

FINANCIAL REPORT

2013 – 2014

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

Richard M. Popp
Chair
Northville Township
2018

H. Sook Wilkinson
Vice Chair
Bloomfield Hills
2016

Stephen F. Adamini
Marquette
2014

Scott Holman
Freeland
2018

L. Garnet Lewis
Freeland
2016

Steven M. Mitchell
West Bloomfield
2020

Gilbert L. Ziegler
Charlevoix
2014

Thomas H. Zurbuchen
Ann Arbor
2020

David S. Haynes
President of the University
Ex Officio

Executive Officers

Fritz J. Erickson (as of July 1, 2014)
President

David S. Haynes (ending June 30, 2014)
President

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Vice President for Advancement

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Treasurer of the Board of Trustees

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Associate Vice President - Engineering and Planning/Facilities

Sherri A. Towers
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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, 2014, 2013 and 2012. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

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

Using the Annual Report

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Under the university reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of \$57.3 million for the year ended June 30, 2014, and \$49.1 million for the year ended June 30, 2013, as restated. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Financial Highlights

Net position for the year ended June 30, 2014 of \$251.5 million increased by \$19.8 million from the prior year of \$231.7 million, and included recognition of \$19.8 million in capital State appropriation revenue for the new John X. Jamrich Hall.

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

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

Financial Highlights (continued)

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

Operating and nonoperating expenses of \$163.5 million for the year ended June 30, 2014 increased by \$8.0 million from the prior year total of \$155.5 million. Operating expenses increased by \$7.6 million and nonoperating expenses increased by \$0.4 million. On a functional basis, instructional expenses increased \$5.9 million, institutional support increased \$0.7 million, residential life increased \$0.7 million, and other costs increased by \$0.7 million. The increase in instructional expense included \$3.4 million for an Early Retirement Incentive Program (ERIP), \$1.8 million in compensation incentives and filling of vacant positions, and \$0.7 million in increased support.

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

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

Condensed Financial Information

Condensed Statements of Net Position

	June 30		
	2014	2013	2012
Assets			
Current assets	\$38,135,325	\$31,379,227	\$47,867,891
Noncurrent assets			
Capital	252,880,260	231,919,717	227,100,610
Other	95,805,909	99,731,121	89,067,894
Total noncurrent assets	<u>348,686,169</u>	<u>331,650,838</u>	<u>316,168,504</u>
Total assets	386,821,494	363,030,065	364,036,395
 Total deferred outflows of resources	3,527,089	3,768,043	4,008,998
 Liabilities			
Current liabilities	31,833,652	25,403,301	26,711,174
Noncurrent liabilities	<u>106,986,662</u>	<u>109,677,443</u>	<u>114,289,671</u>
Total liabilities	138,820,314	135,080,744	141,000,845
 Net position			
Net investment in capital assets	154,802,258	129,606,895	120,777,966
Restricted			
Nonexpendable	912,453	811,171	741,644
Expendable	5,299,154	7,200,317	15,910,010
Unrestricted	<u>90,514,404</u>	<u>94,098,981</u>	<u>89,614,928</u>
Total net position	<u>\$251,528,269</u>	<u>\$231,717,364</u>	<u>\$227,044,548</u>

Current assets totaled \$38.1 million at June 30, 2014 and \$31.4 million at June 30, 2013. The ratio of current assets to current liabilities was 1.2 for the year ended June 30, 2014, and 1.2 for the year ended June 30, 2013 when excluding bond funds of \$0.6 million and \$0.7 million respectively. Cash and cash equivalents of \$10.8 million decreased by \$0.9 million from the prior year total of \$11.7 million as the result of the University lowering the targeted amount of cash on hand for operational needs. State appropriations receivable totaled \$14.2 million, including capital state appropriations receivable for the construction of the new John X. Jamrich building of \$6.6 million, at June 30, 2014, and \$7.4 million at June 30, 2013.

Current liabilities increased by \$6.4 million and included increases of \$1.3 million for the current portion of the early retirement incentive program, \$3.9 million in contractor payables for the construction of the new John X. Jamrich building, \$0.6 million in accrued payroll and benefits, and other increases of \$0.6 million.

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

Condensed Financial Information (continued)

Long-term debt including notes and bonds payable is the largest liability totaling \$98.1 million at June 30, 2014, and \$102.3 million at June 30, 2013. Bonds and notes payable at June 30, 2014 included \$16.2 million of 2012 General Revenue Fixed Rate Bonds, \$82.9 million of 2008 General Revenue Fixed Rate Bonds, and remaining unamortized deferred costs and premiums of \$1.0 million.

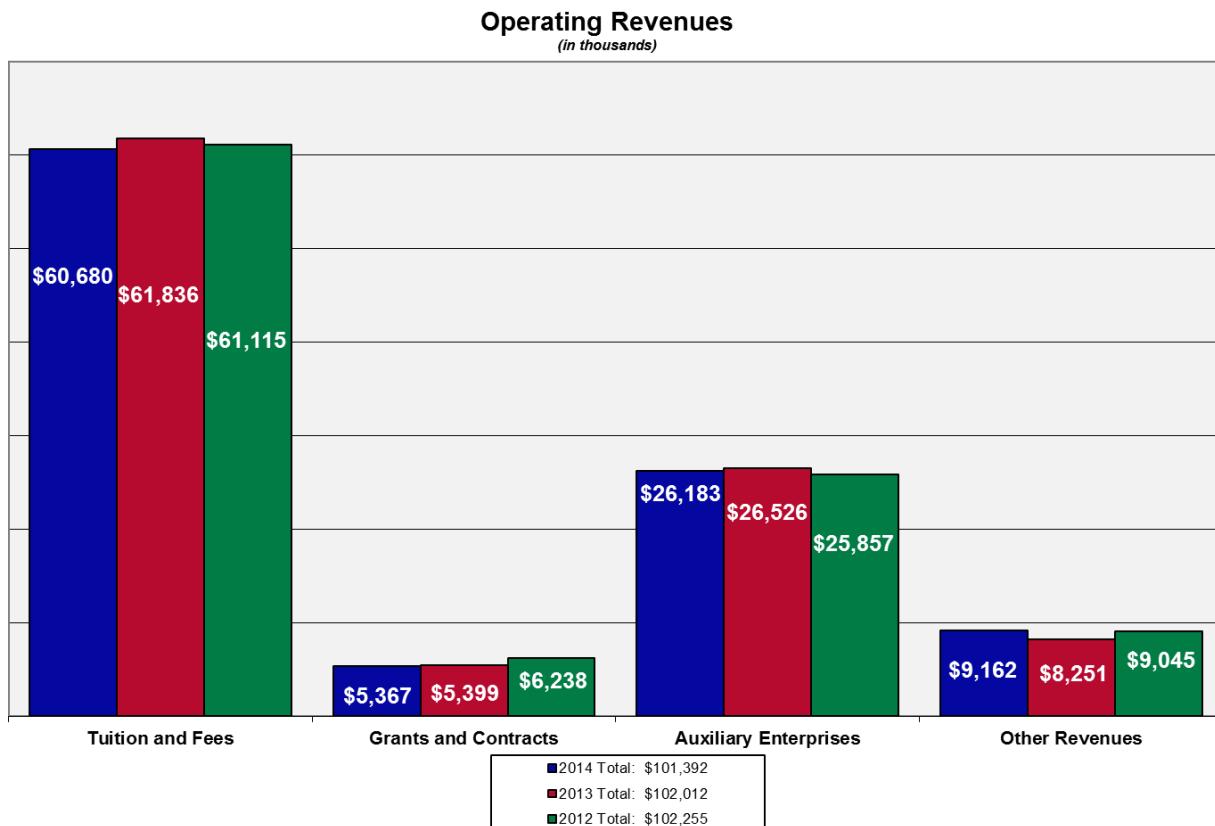
Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2014	2013	2012
Operating revenues			
Tuition and fees, net	\$60,680,460	\$61,835,937	\$61,114,827
Grants and contracts	5,366,836	5,398,959	6,238,100
Auxiliary enterprises, net	26,183,387	26,526,172	25,857,193
Other operating revenues	9,161,493	8,251,269	9,044,468
Total operating revenues	<u>101,392,176</u>	<u>102,012,337</u>	<u>102,254,588</u>
Operating expenses	(158,710,990)	(151,101,097)	(151,038,098)
Operating loss	(57,318,814)	(49,088,760)	(48,783,510)
Nonoperating revenues (expenses)			
State appropriations	42,010,665	40,844,960	38,357,900
Pell grant revenue	13,541,626	13,648,807	14,202,460
Other nonoperating revenues (expenses)-net	2,539,352	(15,108)	(1,543,832)
Net nonoperating revenues (expenses)	<u>58,091,643</u>	<u>54,478,659</u>	<u>51,016,528</u>
Income before other revenues	772,829	5,389,899	2,233,018
Capital appropriation grants and gifts	20,207,571	12,000	205,092
Loss on asset disposal	(1,169,495)	(729,083)	(7,631)
Total other (expenses) revenues	<u>19,037,976</u>	<u>(717,083)</u>	<u>197,461</u>
Total increase in net position	19,810,905	4,672,816	2,430,479
Net position – beginning of the year	231,717,364	227,044,548	224,614,069
Net position – end of year	<u>\$251,528,269</u>	<u>\$231,717,364</u>	<u>\$227,044,548</u>

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

Condensed Financial Information (continued)

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



Tuition and Fees

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

Average Annual Full-Time Student Tuition and Fees

	2013-2014	2012-2013	2011-2012
Undergraduate, resident	\$9,038	\$8,709	\$8,414
Undergraduate, nonresident	\$14,114	\$13,605	\$13,142
Graduate, resident	\$10,897	\$10,497	\$10,130
Graduate, nonresident	\$15,397	\$14,829	\$14,318

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

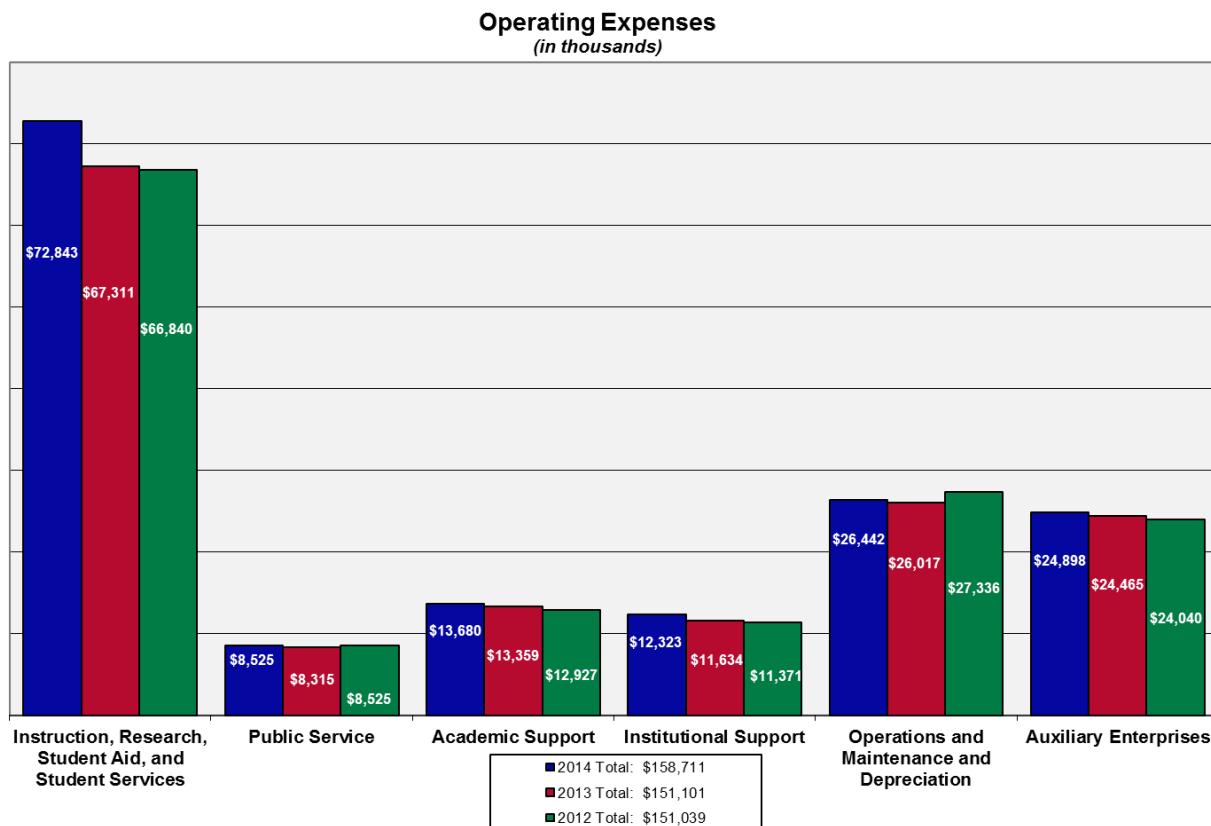
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$8,696 for 2013-2014, \$8,404 for 2012-2013, and \$8,174 for 2011-2012. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Ten residence halls which house 2,611 students currently have an average occupancy of 2,331 (2013 – 2,413) and are at 90% capacity (2013 – 92% capacity). Campus apartments total 345 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, 2014, including depreciation of \$9.7 million, totaled \$158.7 million. Of this total, \$71.9 million, or 45.3%, was used for instruction, student aid, and student services, \$26.4 million, or 16.7% was used for operation, maintenance, and depreciation, and \$24.9 million, or 15.7%, was used for auxiliary enterprises. Operating expenses for June 30, 2013, including depreciation of \$9.5 million, totaled \$151.1 million. The increase in operating expenses of \$7.6 million over the prior year included increases of \$3.4 million in an early retirement incentive program, \$2.7 in compensation and filling of vacant position, \$0.8 million in new position and \$0.7 million in support costs.

The breakout by functional expense is highlighted below:



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

Other

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

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

The Statements of Cash Flows

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

Condensed Statements of Cash Flows

	June 30		
	2014	2013	2012
Cash provided (used) by:			
Operating activities	(\$44,124,988)	(\$41,006,977)	(\$36,454,186)
Noncapital financing activities	57,135,689	56,166,466	55,521,979
Capital and related financing activities	(23,785,417)	(23,987,912)	(6,514,843)
Investing activities	<u>9,862,963</u>	<u>2,192,121</u>	<u>(40,858,108)</u>
Net decrease in cash and cash equivalents	(911,753)	(6,636,322)	(28,305,158)
Cash and cash equivalents – beginning of year	11,737,966	18,374,288	46,679,446
Cash and cash equivalents – end of year	<u>\$10,826,213</u>	<u>\$11,737,966</u>	<u>\$18,374,288</u>

Major sources of funds included in operating activities are student tuition and fees of \$60.5 million, grants and contracts of \$5.8 million and auxiliary sales of \$26.1 million for the year ended June 30, 2014; and student tuition and fees of \$61.6 million, grants and contracts of \$5.4 million and auxiliary sales of \$26.6 million for the year ended June 30, 2013. The major source of funds included in noncapital financing activities are State appropriations of \$41.8 million and Pell grant revenue of \$13.5 million for the year ended June 30, 2014; and, State appropriations of \$40.4 million and Pell grant revenue of \$13.6 million for the year ended June 30, 2013.

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 \$35.1 million increased \$4.0 million for the year ended June 30, 2014 as compared to \$2.8 million for the year ended June 30, 2013. This change included a \$1.6 million increase in investment income and other changes totaling a decrease of \$0.4 million. For the year ended June 30, 2013, net assets increased \$2.8 million as compared to a \$0.2 million decrease in the fiscal year ended June 30, 2012. This change was primarily the result of an increase in gifts and contributions of \$1.0 million and an increase in investment income of \$1.4 million. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

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

Factors Impacting Future Periods

Enrollment Management and Student Services

The Enrollment Management and Student Service division was established in fiscal year 2014 with the hiring of a new vice president. This division will focus on enrollment growth and retention initiatives. Foundational initiatives will include selective, targeted, and segmented marketing and communications supported by a new Constituent Customer Relationship management system to be acquired in fiscal year 2015 and predictive modeling and financial aid leveraging tools. A broad team of campus representatives will identify specific enrollment growth strategies in the areas of expanding on-line programs, broadening current high demand programs, establishing new academic programs, and expanding off campus offerings. A new office of Identity, Brand, and Marketing will lead the launch of a new identity brand that has been developed over the last two years.

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.

Academic Year	Fall Headcount Enrollment			Fiscal Year Equated Students	Annual Total Credit Hours Taken		
	Undergraduate Students	Graduate Students	Total		Undergraduate Students	Graduate Students	Total
2010	8,684	744	9,428	8,588	245,822	9,463	255,285
2011	8,719	698	9,417	8,611	246,682	9,308	255,990
2012	8,712	693	9,405	8,569	245,854	8,978	254,832
2013	8,474	685	9,159	8,258	237,352	8,314	245,666
2014	8,221	697	8,918	8,828	230,704	8,100	238,804

For the 2013-14 academic year, forty-eight percent (48%) of the University's students represent Upper Peninsula Michigan residents, thirty-three percent (33%) of the University's students came from Michigan's Lower Peninsula, and the remaining nineteen percent (19%) came from other states and foreign countries.

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		Percent Accepted	Total New Freshmen	
	Received	Accepted		Enrolled	Percent Enrolled
2009	5,955	4,338	72.8	1,829	42.2
2010	6,014	4,334	72.1	1,730	39.9
2011	6,298	4,546	72.2	1,837	40.4
2012	6,841	4,636	67.8	1,766	38.1
2013	6,859	5,030	73.3	1,749	34.8

By August 14, 2014, the University had received 6,816 freshman applications (as compared to 6,879 as of August 13, 2013) and had granted 4,934 acceptances (as compared to 4,923 as of August 13, 2013).

Transfer Student Admissions

Fall Semester	Applications		Percent Accepted	Students Enrolled	
	Received	Accepted		Enrolled	Percent Enrolled
2009	1,294	780	60.3	523	67.1
2010	1,509	878	58.2	570	64.9
2011	1,537	899	58.5	577	64.2
2012	1,593	882	55.4	551	62.5
2013	1,507	862	57.2	503	58.4

By August 14, 2014, the University had received 1,489 transfer applications (as compared to 1,666 as of August 13, 2013) and had granted 740 acceptances (as compared to 851 as of August 13, 2013).

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

Capital Plan

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

Northern Michigan University has embraced sustainability efforts to help reduce its environmental impact on the planet by reducing the use of fossil fuels, conserving resources, and reducing waste. A solid biomass fuel facility connecting to the current Ripley Heating plant was completed the first part of this fiscal year and is one component of the University's plan to optimize energy utilization costs. Phase I and Phase II costs capitalized were \$17,453,000. The new plant burns wood chips with natural gas as a backup fuel and is capable of meeting 87% of the thermal needs on campus as well as producing approximately 16% of the university's electrical load through the use of a steam turbine generator. Other optimization improvements include the interconnection of the New Science Facility chiller to the Learning Resource Center chilled water system and the replacement of the existing absorption chillers in Cohodas Hall and the Jacobetti Complex with right sized ones that closer meet the load requirements of each building.

The construction of a new \$33.4 million John X. Jamrich Hall was completed in August of 2014. A modern, high-tech classroom facility that improves academic delivery, and reduces operational and maintenance costs will replace the existing facility that serves as the University's primary general use classroom building. Construction costs totaled \$28.2 million at June 30, 2014. A new enclosed pedestrian link will connect the new facility to the Learning Resources Center building allowing for improved barrier free accessibility and direct access to technology support services. At June 30, 2014 the University recorded a state appropriations receivable of \$6,593,425 and recognized \$19,845,595 in capital state appropriations.

In December 2013, construction began on the replacement of the existing fire alarm system and a related upgrade to include a mass notifications system with an estimated cost of \$2.3 million. This project is expected to be completed in the upcoming fiscal year. Other projects completed during the fiscal year 2014 included upgrade to food service areas and construction of the new Waino Wahtera pavilion.

The University issued General Revenue Fixed Rate Bonds of \$18.2 million in February 2012 for the construction of the biomass fuel facility including an energy efficiency steam optimization project, steam tunnel improvements, roof replacements, and improvements of campus housing and dining facilities. Unspent funds were \$0.6 million at June 30, 2014.

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

Capital Plan (continued)

Bonds and notes payable at June 30, 2014 consist of the following:

Maturity Dates	Interest Rates		
	Coupon	Yield	Maturity Value
06/01/2025	3.000%	2.940%	\$875,000
06/01/2026	3.000%	3.060%	900,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
12/01/2014	3.750%	3.320%	3,500,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
12/01/2015	4.000%	3.490%	3,530,000
12/01/2019	4.000%	4.160%	760,000
12/01/2020	4.125%	4.340%	1,835,000
12/01/2020	4.350%	4.340%	2,700,000
12/01/2021	4.625%	4.500%	2,535,000
12/01/2022	4.625%	4.610%	3,970,000
12/01/2023	4.750%	4.690%	4,165,000
12/01/2024	4.750%	4.790%	4,260,000
12/01/2025	4.875%	4.850%	3,860,000
06/01/2015	5.000%	1.130%	1,015,000
06/01/2016	5.000%	1.340%	1,070,000
06/01/2017	5.000%	1.570%	1,120,000
06/01/2018	5.000%	1.820%	640,000
06/01/2019	5.000%	2.030%	670,000
06/01/2020	5.000%	2.220%	705,000
06/01/2021	5.000%	2.410%	740,000
12/01/2016	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><u>\$99,125,000</u></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. Notebook computers now featuring Window 8 with touch screen technology included in the cost of tuition and fees provides student with all of the software necessary for course related learning system.

The John X. Jamrich project includes \$1.3 million in technology equipment that was designed to embrace the concept of active learning. This new facility features a variety of technologies, both wired and wireless, that support active learning environments from electronic document cameras to touch screen teacher stations to wireless video wall displays. Students can engage in collaborative learning through the use of these various technologies that will allow them to take lectures and course content out the classroom and into independent study environments.

Fiber optic cable now joins John X. Jamrich with the campus video network and facilitates the creation of programming for instruction and public broadcasting that include radio and television. Mobile devices can connect to individual classroom displays through a secure wireless network and display multimedia content such as pictures, videos, and text documents.

State Appropriations

The University expects to receive \$44.5 million in State Appropriations for the upcoming fiscal year. This is an increase of \$2.5 million from the prior year funding level of \$42.0 million. The University has set student tuition and fees at 3.2% above last fiscal year and has met the state tuition restraint requirements.

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. Northern Michigan University participates in a State of Michigan cost sharing multiple employer plan and will report in the upcoming fiscal year a liability for its "proportionate share" of the "net pension liability" of the Michigan Public Schools Employees Retirement System (MPSERS). Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods. The University received a letter dated February 28, 2014 from the State of Michigan communicating our proportionate share of the Net Pension Liability and Pension Expense related to GASB 68 reporting requirements was \$46,431,000 and \$230,000 respectively based on plan fiscal year 2012 data. The University will receive updated information in the next fiscal year.

INDEPENDENT AUDITORS' REPORT

September 18, 2014

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northern Michigan University as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued, under separate cover, our report dated September 18, 2014, 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.

A handwritten signature in black ink that reads "Rehmann Loham LLC". The signature is fluid and cursive, with "Rehmann" on the top line and "Loham LLC" on the bottom line.

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Position

	Northern Michigan University June 30		Component Unit NMU Foundation June 30	
	2014	2013	2014	2013
Assets				
Current assets				
Cash and cash equivalents	\$ 10,826,213	\$ 11,737,966	\$ 5,910,430	\$ 674,660
Short-term investments		677,000		
State appropriation receivable	14,182,773	7,428,476		
Accounts receivable (less allowance 2014--\$2,630,453; 2013--\$2,803,654)	8,481,544	6,956,089		
Student notes receivable (less allowance 2014--\$547,999; 2013--\$586,044)	1,399,656	1,497,757		
Investment receivable		4,531		
Pledges receivable (less allowance 2014--\$21,323; 2013--\$23,054)			572,685	408,535
Inventories	1,319,458	1,354,168		
Other assets	1,925,681	1,723,240	309,520	296,891
Total current assets	<u>38,135,325</u>	<u>31,379,227</u>	<u>6,792,635</u>	<u>1,380,086</u>
Noncurrent assets				
Long-term investments	88,200,806	92,084,619	25,120,779	25,922,391
Student notes receivable (less allowance 2014--\$2,569,176; 2013--\$2,566,424)	6,584,187	6,573,704		
Other long-term investments	194,962	194,962	1,699,694	1,641,305
Pledges receivable (less allowance 2014--\$10,300; 2013--\$11,876)			280,186	689,200
Unamortized bond insurance	825,954	877,836		
Capital assets, net	252,880,260	231,919,717	1,760,005	1,583,073
Total noncurrent assets	<u>348,686,169</u>	<u>331,650,838</u>	<u>28,860,664</u>	<u>29,835,969</u>
Total assets	<u>386,821,494</u>	<u>363,030,065</u>	<u>35,653,299</u>	<u>31,216,055</u>
Deferred outflows of resources				
Deferred charge on refunding	3,527,089	3,768,043		
Total deferred outflows of resources	<u>3,527,089</u>	<u>3,768,043</u>		
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	13,309,747	9,056,911	548,564	87,371
Accrued payroll and benefits	8,292,786	7,695,266		
Unearned revenue (unearned student fees and deposits)	3,976,931	3,978,118		
Long-term liabilities-current portion	6,254,188	4,673,006		
Total current liabilities	<u>31,833,652</u>	<u>25,403,301</u>	<u>548,564</u>	<u>87,371</u>
Noncurrent liabilities				
Annuities payable		48,243	22,911	
Long-term liabilities-net of current portion	106,986,662	109,677,443		
Total noncurrent liabilities	<u>106,986,662</u>	<u>109,677,443</u>	<u>48,243</u>	<u>22,911</u>
Total liabilities	<u>138,820,314</u>	<u>135,080,744</u>	<u>596,807</u>	<u>110,282</u>
Net position				
Net investment in capital assets	154,802,258	129,606,895		
Restricted for:				
Nonexpendable				
Scholarships and fellowships	65,104	60,102	3,933,673	3,928,786
Loans	59,760	52,615		
Instruction	787,589	698,454		
Expendable				
Instruction	1,002,677	889,222	1,124,392	3,540,349
Scholarships and fellowships	481,723	441,007	18,861,209	18,472,604
Loans	2,953,526	2,886,411		
Research	139,517	138,105		
Academic, student and public service	88,578	78,555	2,797,281	2,554,093
Capital project	633,133	2,767,017		
Unrestricted	90,514,404	94,098,981	8,339,937	2,609,941
Total net position	<u>\$ 251,528,269</u>	<u>\$ 231,717,364</u>	<u>\$ 35,056,492</u>	<u>\$ 31,105,773</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	
	2014	2013	2014	2013
Operating revenues				
Student tuition and fees (less allowance 2014--\$20,415,000; 2013--\$19,005,000)	\$ 60,680,460	\$ 61,835,937		
Gifts and contributions			\$ 4,073,163	\$ 4,128,609
Endowment income			760,766	809,934
Federal grants and contracts	3,872,789	3,889,423		
State and local grants and contracts	271,993	361,635		
Nongovernmental grants and contracts	1,222,054	1,147,901		
Sales and services of educational activities	9,161,493	8,251,269		
Auxiliary enterprise				
Residential life (less allowance 2014--\$6,052,000; 2013--\$5,571,000)	19,871,725	19,697,022		
Other auxiliary	6,311,662	6,829,150		
Other operating revenues			230,515	38,167
Total operating revenues	101,392,176	102,012,337	5,064,444	4,976,710
Operating expenses				
Educational and general				
Instruction	49,908,386	44,042,281		
Research	952,253	810,397		
Public service	8,524,862	8,315,340		
Academic support	13,680,321	13,359,462		
Student services	14,973,789	14,654,266		
Institutional support	12,322,987	11,633,958	1,854,261	1,577,533
Operations and maintenance of plant	16,790,319	16,470,383		
Student aid	7,008,758	7,804,045		
Depreciation	9,651,733	9,546,253		
Auxiliary enterprise				
Residential life	17,551,666	16,848,888		
Other	7,345,916	7,615,824		
Total operating expenses	158,710,990	151,101,097	1,854,261	1,577,533
Operating (loss) income	(57,318,814)	(49,088,760)	3,210,183	3,399,177
Nonoperating revenues (expenses)				
State appropriations	42,010,665	40,844,960		
Pell grant revenue	13,541,626	13,648,807		
Gifts (including 2014--\$1,998,000 and 2013--\$1,671,000 from the NMU Foundation)	1,998,218	1,684,468		
Payments to and on behalf of the University			(2,362,376)	(2,067,140)
Investment income (net of investment expense for the University 2014--\$341,200 and 2013--\$349,300; and for the NMU Foundation 2014--\$64,100 and 2013--\$114,400)	5,297,621	2,719,603	3,102,912	1,480,372
Interest on capital asset-related debt	(4,756,487)	(4,419,179)		
Net nonoperating revenues (expenses)	58,091,643	54,478,659	740,536	(586,768)
Income before other revenues (expenses)	772,829	5,389,899	3,950,719	2,812,409
Capital grants and gifts (including 2014--\$362,000 and 2013--\$0 from the NMU Foundation)	361,976	12,000		
Capital State appropriations	19,845,595			
Loss on asset disposal	(1,169,495)	(729,083)		
Total other revenues (expenses)	19,038,076	(717,083)		
Increase in net position	19,810,905	4,672,816	3,950,719	2,812,409
Net position - beginning of year	231,717,364	227,044,548	31,105,773	28,293,364
Net position - end of year	\$251,528,269	\$231,717,364	\$35,056,492	\$31,105,773

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

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2014	2013
Cash Flows from Operating Activities		
Tuition and fees	\$ 60,501,722	\$ 61,649,713
Grants and contracts	5,848,889	5,399,891
Payments to suppliers	(44,664,989)	(44,173,129)
Payments to employees	(93,372,369)	(90,762,079)
Payments for scholarships and fellowships	(7,008,759)	(7,804,045)
Loans issued to students and employees	(1,313,985)	(1,560,026)
Collection of loans to students and employees	1,399,656	1,505,134
Auxiliary enterprise		
Residential life	19,709,398	19,787,067
Other	6,360,296	6,806,758
Other receipts	8,415,153	8,143,739
Net cash used by operating activities	<u>(44,124,988)</u>	<u>(41,006,977)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	41,849,793	40,392,376
Pell grant revenue	13,541,626	13,648,806
William D. Ford direct lending receipts	41,330,768	40,212,181
William D. Ford direct lending disbursements	(41,330,654)	(40,211,371)
Gifts and grants received for other than capital purposes	2,001,222	1,684,468
Other	(257,066)	439,986
Net cash provided by noncapital financing activities	<u>57,135,689</u>	<u>56,166,446</u>
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	361,976	
Purchases of capital assets	(28,367,226)	(15,048,906)
Principal paid on capital debt	(4,255,000)	(4,030,000)
Interest paid on capital debt	(4,777,337)	(4,909,006)
Capital state appropriations	13,252,170	
Net cash used by capital and related financing activities	<u>(23,785,417)</u>	<u>(23,987,912)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	56,689,352	35,993,572
Interest on investments	2,160,144	4,702,058
Purchase of investments	(48,986,533)	(38,503,509)
Net cash provided by investing activities	<u>9,862,963</u>	<u>2,192,121</u>
Net decrease in cash and cash equivalents	(911,753)	(6,636,322)
Cash and cash equivalents - beginning of the year	<u>11,737,966</u>	<u>18,374,288</u>
Cash and cash equivalents - end of year	<u>\$ 10,826,213</u>	<u>\$ 11,737,966</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	(\$57,318,814)	(\$49,088,760)
Depreciation expense	9,651,733	9,546,253
Amortization of bond insurance	51,882	51,882
Long and short term incentive accrual	3,357,955	
Change in assets and liabilities:		
Receivables, net	(469,507)	169,035
Inventories	34,710	61,075
Other assets	(198,365)	227,908
Accounts payable	175,809	(1,203,219)
Unearned revenue	(2,839)	(455,117)
Accrued payroll and benefits	592,448	(316,034)
Net cash used by operating activities	<u>(\$44,124,988)</u>	<u>(\$41,006,977)</u>

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2014

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

BASIS OF PRESENTATION

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

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

CHANGES IN ACCOUNTING PRINCIPALS

GASB 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) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Universities that participate in a cost sharing plan will report a liability for their “proportionate share” of the “net pension liability” of the entire system.

Historically, universities have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, universities will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the university-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

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

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

The University received a letter dated February 28, 2014 from the State of Michigan communicating the University's proportionate share of the net pension liability and pension expense related to GASB 68 reporting requirements. Northern Michigan University's estimated share of the net pension liability was \$46,431,000 and the pension expense was \$230,000 based on plan fiscal year 2012 data.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

REPORTING ENTITY

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

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

During the years ended June 30, 2014 and 2013, the Foundation made distributions of \$2.4 million and \$2.1 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

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

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

Basis of Accounting—Component Unit

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Cash Equivalents

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

Short-Term Investments

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

Investments (including component unit)

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

Inventories

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

Capital Assets

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

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

Depreciation expense for 2014 and 2013 was approximately \$9,652,000 and \$9,546,000 respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

State Appropriations

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

Non-Exchange Transactions

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

Compensated Absences

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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 2013 balances have been reclassified to conform to the 2014 presentation.

Subsequent Events

Subsequent to June 30, 2014, the University entered into leases for laptops supplied in the normal course of business to students and employees (Note H) and a lease agreement between the State Building Authority, the State of Michigan, and the University for the John X. Jamrich hall that was completed in August 2014 (Note E).

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)

Investment of Endowed Funds (continued)

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

	2014	2013
Cash and cash equivalents	\$10,826,213	\$11,737,966
Short-term investments	677,000	
Long-term investments	88,200,806	92,084,619
Other long-term investments	194,962	194,962
Total	<u>\$99,221,981</u>	<u>\$104,694,547</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, 2014 and 2013, the carrying amount of the University's deposits was \$6,540,417 and \$6,744,155, respectively. The bank balance of the University's deposits at June 30, 2014 and 2013 was \$10,567,430 and \$11,835,218, respectively. Of that amount, \$750,000 was insured in 2014 and 2013. The remaining \$9,817,430 and \$11,085,218 at June 30, 2014 and 2013, 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, 2014 and 2013, the University's bond mutual funds, money market mutual funds, and certificates of deposits are not rated. Investments in the endowment portfolio shall have a weighted average credit rating of A or better, and the minimum acceptable credit rating is Baa/BBB.

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. Under the University's Investment Policy for Operating Cash, all investments will be dollar denominated. The University holds investments of endowed funds in various international mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were \$3,660,841 and \$3,355,348 for the years ended June 30, 2014 and 2013, respectively.

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

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

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

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

Investment income consists of the following at June 30:

	2014	2013
Gain on sale of investments, net	\$1,530,245	\$1,835,920
Interest and dividends	685,544	566,445
Distributions to beneficiaries	(760,766)	(12,825)
Management fee	(64,057)	(114,398)
Increase (decrease) in fair value of investments	1,711,946	(794,770)
Total	<u>\$3,102,912</u>	<u>\$1,480,372</u>

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Credit Risk

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

Interest Rate Risk

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

Fair Value Hierarchy

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

Level 1:

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

Level 2:

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

Level 3:

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2014 are as follows:

	Balance at June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Mutual funds:				
Index funds	\$10,824,667	\$10,824,667		
Balanced funds	5,992,638	5,992,638		
Growth funds	4,895,369	4,895,369		
Fixed income funds	2,553,228	2,553,228		
Cash and equivalents	854,877	854,877		
Held by third party	1,446,836		\$1,446,836	
Other assets	252,858		52,623	\$200,235
Total assets	<u>26,820,473</u>	<u>\$25,120,779</u>	<u>\$1,499,459</u>	<u>200,235</u>
Liabilities				
Liabilities on annuity contracts and trusts		<u>\$48,243</u>		<u>\$48,243</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2013:

	Balance at June 30, 2013	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	\$7,573,500	\$7,573,500		
Balanced funds	3,397,177	3,397,177		
Growth funds	2,688,423	2,688,423		
Fixed income funds	11,530,620	11,530,620		
Stock not publicly traded	7,500			\$7,500
Cash and equivalents	732,671	732,671		
Held by third party	1,384,595		\$1,384,595	
Other assets	249,210		48,975	200,235
Total assets	<u>\$27,563,696</u>	<u>\$25,922,391</u>	<u>\$1,433,570</u>	<u>207,735</u>
Liabilities				
Liabilities on annuity contracts and trusts		<u>\$22,911</u>		<u>\$22,911</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Fair Value Hierarchy (continued)

Other assets categorized as Level 3 consists of an irrevocable charitable remainder trust. Contribution revenue was recognized at the date the trust was established based on the expected present value of the Foundation's interest in the trust assets. Changes in the value of the assets and other changes in the estimates of future receipts are reported in the Foundation's statement of activities. As of June 30, 2014, the Foundation estimates the value of this trust to be \$200,235; however, this amount could change.

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

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

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 investment assets and liabilities for the year ended June 30, 2014:

	Balance at June 30, 2013	Total realized gains (losses) included in change in net assets	Total realized gains (losses) included in change in net assets	Gross additions and purchases	Gross sales and maturities	Balance at June 30, 2014
Assets						
Investments:						
Non-public stock		\$7,500			(\$7,500)	
Irrevocable trust receivable		\$200,235				\$200,235
Liabilities						
Liabilities on annuity contracts and trusts		\$22,911		\$48,355	(\$23,023)	\$48,243

Concentration of Credit Risk

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

	Minimum	Maximum
Equities	40%	80%
Fixed Income	20%	60%
Alternative Investments	10%	30%
Cash/Short-term Investments	0%	10%

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C—INVESTMENTS—FOUNDATION (continued)

Concentration of Credit Risk (continued)

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

Custodial Credit Risk

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

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

Foreign Currency Risk

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

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	2014	2013
State appropriations - net	\$14,182,773	\$7,428,476
Student notes receivable – net	7,983,843	8,071,461
Charter schools	4,796,650	4,054,196
NMU Foundation	259,139	27,798
State, federal and private grants	347,740	680,674
Students, employees, and vendors - net	3,078,015	2,193,421
Investment receivable		4,531
Total	<u>\$30,648,160</u>	<u>\$22,460,557</u>

For the years ended June 30, 2014 and 2013, the University received approximately \$26,546,000 and \$22,269,000 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, 2014:

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

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2013:

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E—CAPITAL ASSETS (continued)

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$5,375,000 and \$27,156,000 at June 30, 2014 and 2013, 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.

In 2013, construction began on a modern high-tech classroom facility that will replace the current John X. Jamrich Hall at a cost of \$33.4 million. This project is scheduled to be financed by \$25 million in State Building Authority (SBA) bonds which will be secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. The remaining \$8.4 million will be paid from University funds. During the lease term the SBA will hold title to the building and the University will pay all operating and maintenance costs. Construction costs as of June 30, 2014 and 2013 totaled \$28.2 million and \$3.3 million, respectively, and are recorded in construction in progress.

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

NOTE F—COLLECTIONS

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

NOTE G—PAYABLES

Payables of the University include the following at June 30:

	2014	2013
Accrued payroll and benefits	\$8,292,786	\$7,695,266
Construction contractors	5,653,456	1,731,174
Charter schools	4,652,751	3,932,570
Vendors	2,618,937	2,995,004
Interest payable	384,603	398,163
Total	\$21,602,533	\$16,752,177

NOTE H—NON-CANCELABLE LEASES

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

Year ending June 30	Amount
2015	\$1,946,466
2016	1,083,366
2017	217,059
Total	\$3,246,891

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE H—NON-CANCELABLE LEASES (continued)

Lease expense for 2014 and 2013 was approximately \$2,491,000 and \$2,349,000, respectively. Subsequent to year end, the University signed a lease to rent an additional 1,551 laptops for a total cost of \$1,222,000 over a three year period. This lease is a normal part of University operations in supplying laptops to all students and employees.

NOTE I—BONDS AND NOTES PAYABLE

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

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

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, 2014, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$4,515,000	\$4,576,531	\$9,091,531
2016	4,600,000	4,389,556	8,989,556
2017	4,830,000	4,172,706	9,002,706
2018	4,440,000	3,928,956	8,368,956
2019	4,740,000	3,700,206	8,440,206
Total Five Years	23,125,000	20,767,955	43,892,955
Thereafter			
2020-2024	24,835,000	15,007,206	39,842,206
2025-2029	24,155,000	9,436,244	33,591,244
2030-2034	19,520,000	3,962,816	23,482,816
2035-2039	7,490,000	600,575	8,090,575
Total	99,125,000	\$49,774,796	\$148,899,796
Deferred charge on refunding, net	(3,527,089)		
Deferred re-offering premium	2,480,091		
Total	\$98,078,002		

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I—BONDS AND NOTES PAYABLE (continued)

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

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

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

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

NOTE J—OPERATING EXPENSES

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

	2014	2013
Salaries, wages and benefits	\$97,322,771	\$90,455,789
Supplies and support services	37,086,107	36,699,830
Utilities	7,641,621	6,595,180
Depreciation expense	9,651,733	9,546,253
Scholarships	7,008,758	7,804,045
Total	\$158,710,990	\$151,101,097

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS

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

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

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

- **Pension Normal Cost:** The contribution rate is determined each year by the retirement system's actuary and is charged to the seven universities formally participating in MPSERS as a percentage of their covered MPSERS payroll excluding any DB plan retirees returning to work. For the State's fiscal year 2014, this rate was 3.00%, and was applied to payrolls occurring on or after October 1, 2013. For the State's fiscal year 2013, this rate was 3.21%, and was applied to payrolls occurring on or after October 1, 2012. For the State's fiscal year 2012, this rate was 3.21%, and was applied to payrolls occurring on or after October 1, 2011.
- **Pension Unfunded Liability:** The contribution rate is determined each year by the retirement system's actuary and is charged to the seven universities formally participating in MPSERS as a percentage of their combined member and non-member/non-optimal retirement programs payrolls. For the State's fiscal year 2014, this rate is 16.61% and is applied to payrolls occurring on or after October 1, 2013. For the State's fiscal year 2013, this rate is 13.41% and is applied to payrolls occurring on or after October 1, 2012. For the State's fiscal year 2012, this rate was 13.41% and was applied to payrolls occurring on or after October 1, 2011.
- **Retiree Health Insurance:** For its fiscal year 2004, the State changed its method for calculating retiree health insurance. The new calculation is based on the University's retirees who are covered on the Retirement System's health plan including specific insurance coverage and corresponding premium subsidy. The University has been asked to pay the lower of the monthly amount of the calculated annual cost or the amount calculated monthly under the new method. The new method is expected to reduce the University's overall payment. For the year ended June 30, 2014, which encompasses 9 months of the State's fiscal year 2014 and 3 months of the State's fiscal year 2013, the University's total cost for retiree's health insurance was \$2,187,424. For the year ended June 30, 2013, which encompasses 9 months of the State's fiscal year 2013 and 3 months of the State's fiscal year 2012, the University's total cost for retiree's health insurance was \$2,340,966. For the year ended June 30, 2012, which encompasses 9 months of the State's fiscal year 2012 and 3 months of the State's fiscal year 2011, the University's total cost for retiree's health insurance was \$2,565,965.

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K—RETIREMENT PLANS (continued)

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

The University's contributions to the plans are as follows for the year ended June 30, 2014:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$6,514,706	\$5,280,366	\$11,795,072
Covered Payroll	\$45,339,008	\$8,597,734	\$53,936,742

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

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

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

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

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.

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 as of June 30, 2014 was approximately \$3,400,000.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(concluded)

NOTE M—LIABILITY INSURANCE (continued)

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled \$15,422,449 at June 30, 2013, based on the last published financial statements.

Self-insurance

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

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits, including prescription drugs, and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to \$13.2 million and \$15.9 million in aggregate for the fiscal year ended June 30, 2014 and 2013, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$350,000 for fiscal years ended June 30, 2014 and 2013, the aggregate excess insured maximum liability is \$5,000,000.

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.