

FINANCIAL REPORT

2015 – 2016

NORTHERN MICHIGAN UNIVERSITY

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Terms ending December 31 in year shown

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2016

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Ex Officio

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Northern Michigan University

This section of Northern Michigan University's (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2016, 2015 and 2014. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

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

Using the Annual Report

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the university reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of \$60.9 million for the year ended June 30, 2016, and \$57.7 million for the year ended June 30, 2015. 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 (MPERS) 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, 2016 of \$216.4 million decreased by \$1.9 million from the prior year balance of \$218.3 million. This decrease resulted from the recording of \$3.9 million in pension adjustments related to MPERS adjustments. Excluding the MPERS adjustments, the net position would have increased by \$2.0 million.

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

Financial Highlights (continued)

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

Operating 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. Depreciations expense increased by \$1.0 million as the result of new additions, a full year 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.

Operating and nonoperating expenses of \$163.5 million for the year ended June 30, 2015 remained unchanged from the prior year. Salaries, wages, and benefits of \$94.7 million, the largest component of operating and non-operating expenses, decreased by \$2.6 million. This increase was made up of \$3.4 million for an Early Retirement Incentive Program (ERIP) from the prior year's and an increase of \$0.7 million in all other salaries, wages, and benefits. Supplies and support services increased by \$3.5 million and included one-time purchases of furnishings and small equipment for the new Jamrich instructional building. All other components of operating and nonoperating expense decreased by \$0.9 million.

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

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2016	2015	2014
Assets			
Current assets	\$48,696,018	\$39,251,434	\$38,135,325
Noncurrent assets			
Capital	242,046,486	247,516,107	252,880,260
Other	95,999,837	93,950,347	95,805,909
Total noncurrent assets	<u>338,046,323</u>	<u>341,466,454</u>	<u>348,686,169</u>
Total assets	<u>386,742,341</u>	<u>380,717,888</u>	<u>386,821,494</u>
Total deferred outflows of resources	7,518,510	7,056,953	3,527,089
Liabilities			
Current liabilities	27,297,922	28,880,778	31,833,652
Noncurrent liabilities	150,198,879	137,012,929	106,986,662
Total liabilities	<u>177,496,801</u>	<u>165,893,707</u>	<u>138,820,314</u>
Total deferred inflows of resources	354,781	3,536,793	
Net position			
Net investment in capital assets	151,579,887	153,932,926	154,802,258
Restricted			
Nonexpendable	826,548	880,587	912,453
Expendable	4,730,960	4,690,570	5,299,154
Unrestricted	59,271,874	58,840,258	90,514,404
Total net position	<u>\$216,409,269</u>	<u>\$218,344,341</u>	<u>\$251,528,269</u>

Current assets totaled \$48.7 million at June 30, 2016, \$39.3 million at June 30, 2015, and \$38.1 million for June 30, 2014. The ratio of current assets to current liabilities was 1.8 for the year ended June 30, 2016, 1.4 for the year ended June 30, 2015, and 1.2 for the year ended June 30, 2014 when excluding bond funds of \$0.6 million. Cash and cash equivalents of \$23.9 million increased by \$8.7 million from the prior year 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 \$8.2 million at June 30, 2016, \$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, and \$14.2 million at June 30, 2014, including capital state appropriations of \$6.6 million for the John X. Jamrich building.

Current liabilities decreased by \$1.6 million and included increases of \$1.0 million in accounts payable and accrued liabilities, decreases of \$2.3 million in accrued payroll and benefits and a decrease of \$0.3 million for long-term debt.

Long-term debt including bonds payable, net of unamortized deferred charge on refunding, is the largest liability totaling \$89.0 million at June 30, 2016, \$93.6 million at June 30, 2015, and \$98.1 at June 30, 2014. Bonds payable at June 30, 2016 included \$14.1 million of 2012 General Revenue Fixed Rate Bonds, \$75.9 million of 2008 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of \$1.0 million.

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

Condensed Financial Information (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

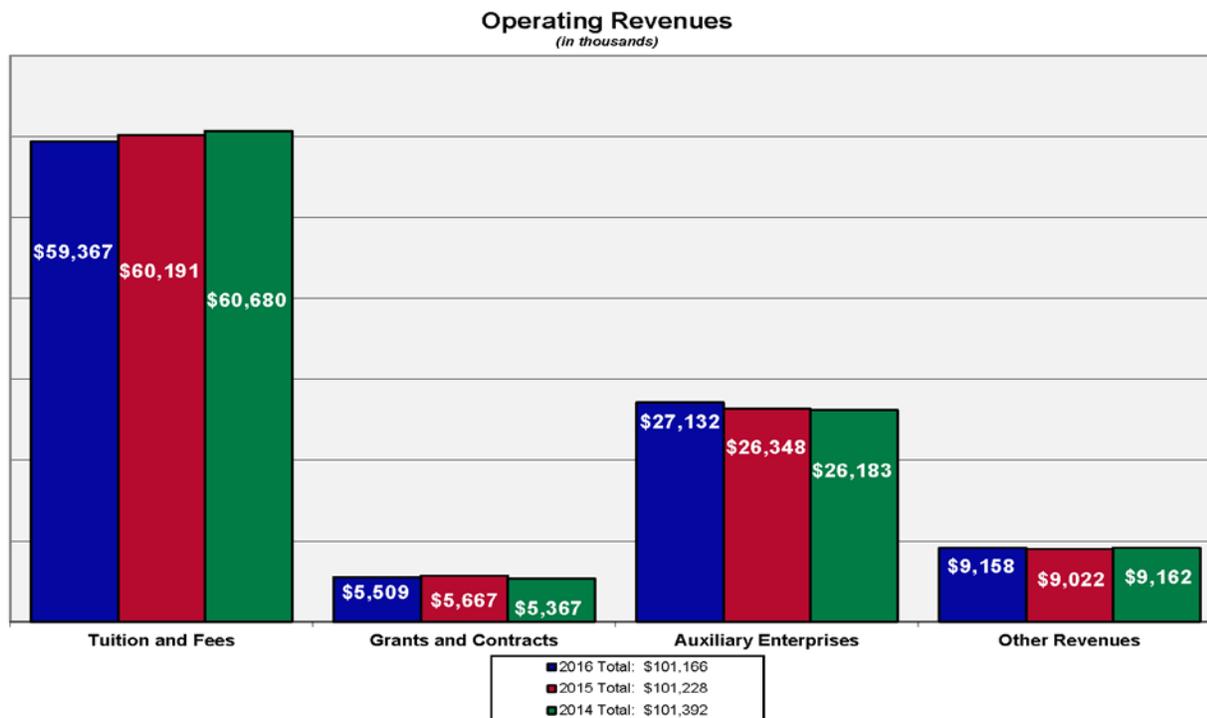
	June 30		
	2016	2015	2014
Operating revenues			
Tuition and fees, net	\$59,366,510	\$60,191,614	\$60,680,460
Grants and contracts	5,508,818	5,666,732	5,366,836
Auxiliary enterprises, net	27,132,291	26,347,703	26,183,387
Other operating revenues	9,158,495	9,022,380	9,161,493
Total operating revenues	<u>101,166,114</u>	<u>101,228,429</u>	<u>101,392,176</u>
Operating expenses	<u>162,097,065</u>	<u>(158,899,283)</u>	<u>(158,710,990)</u>
Operating loss	(60,930,951)	(57,670,854)	(57,318,814)
Nonoperating revenues (expenses)			
State appropriations	45,462,527	44,914,789	42,010,665
Pell grant revenue	11,606,363	12,829,117	13,541,626
Other nonoperating revenues (expenses)-net	332,777	(1,965,605)	2,539,352
Net nonoperating revenues (expenses)	<u>57,401,667</u>	<u>55,778,301</u>	<u>58,091,643</u>
Income before other revenues	<u>(3,529,284)</u>	<u>(1,892,553)</u>	<u>772,829</u>
Capital appropriation grants and gifts	1,469,355	4,815,807	20,207,571
Gain (loss) on asset disposal	124,857	(162,089)	(1,169,495)
Total other (expenses) revenues	<u>1,594,212</u>	<u>4,653,718</u>	<u>19,038,076</u>
Total (decrease) increase in net position	(1,935,072)	2,761,165	19,810,905
Net position – beginning of the year	218,344,341	251,528,269	231,717,364
Cumulative effect of change in accounting principle		(35,945,093)	
Adjusted net position – beginning of year	<u>218,344,341</u>	<u>215,583,176</u>	<u>231,717,364</u>
Net position – end of year	<u>\$216,409,269</u>	<u>\$218,344,341</u>	<u>\$251,528,269</u>

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

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

Condensed Financial Information (continued)

Total operating revenues were \$101.2 million for fiscal year 2016, \$101.2 million for fiscal year 2015, and \$101.4 for fiscal year 2014. The most significant sources of operating revenue for the University are tuition and fees, auxiliary enterprises, and grants and contracts, as shown below:



Tuition and Fees

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

Average Annual Full-Time Student Tuition and Fees

	<u>2015-2016</u>	<u>2014-2015</u>	<u>2013-2014</u>
Undergraduate, resident	\$10,100	\$9,324	\$9,038
Undergraduate, nonresident	\$15,500	\$14,556	\$14,114
Graduate, resident	\$12,044	\$11,244	\$10,897
Graduate, nonresident	\$17,036	\$15,660	\$15,397

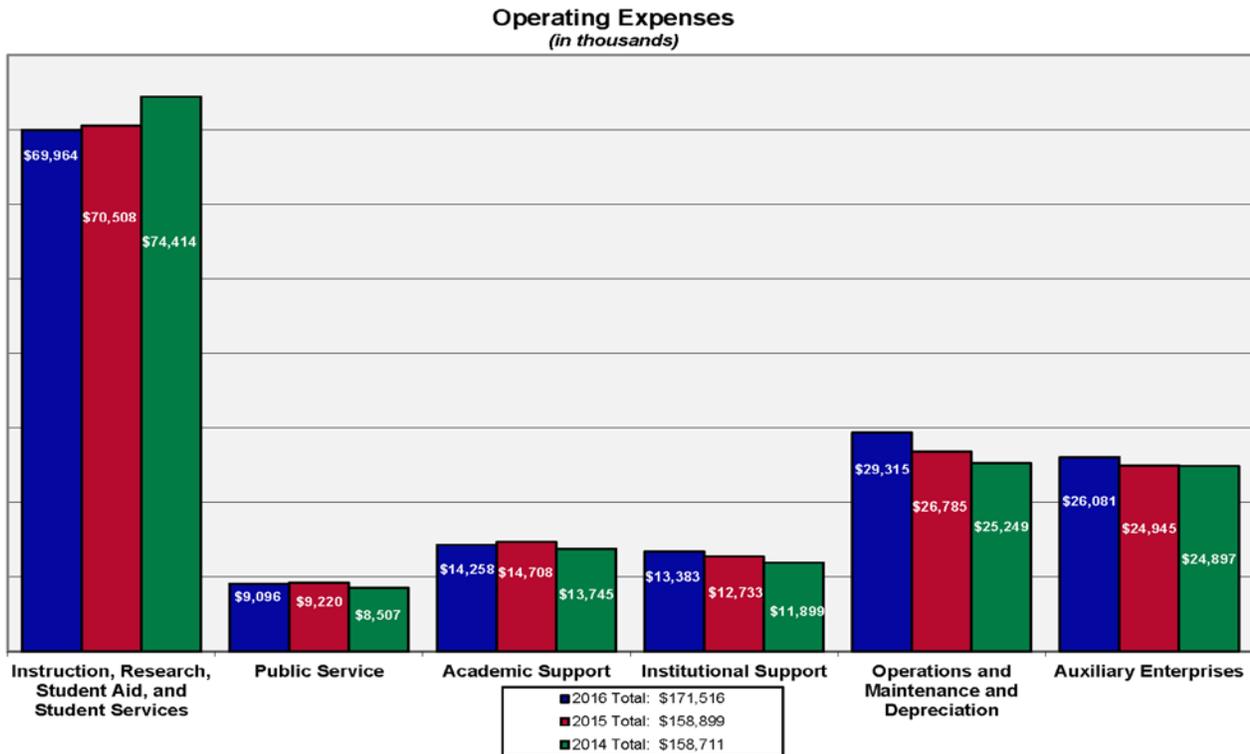
MANAGEMENT'S DISCUSSION AND ANALYSIS
Northern Michigan University
(continued)

Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$9,286 for 2015-2016, \$8,954 for 2014-2015, and \$8,696 for 2013-2014. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Ten residence halls which house 2,614 students currently have an average occupancy of 2290 (2015 – 2,376) and are at 88% capacity (2015 – 91% 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, 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. Operating expenses for June 30, 2014, including depreciation of \$9.7 million, totaled \$158.7 million. Of this total, \$74.6 million, or 47.0%, was used for instruction, research, student aid, and student services, \$25.2 million, or 15.9% was used for operation, maintenance, and depreciation, and \$24.9 million, or 15.7%, was used for auxiliary enterprises as shown below:



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

Other

The State appropriations of \$45.5 million for the year ended June 30, 2016, \$44.9 million for the year ended June 30, 2015, and \$42.0 million for the year ended June 30, 2014 is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was \$4.4 million for the year ended June 30, 2016, \$4.6 million for the year ended June 30, 2015, and \$4.8 million for the year ended June 30, 2014.

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		
	2016	2015	2014
Cash provided (used) by:			
Operating activities	(\$38,035,113)	(\$47,898,496)	(\$44,124,988)
Noncapital financing activities	58,382,270	57,966,898	57,135,689
Capital and related financing activities	(12,075,713)	(6,654,218)	(23,785,417)
Investing activities	393,224	974,322	9,862,963
Net increase (decrease) in cash and cash equivalents	8,664,668	4,388,507	(911,753)
Cash and cash equivalents – beginning of year	15,214,720	10,826,213	11,737,966
Cash and cash equivalents – end of year	<u>\$23,879,388</u>	<u>\$15,214,720</u>	<u>\$10,826,213</u>

Major sources of funds included in operating activities are 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 \$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. 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 \$33.6 million decreased \$2.6 million for the year ended June 30, 2016 as compared to an increase 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. The change in revenue included a \$1.0 million contribution in the prior year, 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. Net assets of \$36.2 million increased \$1.1 million for the year ended June 30, 2015 as compared to an increase of \$4.0 million for the year ended June 30, 2014. This change of \$2.9 million was primarily the result of a decrease in investment income of \$3.4 million. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

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

Factors Impacting Future Periods

Rebranding and Recruitment Outreach

In anticipation of an enrollment decline in fiscal year 2017 due to the significant decrease in high school graduates in the State of Michigan and the surrounding Midwest region, the University began developing a comprehensive enrollment management and marketing planning in fiscal year 2014. Included in the plan was a university wide rebranding effort, a revised marketing plan and several retention initiatives. The plan is scheduled to be fully implemented for the Fall 2017 recruitment class. Investments include all new marketing materials, new logos, installation of a new constituent relation management system (CRM) for tracking relationship data, and a new format for marketing and advertising purchases.

The University also increased its efforts to expand its recruitment of a more diverse student population, which started with the hiring of a new Chief Diversity and Inclusion Officer. This effort included targeting specific populations in southeast and southwest Michigan, Wisconsin, and the greater Chicago area to bring a more diverse student population to the University. International recruitment was also restructured and expanded to incorporate faculty more intensively and strategically in the process. The new process allows the University to target potential international student populations where natural ties to the University's current faculty lie, thus increasing the potential return on international student recruitment both in lowering recruitment costs and increasing application conversion.

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 was identified and meets directly with the president.

A Program Investment Fund of \$1 million was made directly available to academic departments, colleges and collaborations to support innovation and investment in academics. The first awards were granted for projects targeted for implementation in fiscal year 2017. This fund will focus on excellence and sustainability in academic programs as a basis for enrollment growth.

Using of State-of-the-Art Technologies

NMU has established a new Educational Access Initiative to increase online student enrollment through its new online global campus and through K-12, community college, and business and industry partnerships. The new initiative combines educational offerings with NMU's state-of-the-art LTE based Educational Access Network (EAN). The EAN provides LTE broadband service to a region that covers 16,951 square miles and is roughly the equivalent of four northeastern states. The global campus online educational content can be accessed by students using their existing internet connection or by using the EAN (NMU's off campus private LTE network). Providing broadband LTE access combined with degree credit, professional development, and career training course offerings will allow NMU to enter the online market creating a competitive advantage for increasing online enrollments from the region. The Educational Access Initiative includes online degree seekers in two undergraduate and five graduate programs, support for concurrent enrollment opportunities for high school students, and a growing adult student population interested in online education. The initiative will also enhance the University's ability to address the areas business community educational needs for retraining and professional development. Full launch for the University's Educational Access Initiative is targeted for January 2017. NMU is the only public university that operates a private LTE to deliver educational content, creating a unique experience.

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

Factors Impacting Future Periods (continued)

New Facilities

In addition, the University is investing in new and renovated facilities. Construction began in July 2016 on an \$80 million new housing development to create an attractive, state of the art, on-campus living-learning community. This capital project is expected to create a competitive advantage for the University in recruitment efforts as we strive to attract more students from outside our region.

Enrollment Data

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

For the 2015-16 academic year, forty-seven percent (47%) of the University's students represent Upper Peninsula Michigan residents, thirty-three percent (33%) of the University's students came from Michigan's Lower Peninsula, and the remaining twenty percent (20%) came from other states and foreign countries.

Academic Year	Fall Headcount Enrollment			Fiscal Year Equated Students	Annual Total Credit Hours Taken		
	Undergraduate Students	Graduate Students	Total		Undergraduate Students	Graduate Students	Total
2012	8,712	693	9,405	8,569	245,854	8,978	254,832
2013	8,474	685	9,159	8,258	237,352	8,314	245,666
2014	8,221	697	8,918	8,033	230,704	8,100	238,804
2015	8,001	780	8,781	7,621	220,447	8,524	228,971
2016	7,507	796	8,303	7,383	209,317	9,534	218,851

Enrollment for fiscal year 2017 is expected to decline as high school graduates in the State of Michigan and surrounding mid-west region continue a downward trend. The combined efforts stated above are expected to positively impact enrollment in Fall 2017 and subsequent years. 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.

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

Factors Impacting Future Periods (continued)

Admissions

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

First Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2011	6,298	4,546	72.2	1,837	40.4
2012	6,841	4,636	67.8	1,766	38.1
2013	6,859	5,030	73.3	1,749	34.8
2014	6,841	4,940	72.2	1,663	33.7
2015	5,827	4,067	69.8	1,443	35.9

By August 10, 2016, the University had received 5,486 freshman applications (as compared to 5,953 as of August 12, 2015) and had granted 4,047 acceptances (as compared to 4,058 as of August 12, 2015).

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2011	1,537	899	58.5	577	64.2
2012	1,593	882	55.4	551	62.5
2013	1,507	862	57.2	503	58.4
2014	1,502	745	49.6	439	58.9
2015	1,135	669	58.9	402	60.1

By August 10, 2016, the University had received 1,169 transfer applications (as compared to 1,221 as of August 12, 2015) and had granted 634 acceptances (as compared to 657 as of August 12, 2015).

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

Capital Plan

EdR, a national developer, was chosen by NMU through a competitive selection process to execute all aspects – development, finance, construction and management – of a new on campus multiple building living-learning community. This project will be the largest in the University's history. Upon completion, EdR will operate the residence halls under a 75-year lease with NMU and will manage the facility while NMU will provide residence life services. EdR will finance the approximately \$80 million housing development through its ONE PlanSM which uses the company's equity and finance stability to fund projects on university land.

More than 1,200 beds will be delivered in multiple phases which are scheduled for delivery in the second half of 2017, and the fall of 2018. This systematic phasing will allow NMU to accommodate student bed count needs during construction. The new living-learning community will feature robust internet and Wi-Fi capabilities, classrooms, study rooms, TV lounges and laundry facilities. The large patio area, fireplace and lobbies are designed to accommodate art shows, student events, university functions and various types of entertainment for residents year round. The project will provide NMU with a competitive advantage in our recruitment efforts as we strive to attract more students from outside our region and throughout the State of Michigan.

The University completed the replacement of the existing Honeywell fire alarm system which was started in December of 2013 with a total cost for state side buildings of \$2.3 million. Costs included in construction in progress at June 30, 2015 were \$1.9 million. Replacement of the fire alarm system in the housing facilities will occur when each hall is renovated and is part of the new construction project with EdR.

A new Alumni Welcome and U.P. Heritage Center was completed and ready for the start of the new fiscal year. Located on the first floor of Gries Hall capital upgrades totaled \$1.0 million and was funded by a private donor. A new façade and entrance has created an identifiable and central location to greet alumni and visitors to campus. Continuing improvements to campus that will complement the new center are plans to renovate the University Center and create a new and modern conference center with state of the art technology.

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.

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

Capital Plan (continued)

Bonds payable at June 30, 2016 consist of the following:

<u>Maturity Dates</u>	<u>Interest Rates</u>		<u>Maturity Value</u>
	<u>Coupon</u>	<u>Yield</u>	
06/01/2025	3.000%	2.940%	\$875,000
06/01/2026	3.000%	3.060%	900,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
12/01/2019	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
06/01/2017	5.000%	1.570%	1,120,000
06/01/2018	5.000%	1.820%	640,000
06/01/2019	5.000%	2.030%	670,000
06/01/2020	5.000%	2.220%	705,000
06/01/2021	5.000%	2.410%	740,000
12/01/2016	5.000%	3.650%	3,710,000
12/01/2017	5.000%	3.820%	3,800,000
12/01/2018	5.000%	3.980%	4,070,000
12/01/2019	5.000%	4.130%	3,655,000
12/01/2021	5.000%	4.370%	1,350,000
12/01/2026	5.000%	4.860%	3,610,000
12/01/2027	5.000%	4.910%	3,775,000
12/01/2028	5.000%	4.960%	4,005,000
12/01/2029	5.000%	5.000%	4,210,000
12/01/2030	5.000%	5.030%	4,385,000
12/01/2031	5.000%	5.060%	2,475,000
12/01/2036-12/01/2038	5.000%	5.120%	1,700,000
12/01/2032-12/01/2035	5.125%	5.110%	11,075,000
Total			<u>\$90,010,000</u>

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

Teaching, Learning, and Communication (TLC) Initiative

Wired and wireless network connectivity leads the University's high-tech learning environment. Over the past two years the University began transitioning to Long Term Evolution (LTE) technology to replace its current WiMAX broadband service. It installed the initial LTE system in the Marquette area which became operational for fall semester 2015 and offered expanded coverage and improved data transfer speeds.

During fiscal year 2016, the University was granted license to expand its educational broadband LTE network across the Upper Peninsula and parts of northern Wisconsin. Coverage area is expected to increase to approximately 21,548 square miles to reach rural communities and connect K-12, higher education students, and those in need of lifelong learning with anywhere, anytime learning. The University has partnered with the Bad River Band of the Lake Superior Tribe of Chippewa Indians located on the south shore of Lake Superior in Odagan, Wisconsin to provide affordable broadband for their educational services.

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, and workforce development, hosted training sites for local and regional business, and expansion of the University educational affiliates.

State Appropriations

The University expects to receive \$46.7 million in State Appropriations for the upcoming fiscal year. This is an increase of \$1.2 million from the prior year funding level of \$45.5 million. The University has set student tuition and fees at 4.2% above last fiscal year and has met the state tuition restraint requirements.

INDEPENDENT AUDITORS' REPORT

October 28, 2016

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northern Michigan University as of June 30, 2016 and 2015, 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.

Implementation of GASB Statement No. 68

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 14 and the schedules for the pension plan on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 28, 2016, 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.



NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University		Component Unit	
	June 30		NMU Foundation	
	2016	2015	2016	2015
Assets				
Current assets				
Cash and cash equivalents	\$ 23,879,388	\$ 15,214,720	\$ 4,178,165	\$ 3,094,314
State appropriation receivable	8,201,402	8,506,350		
Accounts receivable (less allowance 2016--\$3,106,000; 2015--\$2,912,000)	11,977,898	10,291,131		
Student notes receivable (less allowance 2016--\$738,000; 2015--\$884,000)	1,596,141	1,924,844		
Pledges receivable (less allowance 2016--\$30,087; 2015--\$1,200)			993,911	70,936
Inventories	867,481	1,499,129		
Other assets	2,173,708	1,815,260	378,034	343,731
Total current assets	<u>48,696,018</u>	<u>39,251,434</u>	<u>5,550,110</u>	<u>3,508,981</u>
Noncurrent assets				
Long-term investments	89,255,997	87,468,420	26,032,846	27,375,491
Student notes receivable (less allowance 2016--\$2,695,000; 2015--\$2,533,000)	5,826,688	5,512,893		
Other long-term investments	194,962	194,962	1,536,150	1,618,669
Pledges receivable (less allowance 2016--\$0; 2015--\$36,600)			756,147	2,207,665
Unamortized bond insurance	722,190	774,072		
Capital assets, net	242,046,486	247,516,107	1,527,112	1,701,858
Total noncurrent assets	<u>338,046,323</u>	<u>341,466,454</u>	<u>29,852,255</u>	<u>32,903,683</u>
Total assets	<u>386,742,341</u>	<u>380,717,888</u>	<u>35,402,365</u>	<u>36,412,664</u>
Deferred outflows of resources				
Deferred charge on refunding	3,045,180	3,286,135		
Deferred pension amounts	4,473,330	3,770,818		
Total deferred outflows of resources	<u>7,518,510</u>	<u>7,056,953</u>		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	11,312,616	10,345,707	1,735,477	180,373
Accrued payroll and benefits	5,817,074	8,072,393		
Unearned revenue (unearned student fees and deposits)	3,711,964	3,723,378		
Long-term liabilities-current portion	6,456,268	6,739,300		
Total current liabilities	<u>27,297,922</u>	<u>28,880,778</u>	<u>1,735,477</u>	<u>180,373</u>
Noncurrent liabilities				
Annuities payable			62,493	62,186
Net pension liability	54,405,703	36,787,546		
Long-term liabilities-net of current portion	95,793,176	100,225,383		
Total noncurrent liabilities	<u>150,198,879</u>	<u>137,012,929</u>	<u>62,493</u>	<u>62,186</u>
Total liabilities	<u>177,496,801</u>	<u>165,893,707</u>	<u>1,797,970</u>	<u>242,559</u>
Deferred inflows of resources				
Deferred pension amounts	354,781	3,536,793		
Total deferred inflows of resources	<u>354,781</u>	<u>3,536,793</u>		
Net position				
Net investment in capital assets	151,579,887	153,932,926	1,527,112	1,701,858
Restricted for:				
Nonexpendable				
Scholarships and fellowships	63,757	63,757	3,956,392	3,954,113
Loans	60,038	60,038		
Instruction	702,753	756,792		
Expendable				
Instruction	894,667	963,464	5,996,291	4,143,670
Scholarships and fellowships	455,939	477,765	16,476,159	19,225,791
Loans	3,087,069	3,020,676		
Research	214,249	143,551		
Academic, student and public service	79,036	85,114	2,297,517	2,839,672
Unrestricted	59,271,874	58,840,258	3,350,924	4,305,001
Total net position	<u>\$ 216,409,269</u>	<u>\$ 218,344,341</u>	<u>\$ 33,604,395</u>	<u>\$ 36,170,105</u>

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

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

	Northern Michigan University		Component Unit	
	Year Ended June 30		NMU Foundation	
	2016	2015	2016	2015
Operating revenues				
Student tuition and fees (less allowance 2016--\$20,898,000; 2015--\$20,967,000)	\$ 59,366,510	\$ 60,191,614	\$ 3,424,369	\$ 5,198,727
Gifts and contributions				
Federal grants and contracts	4,073,604	4,123,870		
State and local grants and contracts	147,698	338,480		
Nongovernmental grants and contracts	1,287,516	1,204,382		
Sales and services of educational activities	9,158,495	9,022,380		
Auxiliary enterprise				
Residential life (less allowance 2016--\$6,470,000; 2015--\$6,335,000)	20,594,831	20,226,200		
Other auxiliary	6,537,460	6,121,503		
Other operating revenues			75,703	132,952
Total operating revenues	<u>101,166,114</u>	<u>101,228,429</u>	<u>3,500,072</u>	<u>5,331,679</u>
Operating expenses				
Educational and general				
Instruction	45,351,678	47,214,999		
Research	1,090,446	986,289		
Public service	9,095,865	9,219,698		
Academic support	14,258,326	14,708,277		
Student services	17,201,331	15,313,351		
Institutional support	13,383,136	12,733,145	1,902,201	2,214,817
Operations and maintenance of plant	18,504,682	16,982,303		
Student aid	6,320,325	6,993,646		
Depreciation	10,810,371	9,802,672		
Auxiliary enterprise				
Residential life	17,883,238	17,528,960		
Other	8,197,667	7,415,943		
Total operating expenses	<u>162,097,065</u>	<u>158,899,283</u>	<u>1,902,201</u>	<u>2,214,817</u>
Operating (loss) income	<u>(60,930,951)</u>	<u>(57,670,854)</u>	<u>1,597,871</u>	<u>3,116,862</u>
Nonoperating revenues (expenses)				
State appropriations	45,462,527	44,914,789		
Pell grant revenue	11,606,363	12,829,117		
Gifts (including 2016--\$2,565,000 and 2015--\$2,374,000 from the NMU Foundation)	2,564,679	2,374,309		
Payments to and on behalf of the University			(4,016,448)	(2,524,580)
Investment income(loss) [net of investment expense for the University 2016--\$319,200 and 2015--\$345,800; and for the NMU Foundation 2016--\$51,000 and 2015--\$53,100]	2,180,801	241,939	(147,133)	521,331
Interest on capital asset-related debt	(4,412,703)	(4,581,853)		
Net nonoperating revenues (expenses)	<u>57,401,667</u>	<u>55,778,301</u>	<u>(4,163,581)</u>	<u>(2,003,249)</u>
(Loss) Income before other revenues (expenses)	<u>(3,529,284)</u>	<u>(1,892,553)</u>	<u>(2,565,710)</u>	<u>1,113,613</u>
Capital grants and gifts (including 2016--\$1,178,000 and 2015--\$138,000 from the NMU Foundation)	1,190,549	223,014		
Capital State appropriations	278,806	4,592,793		
Gain (Loss) on asset disposal	124,857	(162,089)		
Total other revenues (expenses)	<u>1,594,212</u>	<u>4,653,718</u>		
(Decrease) Increase in net position	<u>(1,935,072)</u>	<u>2,761,165</u>	<u>(2,565,710)</u>	<u>1,113,613</u>
Net position - beginning of year	218,344,341	251,528,269	36,170,105	35,056,492
Cumulative effect of change in accounting principle		(35,945,093)		
Adjusted net position - beginning of year	<u>218,344,341</u>	<u>215,583,176</u>	<u>36,170,105</u>	<u>35,056,492</u>
Net position - end of year	<u>\$216,409,269</u>	<u>\$218,344,341</u>	<u>\$33,604,395</u>	<u>\$36,170,105</u>

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2016	2015
Cash Flows from Operating Activities		
Tuition and fees	\$ 59,349,477	\$ 60,101,437
Grants and contracts	5,824,301	5,494,970
Payments to suppliers	(46,013,978)	(48,008,372)
Payments to employees	(86,614,733)	(94,334,141)
Payments for scholarships and fellowships	(6,320,325)	(6,993,646)
Loans issued to students and employees	(1,585,692)	(1,376,986)
Collection of loans to students and employees	1,600,600	1,923,092
Auxiliary enterprise		
Residential life	20,623,923	20,223,225
Other	6,166,782	6,063,771
Other receipts	8,934,532	9,008,154
Net cash used by operating activities	(38,035,113)	(47,898,496)
Cash Flows from Noncapital Financing Activities		
State appropriations	45,666,310	44,453,732
Pell grant revenue	11,606,363	12,829,117
William D. Ford direct lending receipts	36,529,345	39,096,496
William D. Ford direct lending disbursements	(36,529,345)	(39,096,496)
Gifts and grants received for other than capital purposes	2,126,532	2,379,615
Other	(1,016,935)	(1,695,566)
Net cash provided by noncapital financing activities	58,382,270	57,966,898
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received		138,374
Purchases of capital assets	(4,225,241)	(8,431,333)
Sales of capital assets	904,086	
Principal paid on capital debt	(5,080,551)	(4,515,000)
Interest paid on capital debt	(4,408,759)	(4,576,531)
Capital state appropriations	734,752	10,730,272
Net cash used by capital and related financing activities	(12,075,713)	(6,654,218)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	908,986	35,050,098
Interest on investments	2,255,019	2,324,656
Purchase of investments	(2,770,781)	(36,400,432)
Net cash provided by investing activities	393,224	974,322
Net increase in cash and cash equivalents	8,664,668	4,388,507
Cash and cash equivalents - beginning of the year	15,214,720	10,826,213
Cash and cash equivalents - end of year	\$ 23,879,388	\$ 15,214,720
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	(\$60,930,951)	(\$57,670,854)
Depreciation expense	10,810,371	9,802,672
Amortization of bond insurance	51,882	51,882
Net pension liability	13,378,852	608,428
Change in assets and liabilities:		
Receivables, net	(166,622)	479,292
Inventories	631,649	(179,671)
Other assets	(343,354)	112,440
Accounts payable and accrued liabilities	928,709	(598,351)
Unearned revenue	(85,503)	(259,893)
Accrued payroll and benefits	(2,310,146)	(244,441)
Net cash used by operating activities	(38,035,113)	(47,898,496)

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2016

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

BASIS OF PRESENTATION

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

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

GASB 68 Accounting and Financial Reporting for Pensions

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Reporting Entity (continued)

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

During the years ended June 30, 2016 and 2015, the Foundation made distributions of \$4.0 million and \$2.5 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

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

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

Basis of Accounting—Component Unit

The Foundation is a nonprofit organization that reports under the provisions of Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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. The se 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 Note B 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 2016 and 2015 was approximately \$10,810,000 and \$9,803,000 respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE A—BASIS OF PRESENTATION AND 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. 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 (MPERS) pension plan and additions to/deductions from the MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Unearned Revenue

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

Income Taxes

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

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

Reclassifications

Certain 2015 balances have been reclassified to conform to the 2016 presentation.

Subsequent Events

Subsequent to June 30, 2016, 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.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Investment of Endowed Funds (continued)

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$23,879,388	\$15,214,720
Long-term investments	89,255,997	87,468,420
Other long-term investments	194,962	194,962
Total	<u>\$113,330,347</u>	<u>\$102,878,102</u>

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, 2016 and 2015, the carrying amount of the University's deposits was \$10,027,714 and \$8,284,022, respectively. The bank balance of the University's deposits at June 30, 2016 and 2015 was \$10,227,383 and \$8,743,522, respectively. Of that amount, \$750,000 was insured in 2016 and 2015. The remaining \$9,477,383 and \$7,993,522 at June 30, 2016 and 2015, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits. To limit its exposure to custodial credit risk for investments, the University intends to select and retain only pooled/mutual funds that will meet the requirements set forth in the investment policy. The University currently has stocks in its Student Managed Fund and limits its investments to \$150,000.

Credit Risk – Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. To limit its exposure to credit risk, the University's investment policy limits the average credit rating of its portfolios, as well as the minimum acceptable credit rating of individual investments. For investments expected to be expended within one year, the weighted average credit quality must be AAA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be AA. For intermediate pooled investments, the weighted average credit quality must be AA (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be BBB. For long term pooled investments, the weighted average credit quality shall be no less than A (or its equivalent rating by two national rating agencies) and the minimum acceptable credit quality at the time of purchase shall be no less than B. At June 30, 2016 and 2015, 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. Under the University’s Investment Policy for Operating Cash, all investments will be dollar denominated. The University holds investments of endowed funds in various international mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were \$3,307,010 and \$3,643,061 for the years ended June 30, 2016 and 2015, respectively.

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

	Fair Market Value	Years			More Than 10
		Less Than 1	1 - 5	6 - 10	
Money Market Mutual Funds	\$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 Funds	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 Statement of Net Position	(15,173,402)				
Total Investments	\$89,450,959				

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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

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

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:

Level 1 – 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.

Level 2 – 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.

Level 3 – 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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, 2016 or 2015.

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.

The following tables set forth by level, within the fair value hierarchy, the Universities 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 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	<u>\$104,429,399</u>		<u>\$194,962</u>	<u>\$104,624,361</u>

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total 2015
Money Market Mutual Funds	\$6,930,698			\$6,930,698
Bond Mutual Funds	75,644,018			75,644,018
Equity Mutual Funds	8,143,866			8,143,866
Stock & ETFs	3,680,536			3,680,536
Commingled Mutual Fund	1,459,106			1,459,106
Real Estate			\$194,962	194,962
Leveled investment total	<u>\$95,858,224</u>		<u>\$194,962</u>	<u>\$96,053,186</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION

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

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

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

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

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

	2016	2015
Gain (loss) on sale of investments, net	\$(456,229)	\$9,847
Interest and dividends	1,000,642	1,026,236
Management fee	(51,029)	(53,146)
Decrease in fair value of investments	(640,517)	(461,606)
Total	(\$147,133)	\$521,331

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Credit Risk

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

Interest Rate Risk

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

Fair Value Hierarchy

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

Level 1:

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

Level 2:

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

Level 3:

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

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	250,005			250,005
Total assets	\$27,568,997	\$25,851,082		\$1,717,915
Liabilities				
Liabilities on annuity contracts and trusts	\$62,493			\$62,493

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, 2015:

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

Held by third party assets categorized as Level 3 consists of a perpetual trust and an irrevocable trust. Assets held within the trusts are all Level 1 investments and the Foundation is the 100% beneficiary of future distributions. As of June 30, 2016, the Foundation estimates the value of these trusts to be \$1,286,145; however, this amount could change.

Other assets categorized as Level 3 consists of irrevocable charitable remainder trusts. Contribution revenue was recognized at the date the trusts were established based on the expected present value of the Foundation's interest in the trust assets. Changes in the value of the assets and other changes in the estimates of future receipts are reported in the Foundation's statement of activities. As of June 30, 2016, the Foundation estimates the value of these trusts to be \$250,005; however, this amount could change.

Alternative Investments categorized as Level 3 consist of private equity funds. They are valued as the sum of the value of the underlying components on a quarterly basis. As of June 30, 2016, the Foundation estimates the value of these Alternative Investments to be \$181,764; however, this amount could change.

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

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

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the years ended June 30, 2016 and 2015:

	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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

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

Concentration of Credit Risk

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

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

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

Custodial Credit Risk

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

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

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:

	<u>2016</u>	<u>2015</u>
State appropriations - net	\$8,201,402	\$8,506,350
Student notes receivable – net	7,422,829	7,437,737
Charter schools	6,734,405	6,202,921
NMU Foundation	1,551,383	
State, federal and private grants	558,610	700,347
Students, employees, and vendors - net	<u>3,133,500</u>	<u>3,387,863</u>
Total	<u>\$27,602,129</u>	<u>\$26,235,218</u>

For the years ended June 30, 2016 and 2015, the University received approximately \$34,467,000 and \$26,546,000, respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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, 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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E—CAPITAL ASSETS (continued)

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

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

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 \$1,954,000 and \$500,000 at June 30, 2016 and 2015, respectively.

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E—CAPITAL ASSETS (continued)

During 2015, construction was completed on a modern high-tech classroom facility that replaced the current John X. Jamrich Hall. Total construction costs at June 30, 2015 of \$32.5 million included the building, parking, and related furnishings and equipment. This project utilized \$8.4 million in University funds and was financed by \$24.7 million in State Building Authority (SBA) bonds which are secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease term the SBA will hold title to the building and the University will pay all operating and maintenance costs.

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

	<u>2016</u>	<u>2015</u>
Accrued payroll and benefits	\$5,817,074	\$8,072,393
Construction contractors	1,374,169	1,303,974
Charter schools	6,532,373	6,016,833
Vendors	3,052,561	2,655,153
Interest payable	353,513	369,747
Total	<u>\$17,129,690</u>	<u>\$18,418,100</u>

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:

Year ending June 30	Operating Leases Commitments	<u>Capital Leases</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$581,969	\$480,432	\$19,320	\$1,081,723
2018	32,883	487,711	12,045	532,637
2019		495,096	4,658	499,754
Total	<u>\$614,852</u>	<u>\$1,463,239</u>	<u>\$36,023</u>	<u>\$2,114,114</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE H—NON-CANCELABLE LEASES (continued)

Lease expense for 2016 and 2015 was approximately \$1,452,000 and \$2,527,000, respectively. Subsequent to year end, the University purchased approximately 3,000 additional laptops using tax exempt bank financing over a four year period. Total principal and interest over the four year period will be \$3,089,000 and is a normal part of University operations.

NOTE I—LONG-TERM LIABILITIES

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

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

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

As of June 30, 2016, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2017	\$4,830,000	\$4,172,706	\$9,002,706
2018	4,440,000	3,928,956	8,368,956
2019	4,740,000	3,700,206	8,440,206
2020	5,120,000	3,458,381	8,578,381
2021	5,275,000	3,219,984	8,494,984
Total Five Years	24,405,000	18,480,233	42,885,233
Thereafter			
2022-2026	24,335,000	12,751,816	37,086,815
2027-2031	24,930,000	7,185,931	32,115,931
2032-2036	14,640,000	2,260,478	16,900,478
2037-2039	1,700,000	130,250	1,830,250
Total	90,010,000	\$40,808,710	\$130,818,710
Deferred charge on refunding, net	(3,045,180)		
Deferred re-offering premium	2,038,540		
Total	\$89,003,360		

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I—LONG-TERM LIABILITIES (continued)

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

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

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

NOTE J—OPERATING EXPENSES

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

	2016	2015
Salaries, wages and benefits	\$97,683,440	\$94,698,128
Supplies and support services	40,618,785	40,625,389
Utilities	6,664,144	6,779,448
Depreciation expense	10,810,371	9,802,672
Scholarships	6,320,325	6,993,646
Total	\$162,097,065	\$158,899,283

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS

The University has two retirement plans: Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF) and the Michigan Public School Employees' Retirement System (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. During fiscal year 2013, the University discontinued allowing retirees to purchase healthcare benefits at cost.

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

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

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

	2016	2015	2014
University Contributions	\$6,919,479	\$6,598,091	\$6,514,706
Covered Payroll	\$49,890,534	\$46,849,597	\$45,339,008

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. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

MPERS 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.

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

Contributions

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

Employer 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (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, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 – 4.0%	22.52 – 23.07%
Member Investment Plan	3.0 - 7.0	22.52 – 23.07
Pension Plan	3.0 – 6.4	21.99
Defined Contribution	0.0	17.72 – 18.76

The University's contributions to MPERS under all pension plans as described above for the years ended June 30, 2016, 2015, and 2014 were \$3,402,937, \$3,315,213, and \$3,020,523 respectively.

Pension Liability

At June 30, 2016 and 2015, the University reported a liability of \$54,405,703 and \$36,787,546, respectively for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014 and 2013, respectively. 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, 2015, the University's proportion (as calculated by MPERS) was 9.91719%, which was an increase of .10995% from its proportion measured as of September 30, 2014 of 9.80724%.

Actuarial Assumptions

The total pension liability in the September 30, 2014 and 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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)	7.5% for 2014 (7.0% for 2013)
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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

Michigan Public School Employees' Retirement System (MPERS) (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. 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. Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.7158 for non-university employers 1.3923 for university employers]. Recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2015 and 2014 MPERS 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, 2015 and 2014, are summarized in the following tables:

Asset Class	Target Allocation	2015 Long-term Expected Real Rate of Return*	2015 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	.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 expected real rate of return does not include 2.1% inflation.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*	2014 Expected Money- weighted Rate of Return
Domestic equity pools	28.0%	4.8%	1.34 %
Alternative investment pools	18.0	8.5	1.53
International equity pools	16.0	6.1	0.98
Fixed income pools	10.5	1.5	0.16
Real estate and infrastructure pools	10.0	5.3	0.53
Absolute return pools	15.5	6.3	0.98
Short-term investment pools	2.0	(0.2)	(0.02)
Total	100.0%		5.50%
Inflation			2.50
Investment rate of return			8.00%

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

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

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

The following presents the net pension liability of the University as of June 30, 2016 and 2015, calculated using the discount rate of 8.0%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (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 (2016)	\$63,836,220	\$54,405,703	\$46,265,735
University's proportionate share of net pension liability (2015)	\$46,040,815	\$36,787,546	\$28,814,097

*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.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 and 2014 MPERS www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf and http://www.michigan.gov/documents/orsschools/MPERS_CAFR_2014_482065_7.pdf

Payable to the Pension Plan

At June 30, 2016 and 2015, the University reported a payable of \$1,007,469 and \$252,513 for the outstanding amount of pension contributions to the Plan required for the years ended June 30, 2016 and 2015, respectively.

For the year ended June 30, 2016, the University recognized pension expense of \$17,600,407 from changes in MPERS 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:

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

	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 MPERS		\$354,781
University contributions subsequent to the measurement date	\$3,422,372	
Total	\$4,473,330	\$354,781

The amount of deferred outflows of resources related to University contributions subsequent to the measurement date of \$3,422,372 will be recognized as a reduction in net pension liability for the year ending June 30, 2017. \$354,781 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to UAAL stabilization payments, will be recognized as State appropriations revenue for the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Amount
2017	\$709,263
2018	(184,139)
2019	(184,139)
2020	\$709,973
Total	\$1,050,958

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

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

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

Other Postemployment Benefits

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

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

The University's contributions to MPERS for other postemployment benefits amounted to \$1,326,197, \$1,875,032, and \$2,192,222 for the years ended June 30, 2016, 2015, and 2014, respectively.

NOTE L—EARLY RETIREMENT INCENTIVE PLAN

During fiscal 2014 the University established an Early Retirement Incentive Plan (ERIP) available to all current full-time faculty who completed ten years of service and attained age 62 by June 30, 2014. Employees had to apply for ERIP no later than June 16, 2014 and give up all tenure rights on June 30, 2014. Approved employees were eligible for post-separation cash severance benefits. Employees could elect Cobra health coverage benefits at the employee's expense for a period not to exceed 36 months. The ERIP is expected to be paid over a three-year period beginning in fiscal year ending 2015. The ERIP liability was approximately \$428,000 and approximately \$2,100,000 at June 30, 2016 and 2015, 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 \$571,000 at June 30, 2016.

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.

Self-insurance

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(concluded)

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 \$13.1 million and \$16.0 million in aggregate for fiscal years ended June 30, 2016 and 2015, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$400,000 and \$350,000 for fiscal years ended June 30, 2016 and 2015, respectively, 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, 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	<u>\$2,996,981</u>	<u>\$7,993,546</u>	<u>(\$8,590,004)</u>	<u>\$2,400,523</u>

Claims activity for the year ended June 30, 2015:

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

NOTE N—CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION
Northern Michigan University
June 30, 2016

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*

	2016	2015
A. University's proportion of net pension liability (%)	9.91719%	9.80724%
B. University's proportionate share of net pension liability	\$54,405,703	\$36,787,546
C. University's covered-employee payroll	\$7,585,630	\$8,338,570
D. University's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	717.22%	441.17%
E. Plan fiduciary net position as a percentage of total pension liability	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*

	2016	2015
Contractually required contribution	\$3,402,937	\$3,315,213
Contributions in relation to the contractually required contribution	(3,402,937)	(3,315,213)
Contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll	\$7,382,355	\$7,750,117
Contributions as a percentage of covered employee payroll	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, 2016

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.