This data analytics tool allows for enhanced monitoring of trends related to enrollment, retention, occupancy, and financial data.
- Adirondack – utilized by Housing & Residence Life to assist with management of on-campus residence halls and apartments.

The Program Investment Fund of $1 million directly available to academic departments, colleges and collaborations to support innovation and investment in academics supported the first series of academic programs focused on excellence and sustainability. In fiscal year 2017, the following new programs/initiatives were established as a basis for enrollment growth:

- Behavioral Education and Research (BEAR) Center – this new program allows psychology students to gain practical experience helping children with autism and other behavioral disorders.
- Forensic Research Outdoor Station (FROST) – this site allows our forensic anthropology students to study human decomposition in a cold-weather climate.
- Medicinal plant chemistry
- A partnership was established with the Advanced Center for Orthopedics. Under the agreement, a new facility is under construction that will allow students to explore how exercise impacts cancer patients and survivors.

All student recruitment, retention, student service and enrollment initiatives will be assessed and enhanced through a comprehensive enrollment management planning process on an annual basis during the fall of each fiscal year.

Enrollment Data

For the 2016-17 academic year, forty-eight percent (48%) of the University's students represent Upper Peninsula Michigan residents, thirty-four percent (34%) of the University's students came from Michigan's Lower Peninsula, and the remaining eighteen percent (18%) came from other states and foreign countries.

Factors Impacting Future Periods (continued)

Enrollment Data (continued)

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.

Fall Headcount Enrollment					Annual Total Credit Hours Taken		
Academic Year	Undergraduate Students	Graduate Students	Total	Fiscal Year Equated Students	Undergraduate Students	Graduate Students	Total
2013	8,474	685	9,159	8,258	237,352	8,314	245,666
2014	8,221	697	8,918	8,033	230,879	8,100	238,979
2015	8,001	780	8,781	7,711	220,677	8,524	229,201
2016	7,507	796	8,303	7,375	209,325	9,534	218,859
2017	7,168	697	7,865	6,884	196,020	8,411	204,431

Enrollment for fiscal year 2018 is expected to decline as high school graduates in the State of Michigan and surrounding mid-west region continue a downward trend.

To address an expected decline in high school graduates, the University has restructured admissions staffing, created data and communication teams, and added a regional admissions position based in Minneapolis-St. Paul. This person started toward the end of the Fall 2017 recruitment cycle, but will have full impact on the Fall 2018 cycle. Additional national market strategies will be implemented to build brand awareness and interest in targeted markets, and will provide direct outreach to the Midwest region. New CRM communication tools (Marketing Cloud, Journeybuilder, SMS) were implemented by admissions counselors and support staff to develop more robust communication flows that are expected to impact Fall 2018 and beyond. For fiscal year 2018, additional staffing will be added to admissions to support graduate student enrollment.

Admissions

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

First Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2012	6,841	4,636	67.8	1,764	38.1
2013	6,859	5,030	73.3	1,749	34.8
2014	6,841	4,940	72.2	1,674	33.9
2015	5,983	4,067	68.0	1,525	37.5
2016	5,346	4,056	75.9	1,544	38.1

By August 9, 2017, the University had received 6,328 freshman applications (as compared to 5,486 as of August 10, 2016) and had granted 4,592 acceptances (as compared to 4,047 as of August 10, 2016).

Factors Impacting Future Periods (continued)

Admissions (continued)

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2012	1,593	882	55.4	551	62.5
2013	1,507	862	57.2	503	58.4
2014	1,502	745	49.6	462	62.0
2015	1,135	669	58.9	386	57.7
2016	1,075	634	59.0	402	63.4

By August 9, 2017, the University had received 1,154 transfer applications (as compared to 1,169 as of August 10, 2016) and had granted 644 acceptances (as compared to 634 as of August 10, 2016).

Capital Plan

The University entered an agreement in July, 2016 with a national developer, Education Realty Trust (EdR), to develop, finance, construct and manage the premises of six resident living-learning community buildings with connectors, housing 1229 beds, multipurpose meeting spaces, and classrooms. The project with an estimated cost of $79.3 million is on land owned by the University and leased to EdR for a 75-year term. The University will pay $4.0 million toward enclosed walkways and classrooms incorporated as part of the project.

The project is being built in phases to allow the University to accommodate student bed count needs during construction as older residence halls are demolished with each new building being constructed. Two buildings housing 400 beds will open for the fall semester of 2017, two additional buildings housing 400 beds will open for the winter semester of 2018, and the remaining two buildings housing 400 beds will open for fall semester of 2018. The new living-learning community features robust internet and Wi-Fi capabilities, classrooms, study rooms, TV lounges and laundry facilities.

Capital Plan (continued)

As part of the Federal Communication Commission's (FCC) 2016 spectrum auction and reallocation project, WNMU-TV received notification in early 2017 that the station must construct new transmission facilities and migrate from its current channel 13 allocation to channel 8. As part of this federally mandated change, WNMU will receive funding from the FCC spectrum auctions proceeds for its $1.75 million upgrade to its transmission facilities located in Ely Township. WNMU has been assigned to phase 9 of the repack transition which requires that the station complete its facility and construction transition by April, 2020. FCC data predicts that WNMU-TV will replicate broadcast coverage in switching from channel 13 to channel 8.

The station will benefit from the transition through the renewed transmission facilities required by this channel reassignment. This capital equipment upgrade also helps the station provide updated technology that will leverage the benefits of new digital broadcasting technologies that are coming with a national switch to ATSC 3.0 transmission standards. ATSC 3.0 is essentially IP-based broadcasting which will allow the station to use its wide-area broadcast capabilities to deliver educational content in conjunction with NMU's LTE broadband service currently being deployed around the UP. This enhanced capability will allow students of all ages to receive educational content without adversely impacting data networks.

Renovation of the current University Center on campus totaling approximately $19 million will create a new and modern venue for the university, region and Upper Peninsula that attracts students and the community. A student activity zone will be created for students to relax and socialize outside of class and the current student enrichment center and student organization space will be more accessible and visible. An enlarged conference venue will be constructed, existing break out and meeting rooms will be upgraded and larger, more welcoming pre-function and networking space will be incorporated. A new exterior façade will be constructed at the main entrance to the building creating a truly unique, signature type facility. This project is in the design phase with construction to begin in the spring of 2018.

Other projects under review to be financed by a combination of donors, state funding, and university reserves include renovation of the Occupational Sciences and Engineering Technology Facility and a new Academic Teaching and Business Center. The renovation of the Occupational Sciences and Engineering Technology Facility will modernize approximately 110,000 square feet of lab, class room, and public space into a vibrant, modern and high tech teaching facility for future engineers and technical career professionals. The new Academic Teaching and Business Innovation Center project will create a state-of-the-art teaching and business innovation facility. The project will include space for the College of Business enabling the University to relocate the department to the core of campus.

Capital Plan (continued)

Bonds and notes payable at June 30, 2017 consist of the following:

Maturity Dates	Interest Rates: Coupon	Interest Rates: Yield	Maturity Value
06/01/2025	3.000%	2.940%	$875,000
06/01/2026	3.000%	3.060%	900,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
12/01/2019	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
06/01/2018	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
12/01/2017	5.000%	3.820%	3,800,000
12/01/2018	5.000%	3.980%	4,070,000
12/01/2019	5.000%	4.130%	3,655,000
12/01/2021	5.000%	4.370%	1,350,000
12/01/2026	5.000%	4.860%	3,610,000
12/01/2027	5.000%	4.910%	3,775,000
12/01/2028	5.000%	4.960%	4,005,000
12/01/2029	5.000%	5.000%	4,210,000
12/01/2030	5.000%	5.030%	4,385,000
12/01/2031	5.000%	5.060%	2,475,000
12/01/2036-12/01/2038	5.000%	5.120%	1,700,000
12/01/2032-12/01/2035	5.125%	5.110%	11,075,000
Total			$85,180,000

Teaching, Learning, and Communication (TLC) Initiative

The Educational Access Network (EAN) is a new, creative and affordable way of bringing high-speed educational broadband with a full range of educational opportunities to the rural Upper Peninsula of Michigan. The EAN’s epicenter is located at Northern Michigan University, the educational leader of technology in the Upper Peninsula. The goal of the EAN is to provide broadband access and educational resources to individuals looking to take courses, advance their careers, fulfill personal development needs, explore new topics, or regularly exercise their mind. The network currently covers 13 cities and townships throughout the Upper Peninsula. The EAN will expand to over 64 cities within the next two years, delivering mobile educational broadband over 21,000 square miles. It will provide educational content and learning opportunities to kindergarten students through life-long learners, including degree-based programs, retraining programs, personal and professional learning modules, health and wellness education, veterans programs, and other life skills. Student fees and monthly educational user fees will fund the network.

Northern Michigan University has in place the “Northern Promise” which allows high school students to earn 12 – 15 college credits prior to the completion of their senior year. The program helps students reduce the cost of completing a 4-year degree program while encouraging them to pursue their education after high school graduation. Broadband is critical to the success of this program because a number of courses are available on-line, accessible only to those with robust internet service. Other areas for growth include global online learners, continuing educations, workforce development, hosted training sites for local and regional business, and expansion of the University educational affiliates.

State Appropriations

The University expects to receive $47.1 million in State Appropriations for the upcoming fiscal year. This is an increase of $0.4 million from the prior year funding level of $46.7 million. The University has set student tuition and fees at 4.7% above last fiscal year and has met the state tuition restraint requirements.

GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB 75 is effective for the University’s fiscal year 2018 and establishes new requirements for universities to report postemployment benefits other than pensions (other postemployment benefits or OPEB). Universities that maintain their own other postemployment benefit plans (either single employer or agent multiple-employer) report a liability for the difference between the total post employment liability calculated in accordance with GASB 75 and the amount held in the OPEB trust fund. Universities that participate in a cost sharing plan report a liability for their “proportionate share” of the “net OPEB liability” of the entire system.

Northern Michigan University has not received any communication related to GASB 75 reporting requirements from MPSERS on its proportional share of net OPEB liability and related deferred inflows, deferred outflows, and expense related to the employees covered under MPSERS.

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INDEPENDENT AUDITORS' REPORT

September 14, 2017

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northern Michigan University as of June 30, 2017 and 2016, and the respective changes in net position and cash flows, where applicable, 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 and the schedules for the pension plan, as listed in the table of contents, 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 14, 2017, 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 Robson LLC

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University June 30		Component Unit NMU Foundation June 30	
	2017	2016	2017	2016
Assets				
Current assets				
Cash and cash equivalents	$ 14,162,682	$ 22,557,660	$ 1,107,020	$ 4,178,165
Short-term investments	1,775,076	1,321,728		
State appropriation receivable	8,414,400	8,201,402		
Accounts receivable (less allowance 2017--$2,921,000; 2016--$3,071,000)	11,929,743	11,977,898		
Student notes receivable (less allowance 2017--$712,000; 2016--$738,000)	1,486,523	1,596,141		
Pledges receivable (less allowance 2017--$115,988; 2016--$30,000)			1,196,835	993,911
Inventories	788,870	867,481		
Other assets	2,009,543	2,173,708	363,142	378,034
Total current assets	40,566,837	48,696,018	2,666,997	5,550,110
Noncurrent assets				
Long-term investments	104,221,394	89,255,997	32,850,931	26,032,846
Student notes receivable (less allowance 2017--$2,824,000; 2016--$2,695,000)	5,896,620	5,826,688		
Other long-term investments	194,962	194,962	1,371,727	1,536,150
Pledges receivable			145,240	756,147
Unamortized bond insurance	670,308	722,190		
Capital assets, net	237,894,189	242,046,486	1,502,321	1,527,112
Total noncurrent assets	348,877,473	338,046,323	35,870,219	29,852,255
Total assets	389,444,310	386,742,341	38,537,216	35,402,365
Deferred outflows of resources				
Deferred charge on refunding	2,804,226	3,045,180		
Deferred pension amounts	3,356,727	4,473,330		
Total deferred outflows of resources	6,160,953	7,518,510		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	11,173,358	11,312,616	1,350,337	1,735,477
Accrued payroll and benefits	5,704,751	5,817,074		
Unearned revenue (unearned student fees & deposits)	4,483,248	3,711,964		
Long-term liabilities-current portion	6,631,169	6,456,268		
Total current liabilities	27,992,526	27,297,922	1,350,337	1,735,477
Noncurrent liabilities				
Annuities payable			221,182	62,493
Net pension liability	52,696,531	54,405,703		
Long-term liabilities-net of current portion	92,310,196	95,793,176		
Total noncurrent liabilities	145,006,727	150,198,879	221,182	62,493
Total liabilities	172,999,253	177,496,801	1,571,519	1,797,970
Deferred inflows of resources				
Deferred pension amounts	875,737	354,781		
Total deferred inflows of resources	875,737	354,781		
Net position				
Net investment in capital assets	149,682,909	151,579,887	1,502,321	1,527,112
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	63,757	3,999,558	3,956,392
Loans	60,038	60,038		
Instruction	769,398	702,753		
Expendable				
Instruction	979,512	894,667	5,620,792	5,996,291
Scholarships and fellowships	503,623	455,939	19,336,664	16,476,159
Loans	3,150,716	3,087,069		
Research	281,079	214,249		
Academic, student and public service	86,532	79,036	2,385,613	2,297,517
Unrestricted	66,152,709	59,271,874	4,120,749	3,350,924
Total net position	$ 221,730,273	$ 216,409,269	$ 36,965,697	$ 33,604,395

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 Year Ended June 30		Component Unit NMU Foundation Year Ended June 30	
	2017	**2016**	**2017**	**2016**
Operating revenues				
Student tuition and fees (less allowance 2017--$20,304,000; 2016--$20,898,000)	$ 60,310,217	$ 59,366,510		
Gifts and contributions			$ 4,857,138	$ 3,424,369
Federal grants and contracts	4,509,692	4,073,604		
State and local grants and contracts	210,757	147,698		
Nongovernmental grants and contracts	1,220,427	1,287,516		
Sales and services of educational activities	9,500,377	9,158,495		
Auxiliary enterprise				
Residential life (less allowance 2017--$6,080,000; 2016--$6,470,000)	20,515,770	20,594,831		
Other auxiliary	3,147,896	6,537,460		
Other operating revenues			31,959	75,703
Total operating revenues	99,415,136	101,166,114	4,889,097	3,500,072
Operating expenses				
Educational and general				
Instruction	43,972,460	45,351,678		
Research	1,319,264	1,090,446		
Public service	8,360,513	9,095,865		
Academic support	13,720,965	14,258,326		
Student services	17,544,923	17,201,331		
Institutional support	12,773,557	13,383,136	2,041,841	1,902,201
Operations and maintenance of plant	16,686,854	18,504,682		
Student aid	5,697,208	6,320,325		
Depreciation	11,292,470	10,810,371		
Auxiliary enterprise				
Residential life	16,922,529	17,883,238		
Other	3,538,906	8,197,667		
Total operating expenses	151,829,649	162,097,065	2,041,841	1,902,201
Operating (loss) income	(52,414,513)	(60,930,951)	2,847,256	1,597,871
Nonoperating revenues (expenses)				
State appropriations	46,741,705	45,462,527		
Pell grant revenue	10,209,560	11,606,363		
Gifts from the NMU Foundation	2,542,238	2,564,679		
Payments to and on behalf of the University			(3,125,602)	(4,016,448)
Investment income(loss) [net of investment expense for the University 2017--$310,500 and 2016--$319,200; and for the NMU Foundation 2017--$62,000 and 2016--$51,000]	2,973,356	2,180,801	3,639,648	(147,133)
Interest on capital asset-related debt	(4,243,197)	(4,412,703)		
Net nonoperating revenues (expenses)	58,223,662	57,401,667	514,046	(4,163,581)
Income (loss) before other revenues (expenses)	5,809,149	(3,529,284)	3,361,302	(2,565,710)
Capital grants and gifts (including 2017--$0 and 2016--$1,178,000 from the NMU Foundation)	10,482	1,190,549		
Capital State appropriations		278,806		
(Loss) gain on asset disposal	(498,627)	124,857		
Total other (expenses) revenues	(488,145)	1,594,212		
Increase (decrease) in net position	5,321,004	(1,935,072)	3,361,302	(2,565,710)
Net position - beginning of year	216,409,269	218,344,341	33,604,395	36,170,105
Net position - end of year	**$221,730,273**	$216,409,269	**$36,965,697**	$33,604,395

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2017	**2016**
Cash Flows from Operating Activities		
Tuition and fees	$ 60,491,784	$ 59,349,477
Grants and contracts	5,535,844	5,824,301
Payments to suppliers	(40,152,855)	(46,013,978)
Payments to employees	(94,147,805)	(86,614,733)
Payments for scholarships and fellowships	(5,697,208)	(6,320,325)
Loans issued to students and employees	(1,447,578)	(1,585,692)
Collection of loans to students and employees	1,487,263	1,600,600
Auxiliary enterprise		
Residential life	20,623,077	20,623,923
Other	3,380,698	6,166,782
Other receipts	9,940,548	8,934,532
Net cash used by operating activities	(39,986,232)	(38,035,113)
Cash Flows from Noncapital Financing Activities		
State appropriations	46,505,545	45,666,310
Pell grant revenue	10,209,560	11,606,363
William D. Ford direct lending receipts	34,746,579	36,529,345
William D. Ford direct lending disbursements	(34,746,579)	(36,529,345)
Gifts and grants received for other than capital purposes	2,706,618	2,126,532
Other	(765,972)	(1,016,935)
Net cash provided by noncapital financing activities	58,655,751	58,382,270
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(4,199,249)	(4,225,241)
Sales of capital assets	125,640	904,086
Principal paid on capital debt	(6,303,388)	(5,080,551)
Interest paid on capital debt	(4,242,110)	(4,408,759)
Capital state appropriations		734,752
Net cash used by capital and related financing activities	(14,619,107)	(12,075,713)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	7,011,093	1,046,364
Interest on investments	2,240,140	2,255,019
Purchase of investments	(21,696,623)	(2,770,781)
Net cash provided by investing activities	(12,445,390)	530,602
Net increase in cash and cash equivalents	(8,394,978)	8,802,046
Cash and cash equivalents - beginning of the year	22,557,660	13,755,614
Cash and cash equivalents - end of year	$ 14,162,682	$ 22,557,660
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	($52,414,513)	($60,930,951)
Depreciation expense	11,292,470	10,810,371
Amortization of bond insurance	51,882	51,882
Net pension liability	(48,451)	13,378,852
Change in assets and liabilities:		
Receivables, net	(262,041)	(166,622)
Inventories	78,610	631,649
Other assets	187,262	(343,354)
Accounts payable and accrued liabilities	489,492	928,709
Unearned revenue	781,864	(85,503)
Accrued payroll and benefits	(142,807)	(2,310,146)
Net cash used by operating activities	($39,986,232)	($38,035,113)

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

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. 35, 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
- Other required supplementary information

CHANGES IN ACCOUNTING PRINCIPLES

GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

This standard is effective for the University's fiscal year 2018 and establishes new requirements for universities to report a "net OPEB (other postemployment benefits) liability" for the unfunded portion of postemployment benefits provided to University employees. Universities that maintain their own other postemployment benefit plans (either single employer or agent multiple-employer) report a liability for the difference between the total post employment liability calculated in accordance with GASB 75 and the amount held in the OPEB trust fund. Universities that participate in a cost sharing plan report a liability for their "proportionate share" of the "net OPEB liability" of the entire system.

Historically, universities have only been required to report a net OPEB obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, universities are required to report a net OPEB liability based on the current funded status of their OPEB plans. Changes in this liability from year to year will largely be reflected on the statement of revenues, expenses and changes in net position, though certain amounts will be deferred and amortized over varying periods.

GASB 75 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 OPEB 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 OPEB liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net OPEB 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 as determined by the plan actuaries.

Northern Michigan University has not received any communication on its estimated proportional share of net OPEB liability and OPEB expense related to GASB 75 reporting requirements. The University participates in a cost sharing multiple employer plan and will report in the upcoming fiscal year a liability for its "proportionate share" of the "net OPEB liability", deferred inflows and deferred outflows of the Michigan Public Schools Employees Retirement System (MPSERS). GASB 75 will require the net OPEB liability and related deferred inflows and outflows to be recorded for the year ending June 30, 2018, by restating beginning net position as of July 1, 2017.

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. There are currently eighteen members of the Board of Trustees of the Foundation.

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, 2017 and 2016, the Foundation made distributions of $3.1 million and $4.0 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

<u>Basis of Accounting—Northern Michigan University</u>

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.

<u>Basis of Accounting—Component Unit</u>

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents

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

Investments (including component unit)

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

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

> Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
>
> 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 the estimates of assumptions that market participants would use in pricing the asset or liability.

For further discussion of fair value measurement, refer to Notes B and C to the financial statements.

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 2017 and 2016 was approximately $11,292,000 and $10,810,000 respectively. The University capitalizes assets with a cost of $5,000 and greater, and an estimated useful life in excess of one year.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) pension plan and additions to/deductions from the MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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

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.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the accounts receivable allowance for bad debts, the useful lives of depreciable capital assets, the assumptions used to estimate accrued employee compensated absences, and the assumptions based on historical trends and industry standards used in the actuarial valuations of the MPSERS pension plan.

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 2016 balances have been reclassified to conform to the 2017 presentation.

Subsequent Events

Subsequent to June 30, 2017, the University purchased laptops supplied in the normal course of business to students and employees (Note H).

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.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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:

	2017	2016
Cash and cash equivalents	$14,162,682	$22,557,660
Short-term investments	1,775,076	1,321,728
Long-term investments	104,221,394	89,255,997
Other long-term investments	194,962	194,962
Total	$120,354,114	$113,330,347

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, 2017 and 2016, the carrying amounts of the University's deposits were $7,276,322 and $10,027,714, respectively. The bank balance of the University's deposits at June 30, 2017 and 2016 was $8,492,617 and $8,705,986, respectively. Of that amount, $750,000 was insured in 2017 and 2016. The remaining $7,742,617 and $7,955,986 at June 30, 2017 and 2016, 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.

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, 2017 and 2016, the University's bond mutual funds, and money market mutual funds are not rated. Investments in the endowment portfolio shall have a weighted average credit rating of A or better, and the minimum acceptable credit rating is Baa/BBB.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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 $2,758,371 and $3,307,010 for the years ended June 30, 2017 and 2016, respectively.

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.

At June 30, 2017, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money Market Mutual Funds	$6,886,360	$6,886,360			
Bond Mutual Funds	92,378,557		$38,549,135	$53,829,422	
Equity Mutual Funds	7,544,488				$7,544,488
Stock & ETFs	4,277,163				4,277,163
Commingled Mutual Funds	1,775,076	1,775,076			
Real Estate	194,962				194,962
Closed End Mutual Funds	21,186				21,186
Total	113,077,792	$8,661,436	$38,549,135	$53,829,422	$12,037,799
Less Investments Reported as "Cash Equivalents" on Statement of Net Position	(6,886,360)				
Total Investments	$106,191,432				

At June 30, 2016, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money Market Mutual Funds	$13,851,674	$13,851,674			
Bond Mutual Funds	78,206,356		$40,124,952	$38,081,404	
Equity Mutual Funds	7,550,930				$7,550,930
Stock & ETFs	3,498,711				3,498,711
Commingled Mutual Fund	1,321,728	1,321,728			
Real Estate	194,962				194,962
Total	104,624,361	$15,173,402	$40,124,952	$38,081,404	$11,244,603
Less Investments reported as "Cash Equivalents" on Statements of Net Position	(13,851,674)				
Total Investments	$90,772,687				

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Fair Value Measurements

Statement No. 72 of the Governmental Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

<u>Level 1</u> – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

<u>Level 2</u> – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

<u>Level 3</u> – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's own data.

The following is a description of the valuation methodology used for assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2017 or 2016.

Mutual funds: Shares held in mutual funds are valued at quoted market prices that represent the net asset value (NAV) of shares held by the University at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities then divided by the number of shares outstanding.

Stocks & ETFs: Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

Real estate: Real estate investments includes a property that was purchased by the University and is carried at cost which approximates fair value and as a result is classified as Level 3 as the University has not obtained a recent appraisal.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Fair Value Measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the University's investments measured at fair value on a recurring basis as of June 30:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2017
Money Market Mutual Funds	$6,886,360			$6,886,360
Bond Mutual Funds	92,378,557			92,378,557
Equity Mutual Funds	7,544,488			7,544,488
Stock & ETFs	4,277,163			4,277,163
Commingled Mutual Fund	1,775,076			1,775,076
Real Estate			$194,962	194,962
Closed End Mutual Funds	21,186			21,186
Leveled investment total	$112,882,830		$194,962	$113,077,792

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2016
Money Market Mutual Funds	$13,851,674			$13,851,674
Bond Mutual Funds	78,206,356			78,206,356
Equity Mutual Funds	7,550,930			7,550,930
Stock & ETFs	3,498,711			3,498,711
Commingled Mutual Fund	1,321,728			1,321,728
Real Estate			$194,962	194,962
Leveled investment total	$104,429,399		$194,962	$104,624,361

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.

NOTE C—INVESTMENTS—FOUNDATION (continued)

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.

Investment income for the Foundation for the years ended June 30 consists of:

	2017	2016
Realized gain (loss) on sale of investments	$150,885	$(456,229)
Unrealized gain (loss) on investments	2,785,822	(640,517)
Interest and Dividends	765,305	1,000,642
Investment fee	(62,364)	(51,029)
Total	$3,639,648	$(147,133)

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

Resources from the unrestricted, temporarily restricted, and permanently restricted net assets 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.

The primary objective of the investments for the Unendowment Fund will be to provide stability of principal along with a total return that maintains the purchasing power of the assets. The funds need to be available on demand while focusing on a total return that keeps pace with inflation.

The primary objective of the investments for the Endowment Fund will be 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).

Gains and losses, as well as investment interest earned on endowed funds, have been allocated based on the net asset balance percentage participation less an operating fee. The net asset balance percentage participation is recalculated on a monthly basis with investment earnings, gains and losses allocated to the respective endowed funds.

NOTE C—INVESTMENTS—FOUNDATION (continued)

The Foundation will calculate funds available for spending on funds that reach endowed status as of June 30 of the previous year. Endowed status is defined as $25,000 for discretionary accounts and $50,000 for scholarship accounts.

The annual distribution will be 4% of a 20 quarter rolling average of the endowment's market value (MV), but only to the extent that such distribution does not cause the value of the endowment fund to fall below 95% of the historic gift value (HGV) of the fund on the annual valuation date. No distributions will be made from an endowment whose value of the fund on the annual valuation date is less than 85% of the historic gift value (HGV).

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Foundation investment policy does not limit exposure to credit risk.

Interest Rate Risk

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

Fair Value Hierarchy

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

Level 1:

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

Level 2:

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

Level 3:

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

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value as of June 30, 2017:

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	$11,602,871	$11,602,871		
Balanced funds	7,296,225	7,296,225		
Growth funds	7,943,611	7,943,611		
Fixed income funds	5,724,957	5,724,957		
Private equity funds	233,764			$233,764
Cash and equivalents	49,503	49,503		
Held by third party	1,371,727			1,371,727
Total assets	$34,222,658	$32,617,167		$1,605,491
Liabilities				
Liabilities on annuity contracts and trusts	$221,182			$221,182

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

	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	$9,198,303	$9,198,303		
Balanced funds	6,193,913	6,193,913		
Growth funds	5,693,180	5,693,180		
Fixed income funds	3,334,982	3,334,982		
Private equity funds	181,764			$181,764
Cash and equivalents	1,430,704	1,430,704		
Held by third party	1,286,146			1,286,146
Other assets	250,004			250,004
Total assets	$27,568,996	$25,851,082		$1,717,914
Liabilities				
Liabilities on annuity contracts and trusts	$62,493			$62,493

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

Held by third party assets categorized as Level 3 consists of a perpetual trust. Assets held within the trust are all Level 1 investments and the Foundation is the 100% beneficiary of future distributions. As of June 30, 2017, the Foundation estimates the value of this trust to be $1,319,835.

Other assets categorized as Level 3 consists of an irrevocable charitable remainder trust. 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 Foundation's statement of activities. As of June 30, 2017, the Foundation estimates the value of this trust to be $51,892.

Private equity funds categorized as Level 3 are valued as the sum of the value of the underlying components on a quarterly basis. As of June 30, 2017, the Foundation estimates the value of these private equity funds to be $233,764.

Liabilities on annuity contracts and trusts characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The agreements require payments during the life of the annuitant at various rates up to 9.5% of the principal amounts. The Foundation estimates the fair value of these contributions based on estimated rate of return, anticipated future payments to be made to donors during the donors' lives, donors' life expectancies and an assumed discount rate of 6%. Changes in the value of annuity obligations payable are reported in the Foundation's statement of activities.

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

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2017:

	Balance at June 30, 2016	Total realized gains (losses) included in change in net assets	Gross additions, deletions, and purchases	Gross sales and maturities	Balance at June 30, 2017
Assets					
Investments:					
Private equity funds	$181,764	$21,278	$32,909	($2,187)	$233,764
Irrevocable trust receivable	$1,536,150	$35,812	($200,235)		$1,371,727
Liabilities					
Liabilities on annuity contracts and trusts	$62,493	$32,086	($29,173)	$155,776	$221,182

NOTE C—INVESTMENTS—FOUNDATION (continued)

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

	Balance at June 30, 2015	Total realized gains (losses) included in change in net assets	Gross additions and purchases	Gross sales and maturities	Balance at June 30, 2016
Assets					
Investments:					
Private equity funds	$81,438		$100,326		$181,764
Irrevocable trust receivable	$1,618,669	($82,519)			$1,536,150
Liabilities					
Liabilities on annuity contracts and trusts	$62,186	$307			$62,493

Concentration of Credit Risk

The strategic asset allocation policy is established to meet the Foundation's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Foundation's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The NMU Foundation Finance Committee established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Committee selected the target allocation for each asset class based on the Fund's current investments and present market conditions.

The Committee intends to review these allocation targets at least annually, focusing on changes in the Fund's financial needs, investment objectives and asset class performance.

Short Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	12%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	10%
Equity Sub-total		0-50%	22%
U.S. Income	U.S. Income	+/-5%	54%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	3%
Income Sub-total		50-100%	57%
Alternative Investments	Various*	0-30%	7%
Cash Equivalents		0-50%	14%
Total Fund			100%

NOTE C—INVESTMENTS—FOUNDATION (continued)

Intermediate Term Unendowed Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	34%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	30%
Equity Sub-total		40-80%	64%
U.S. Income	U.S. Income	+/-5%	18%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	1%
Income Sub-total		5-35%	19%
Alternative Investments	Various*	10-40%	16%
Cash Equivalents		0-10%	1%
Total Fund			100%

Endowment Pool Asset Allocation Targets

Asset Class	Manager Role	Allocation Range	Target
U.S. Equities	All Cap	+/- 20%	40%
Non-U.S. Equities	All Cap Developed and Emerging Markets	+/- 15%	25%
Equity Sub-total		40-80%	65%
U.S. Income	U.S. Income	+/-5%	7%
Non-U.S. Income	Developed and Emerging Markets	+/-3%	3%
Income Sub-total		5-30%	10%
Alternative Investments	Various*	10-40%	25%
Cash Equivalents		0-10%	0%
Total Fund			100%

* Includes but not limited to: Hedge Funds, Global/Flexible Managers, Real Estate, Commodities, Managed Futures, Private Equity, etc. The Committee acknowledges that other alternative asset classes are available and is not limited to just these investment opportunities. It intends to periodically evaluate the merits of adding new asset classes. The Committee also recognizes the benefits of diversifying manager roles within a given asset class, and intends to periodically evaluate this decision as well as the active versus passive manager decision.

The investments shall be reviewed quarterly to ensure the Endowment assets are within these ranges. The manager may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of the portfolio in the outstanding securities of one issuer.

NOTE C—INVESTMENTS—FOUNDATION (continued)

Custodial Credit Risk

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2017, the Foundation's assets are held in a combination of mutual funds, exchange traded funds (ETF's), and one private equity program.

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.

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	2017	2016
State appropriations - net	$8,414,400	$8,201,402
Student notes receivable – net	7,383,143	7,422,829
Charter schools	6,481,582	6,734,405
NMU Foundation	1,057,927	1,551,383
State, federal and private grants	1,225,839	558,610
Students, employees, and vendors - net	3,164,395	3,133,500
Total	$27,727,286	$27,602,129

For the years ended June 30, 2017 and 2016, the University received approximately $35,583,000 and $34,467,000, respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTE E—CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2017:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	$9,943,307			$9,943,307
Buildings and improvements	315,435,530		$1,564,086	313,871,444
Infrastructure	18,975,832			18,975,832
Equipment	66,899,131	$7,408,451	841,082	73,466,500
Books	9,099,842	180,914	228,129	9,052,627
Subtotal depreciable assets	420,353,642	7,589,365	2,633,297	425,309,710
Nondepreciable assets:				
Land	6,123,445		156,655	5,966,790
Construction in progress		175,075		175,075
Subtotal nondepreciable assets	6,123,445	175,075	156,655	6,141,865
Total depreciable and nondepreciable assets	426,477,087	7,764,440	2,789,952	431,451,575
Less accumulated depreciation for:				
Land improvements	6,971,323	408,577		7,379,900
Buildings and improvements	121,648,984	6,370,081	1,407,676	126,611,389
Infrastructure	13,850,374	510,660		14,361,034
Equipment	34,412,371	3,830,079	745,339	37,497,111
Books	7,547,549	173,073	12,670	7,707,952
Total accumulated depreciation	184,430,601	11,292,470	2,165,685	193,557,386
Capital assets, net	$242,046,486	($3,528,030)	$624,267	$237,894,189

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, 2016:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Depreciable assets:				
Land improvements	$10,217,496		$274,189	$9,943,307
Buildings and improvements	315,851,822	$1,060,089	1,476,381	315,435,530
Infrastructure	18,883,505	92,327		18,975,832
Equipment	60,607,164	6,577,505	285,538	66,899,131
Books	9,089,521	164,702	154,381	9,099,842
Subtotal depreciable assets	414,649,508	7,894,623	2,190,489	420,353,642
Nondepreciable assets:				
Land	6,259,031	176,000	311,586	6,123,445
Construction in progress	1,950,644	(1,950,644)		
Subtotal nondepreciable assets	8,209,675	(1,774,644)	311,586	6,123,445
Total depreciable and nondepreciable assets	422,859,183	6,119,979	2,502,075	426,477,087
Less accumulated depreciation for:				
Land improvements	6,743,217	413,694	185,588	6,971,323
Buildings and improvements	116,350,584	6,590,783	1,292,383	121,648,984
Infrastructure	13,285,836	564,538		13,850,374
Equipment	31,504,913	3,022,149	114,691	34,412,371
Books	7,458,526	219,207	130,184	7,547,549
Total accumulated depreciation	175,343,076	10,810,371	1,722,846	184,430,601
Capital assets, net	$247,516,107	($4,690,392)	$779,229	$242,046,486

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 $4,318,000 and $1,954,000 at June 30, 2017 and 2016, respectively. The commitments of $4,318,000 for fiscal 2017 are expected to be paid from University resources.

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.

NOTE E—CAPITAL ASSETS (continued)

Facilities financed in whole or in part by the SBA are the John X. Jamrich Hall, 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 Statements of Net Position.

NOTE F—COLLECTIONS

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

NOTE G—PAYABLES

Payables of the University include the following at June 30:

	2017	2016
Accrued payroll and benefits	$5,704,751	$5,817,074
Construction contractors	1,624,127	1,374,169
Charter schools	6,481,582	6,532,373
Vendors	2,733,227	3,052,561
Interest payable	334,422	353,513
Total	$16,878,109	$17,129,690

NOTE H—NON-CANCELABLE LEASES

The University has entered into non-cancelable leases for computers to be used by students and employees. Beginning in fiscal year 2016, the University began using exempt financing to purchase laptops. The following table is a summary of the future non-cancelable operating lease payments and capital lease payments:

		Capital Leases		
Year ending June 30	Operating Leases Commitments	Principal	Interest	Total
2018	$43,740	$1,473,050	$66,407	$1,583,197
2019		1,513,863	34,309	1,548,172
2020		1,030,829	10,166	1,040,995
Total	$43,740	$4,017,742	$110,882	$4,172,364

Equipment held under capitalized leases for laptops are summarized as follows at June 30:

	2017	2016
Laptops	$5,971,680	$1,943,790
Less:		
accumulated depreciation	334,422	353,513
Net book value	$4,853,072	$1,577,780

NOTE H—NON-CANCELABLE LEASES (continued)

Lease expense for 2017 and 2016 was approximately $638,000 and $1,452,000, respectively. Subsequent to year end, the University purchased approximately 250 additional laptops using tax exempt financing over a four year period. Total principal and interest over the four year period will be $4,172,000 and is a normal part of University operations.

NOTE I—LONG-TERM LIABILITIES

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

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

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

As of June 30, 2017, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2018	$4,440,000	$3,928,956	$8,368,956
2019	4,740,000	3,700,206	8,440,206
2020	5,120,000	3,458,381	8,578,381
2021	5,275,000	3,219,984	8,494,984
2022	4,660,000	2,994,041	7,654,041
Total Five Years	24,235,000	17,301,568	41,536,568
Thereafter			
2023-2027	24,210,000	11,647,169	35,857,169
2028-2032	23,960,000	6,049,156	30,009,156
2033-2037	11,615,000	1,579,359	13,194,359
2038-2039	1,160,000	58,750	1,218,750
Total	85,180,000	$36,636,002	$121,816,002
Deferred charge on refunding, net	(2,804,226)		
Deferred re-offering premium	1,817,764		
Total	$84,193,538		

NOTE I—LONG-TERM LIABILITIES (continued)

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	$90,010,000		$4,830,000	$85,180,000	$4,440,000
Premium on bond issuance	2,038,540		220,776	1,817,764	220,776
Total bonds payable	92,048,540		5,050,776	86,997,764	4,660,776
Other liabilities:					
Capital lease	1,463,239	$4,027,890	1,473,388	4,017,741	1,473,050
Severance benefits	998,570		707,870	290,700	290,700
Compensated absences	2,283,843	2,018,405	2,049,008	2,253,240	206,643
Federal capital contribution of Perkins Loan Program	5,455,252		73,332	5,381,920	
Total other liabilities	10,200,904	6,046,295	4,303,598	11,943,601	1,970,393
Total long-term liabilities	$102,249,444	$6,046,295	$9,354,374	$98,941,365	$6,631,169

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Bonds payable	$94,610,000		$4,600,000	$90,010,000	$4,830,000
Premium on bond issuance	2,259,316		220,776	2,038,540	220,776
Total bonds payable	96,869,316		4,820,776	92,048,540	5,050,776
Other liabilities:					
Capital lease		$1,943,701	480,462	1,463,239	480,432
Severance benefits	2,133,992	583,512	1,718,934	998,570	718,440
Compensated absences	2,435,620	1,970,637	2,122,414	2,283,843	206,620
Federal capital contribution of Perkins Loan Program	5,525,755		70,504	5,455,252	
Total other liabilities	10,095,367	4,497,850	4,392,314	10,200,904	1,405,492
Total long-term liabilities	$106,964,683	$4,497,850	$9,213,090	$102,249,444	$6,456,268

NOTE J—OPERATING EXPENSES

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

	2017	2016
Salaries, wages and benefits	$93,956,546	$97,683,440
Supplies and support services	34,236,326	40,618,785
Utilities	6,647,099	6,664,144
Depreciation expense	11,292,470	10,810,371
Scholarships	5,697,208	6,320,325
Total	$151,829,649	$162,097,065

NOTE K—RETIREMENT PLANS

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

The University does not provide health care benefits to retirees. Under the TIAA-CREF plan group medical, prescription, drug, dental and vision are provided to retirees as part of the University's participation in MPSERS.

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

The TIAA-CREF plan is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract, and has no liability beyond its own contribution. As of June 30, 2017, 2016, and 2015 the plan had 728, 793 and 860 participants, respectively.

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

	2017	2016	2015
University Contributions	$6,891,438	$6,919,479	$6,598,091
Covered Payroll	$48,790,066	$49,890,534	$46,849,597

Michigan Public School Employees' Retirement System (MPSERS)

Plan Description

The University contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multi-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the system. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The System's financial statements are available at www.michigan.gov/mpsers-cafr. The system is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and Budget.

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

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

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

NOTE K—RETIREMENT PLANS (continued)

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

Plan Description (continued)

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

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

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

Benefits Provided

MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. The System also provides disability and survivor benefits to DB plan members. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

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

Contributions

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

Employer contributions to the system are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

NOTE K—RETIREMENT PLANS (continued)

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

Contributions (continued)

Employer contributions to the System are determined on an actual basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates		
Benefit Structure	**Member**	**Employer**
Basic	0.0 – 4.0%	22.60%
Member Investment Plan	3.0 – 7.0	22.60
Pension Plan	3.0 – 6.4	N/A
Defined Contribution	0.0	17.73

The University's contributions to MPSERS under all pension plans as described above for the years ended June 30, 2017, 2016, and 2015 were $4,085,736, $3,402,937, and $3,315,213 respectively.

Pension Liability

The University reported a liability of $52,696,531 and $54,405,703 as of June 30, 2017 and 2016 respectively, for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015 and 2014. The University's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the University's proportion (as calculated by MPSERS) was 9.40606%, which was a decrease of .51113% from its proportion measured as of September 30, 2015 of 9.91719%.

Actuarial Assumptions

The total pension liability in the September 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	September 30, 2015 and 2014
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid	8.0%
Pension Plus Plan (Hybrid)	7.0% for 2015 (7.5% for 2014)
Projected Salary Increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-living Pension adjustments	3% annual Non-Compounded for MIP Members

NOTE K—RETIREMENT PLANS (continued)

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

Actuarial Assumptions (continued)

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

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study. Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [1.2456 for university employers]. Recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 and 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2016 and 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*	Expected Money-weighted Rate of Return
Domestic equity pools	28.0%	5.9%	1.64 %
Alternative investment pools	18.0	9.2	1.66
International equity pools	16.0	7.2	1.15
Fixed income pools	10.5	0.9	0.09
Real estate and infrastructure pools	10.0	4.3	0.43
Absolute return pools	15.5	6.0	0.93
Short-term investment pools	2.0	(0.0)	(0.00)
Total	100.0%		5.90%
Inflation			2.10
Investment rate of return			**8.00%**

*Long-term rate of return does not include 2.1% inflation.

NOTE K—RETIREMENT PLANS (continued)

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus Plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the University as of June 30, 2017 and 2016, calculated using the discount rate of 8.0% (7% for the Hybrid Plan), as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (Non-Hybrid/Hybrid)* (7.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* (8.0%)	1% Increase (Non-Hybrid/Hybrid)* (9.0%)
University's proportionate share of net pension liability (2017)	$61,576,558	$52,696,531	$45,021,568
University's proportionate share of net pension liability (2016)	$63,836,220	$54,405,703	$46,265,735

*University employers provide non-hybrid plans only. For non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Change in Pension Plan Actuarial Assumptions

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for September 30, 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions for fiscal year 2019 and beyond and the net pension liability as of June 30, 2019 and beyond will increase as a result of lowering the assumed investment rate of return.

NOTE K—RETIREMENT PLANS (continued)

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

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. (http://www.michigan.gov/mpsers-CAFR)

Payable to the Pension Plan

At June 30, 2017 and 2016, the University reported a payable of $257,399 and $1,007,469 for the outstanding amount of pension contributions to the Plan required for the years ended June 30, 2017 and 2016, respectively.

Deferred Inflows of Resources, Deferred Outflows of Resources and Pension Expense

For the year ended June 30, 2017, the University recognized pension expense of $3,376,372 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual earnings on pension plan investments	$84,370	
Net difference between projected and actual earnings on pension plan investments	510,897	
Changes in proportion and differences between University contributions and proportionate share of contributions		$544,118
	595,267	544,118
State appropriations for MPSERS		331,619
University contributions subsequent to the measurement date	2,761,460	
Total	$3,356,727	$875,737

The amount of deferred outflows of resources related to University contributions, subsequent to the measurement date, of $2,761,460 will be recognized as a reduction in net pension liability for the year ending June 30, 2018. Deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to UAAL stabilization payments of $331,619 will be recognized as State appropriations revenue for the year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Amount
2018	($587,693)
2019	(127,945)
2020	720,084
2021	46,703
Total	$51,149

NOTE K—RETIREMENT PLANS (continued)

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

Deferred Inflows of Resources, Deferred Outflows of Resources and Pension Expense (continued)

For the year ended June 30, 2016, the University recognized pension expense of $17,600,407 from changes in MPSERS related net pension liability, deferred inflows, and deferred outflows less the $9,419,428 refunded for employer contributions that were paid in since 1997 in excess of pension contributions required by law. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual earnings on pension plan investments	$747,295	
Net difference between projected and actual earnings on pension plan investments	157,556	
Changes in proportion and differences between University contributions and proportionate share of contributions	146,107	
	1,050,958	
State appropriations for MPSERS		$354,781
University contributions subsequent to the measurement date	3,422,372	
Total	$4,473,330	$354,781

Other Postemployment Benefits

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

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

NOTE K—RETIREMENT PLANS (continued)

Other Postemployment Benefits (continued)

The University's contributions to MPSERS for other postemployment benefits amounted to $1,542,200, $1,326,197, and $1,875,032 for the years ended June 30, 2017, 2016, and 2015, respectively.

NOTE L—EARLY RETIREMENT INCENTIVE PLAN

During fiscal 2014 the University established an Early Retirement Incentive Plan (ERIP) available to all current full-time faculty who completed ten years of service and attained age 62 by June 30, 2014. Employees had to apply for ERIP no later than June 16, 2014 and give up all tenure rights on June 30, 2014. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The ERIP is expected to be paid over a three-year period beginning in fiscal year ending 2015. The ERIP liability was $0 and approximately $428,000 at June 30, 2017 and 2016, respectively.

During fiscal 2016 the University established a Limited Faculty Voluntary Buyout Incentive Plan (LFVBIP) available to all full-time faculty in certain academic disciplines/courses whose age plus years of service equal seventy or greater and who have a minimum of ten years of service. Employees had to apply for the LFVBIP no later than April 22, 2016 and if selected, submit a signed severance agreement that would include giving up all tenure rights by May 13, 2016. The Provost and Vice President of Academic Affairs (PVPAA) may delay an employee's Plan participation by one academic year. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The LFVBIP is expected to be paid over a two-year period beginning in fiscal year ending 2017. The LFVBIP liability was approximately $291,000 and $571,000 at June 30, 2017 and 2016 respectively.

NOTE M—LIABILITY INSURANCE

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

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

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled $12,985,249 at June 30, 2016, based on the last published financial statements.

<u>Self-insurance</u>

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

NOTE M—LIABILITY INSURANCE (continued)

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 $11.4 million and $13.1 million in aggregate for fiscal years ended June 30, 2017 and 2016, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to $400,000 for fiscal years ended June 30, 2017 and 2016, the aggregate excess insured maximum liability is $5,000,000. Changes in the estimated liability for the fiscal years ended June 30, for health benefits, including dental and vision, were as follows:

Claims activity for the year ended June 30, 2017:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	$2,364,871	$9,656,103	($9,427,800)	$2,593,174
Workers' compensation	35,652	482,446	(413,544)	104,554
Total	$2,400,523	$10,138,549	($9,841,344)	$2,697,728

Claims activity for the year ended June 30, 2016:

	Liability – Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability – End of Year
Medical claims	$2,932,271	$7,968,520	($8,535,920)	$2,364,871
Workers' compensation	64,710	25,026	(54,084)	35,652
Total	$2,996,981	$7,993,546	($8,590,004)	$2,400,523

NOTE N—CONTINGENCIES

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

NOTE O—SETTLEMENT FOR BIOMASS UPGRADES

In May 2017, the University reached an agreement with Johnson Controls, Inc. (JCI) to retrofit the current biomass boiler with a gas burner to allow the unit to utilize either natural gas or woody biomass fuel. This addition will allow the University to achieve utility savings associated with producing electricity. The goal is to provide a saving stream that meets or exceeds the original guaranteed utility cost avoidance identified in the original performance contract. The University will contribute $50,000 after obtaining an air permit for the Gas Burner Addition.

NOTE P—STUDENT HOUSING PARTNERSHIP

The University entered an agreement on July 22, 2016 with a third party developer, Education Realty Trust (EdR), to construct and manage the premises of six resident living-learning community buildings with connectors, housing 1,229 beds, multipurpose meeting spaces, tutoring center, and classrooms. The project with an estimated cost of $79.3 million is on land owned by the University and leased to EdR for a 75-year term. The lease includes maintenance standards for the facilities and parameters for the room rental rates for the duration. The University will receive a percentage of gross revenues and will account for the lease as a concession arrangement in accordance with GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The University will record the facilities as capital assets, when the buildings are placed into service, determined by the acquisition value at the time of acquisition. A corresponding liability will be recorded for the present value of garbage removal services and a $4.0 million payment to EdR for enclosed walkways, classrooms, and a student study and lounge facility incorporated as part of the project. The difference between the value of the facilities and related liability will be recorded as a deferred inflow of resources that will be recognized over the lease term.

REQUIRED SUPPLEMENTAL INFORMATION
Northern Michigan University
June 30, 2017

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

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

		2017	2016	2015
A.	University's proportion of net pension liability as a percentage	9.41%	9.92%	9.81%
B.	University's proportionate share of net pension liability	$52,696,531	$54,405,703	$36,787,546
C.	University's covered payroll	$7,004,463	$7,585,630	$8,338,570
D.	University's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	752.33%	717.22%	441.17%
E.	Plan fiduciary net position as a percentage of total pension liability	46.77%	47.45%	63.00%

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

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

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

	2017	2016	2015
Contractually required contribution	$4,085,736	$3,402,937	$3,315,213
Contributions in relation to the contractually required contribution	($4,085,736)	($3,402,937)	($3,315,213)
Contribution deficiency (excess)	$ -	$ -	$ -
University's covered payroll	$6,484,390	$7,382,355	$7,750,117
Contributions as a percentage of covered employee payroll	63.01%	46.10%	42.78%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Northern Michigan University
June 30, 2017

Changes of benefit terms: There were no changes of benefit terms in FY 2016.

Changes of assumptions: There were no changes of benefit assumptions in FY 2016.