FINANCIAL REPORT

2005 - 2006

NORTHERN MICHIGAN UNIVERSITY

TABLE OF CONTENTS

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Provost and Vice President for Academic Affairs

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Treasurer of the Board of Trustees

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This section of Northern Michigan University's (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2006, 2005 and 2004. This discussion, which includes 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 Statements of Net Assets 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 Statements of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Under the new reporting model, State appropriations and gifts are reported as non-operating revenues and results in the University showing an operating loss of $37.1 million for the year ended June 30, 2006, and $44.9 million for the year ended June 30, 2005. 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 Statements of Cash Flows presents information related to cash inflows and outflows summarized by operating, capital, financing, and investing activities.

Financial Highlights

Net assets increased $10.4 million with operating and non-operating revenues exceeding operating and non-operating expenses by $10.1 million. This increase exceeds prior year income before other revenues by $7.6 million.

Anticipating a level or a reduction in State appropriations, a tuition increase of 9.8% for undergraduate residents was put in place for the fall semester. This increase, combined with a higher student enrollment and a higher mix of out of state students led to a $6.6 million increase in net student tuition and fee revenue. A room and board increase of 6.0% and the opening of Magers Hall resulted in increased residential life revenues of $2.1 million. Sales and services of educational activities increased by $1.2 million. Other operational revenues remained level with the prior year. A $1.0 million increase in investment income helped off-set a decrease of $.7 million in State appropriations.

Financial Highlights (Continued)

Current year operating and non-operating expenses increased $2.6 million and includes a $2.0 million increase in salaries, wages, and benefits, a $1.5 million increase in utilities, $.7 million in scholarships, and $.5 million in interest on capital asset-related debt, and a decrease of $2.1 million in supplies and support services. The decrease is supplies and support was the result of large expenses in the prior year for furnishings and lab supplies for the Art and Design Studios North building, the Student Services building, the Thomas Fine Arts facility, and Magers Hall. On a functional basis, instructional expenses increased $1.2 million, scholarships increased $.7 million, and other costs increased $.7 million.

An increase of $14.4 million in Net Assets for the year ended June 30, 2005 primarily resulted from a net increase in capital items of $11.9 million. Operating and non-operating revenues exceeded operating and non-operating expenses by $2.5 million when excluding a net increase in capital items of $11.9 million.

For the year ended June 30, 2005, operating and non-operating revenues, excluding capital revenues of $13.5 million, increased by $5.6 million and includes a $2.6 million increase in net student tuition and fees resulting from continued enrollment increases along with an increase in tuition and fees, a $1.7 million increase in net auxiliary enterprises, a $1.3 million increase in state appropriations, and $0.5 million decrease in other areas.

For the year ended June 30, 2005, operating and non-operating expenses, excluding loss on asset disposals of $1.6 million, increased by $4.7 million and includes a $2.9 million increase in supplies and support services, a $1.4 million increase in utilities, and a $0.4 million increase across other areas. Supplies and support services increased because of one-time purchases of instructional supplies and smaller non-capital items related to the addition to the Art and Design Studios North building, and renovations of the Student Services building, the Thomas Fine Arts facility, and Magers Hall.

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2006	2005	2004
ASSETS			
Current Assets	$ 75,157,842	$ 39,596,073	$ 39,342,969
Noncurrent Assets			
Capital	225,956,881	212,166,926	200,340,355
Other	36,946,230	53,932,134	34,455,186
Total Noncurrent Assets	262,903,111	266,099,060	234,795,541
Total Assets	338,060,953	305,695,133	274,138,510
LIABILITIES			
Current Liabilities	24,114,843	19,381,978	20,294,026
Noncurrent Liabilities	112,961,543	95,683,554	77,635,761
Total Liabilities	137,076,386	115,065,532	97,929,787
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	144,288,631	144,690,077	137,631,248
Restricted			
Nonexpendable	796,826	798,028	769,569
Expendable	4,078,493	3,640,842	3,653,154
Unrestricted	51,820,617	41,500,654	34,154,752
Total Net Assets	$200,984,567	$190,629,601	$176,208,723

Condensed Financial Information (Continued)

Total current assets of $75.2 million at June 30, 2006, included $22.7 million in unspent bond proceeds that will be used for construction projects. At June 30, 2005, total current assets of $39.6 million included $19.4 million in unspent bond proceeds. After adjusting for unspent bond proceeds, the current ratio of current assets to current liabilities is 2.18 for the year ended June 30, 2006, and 1.04 for the year ended June 30, 2005.

The University's largest non-current asset is its investment in physical plant of $226.0 million at June 30, 2006. Net capital assets increased $13.8 million over the prior year after recognition of $8.5 million in depreciation expense.

The State appropriations receivable totaled $8.2 million at June 30, 2006. The State appropriation receivable at June 30, 2005, totaled $9.1 million and included $1.1 million in construction receivables.

Long-term debt consisting of notes and bonds payable is the largest liability totaling $104.4 million at June 30, 2006, and $86.9 million at June 30, 2005.

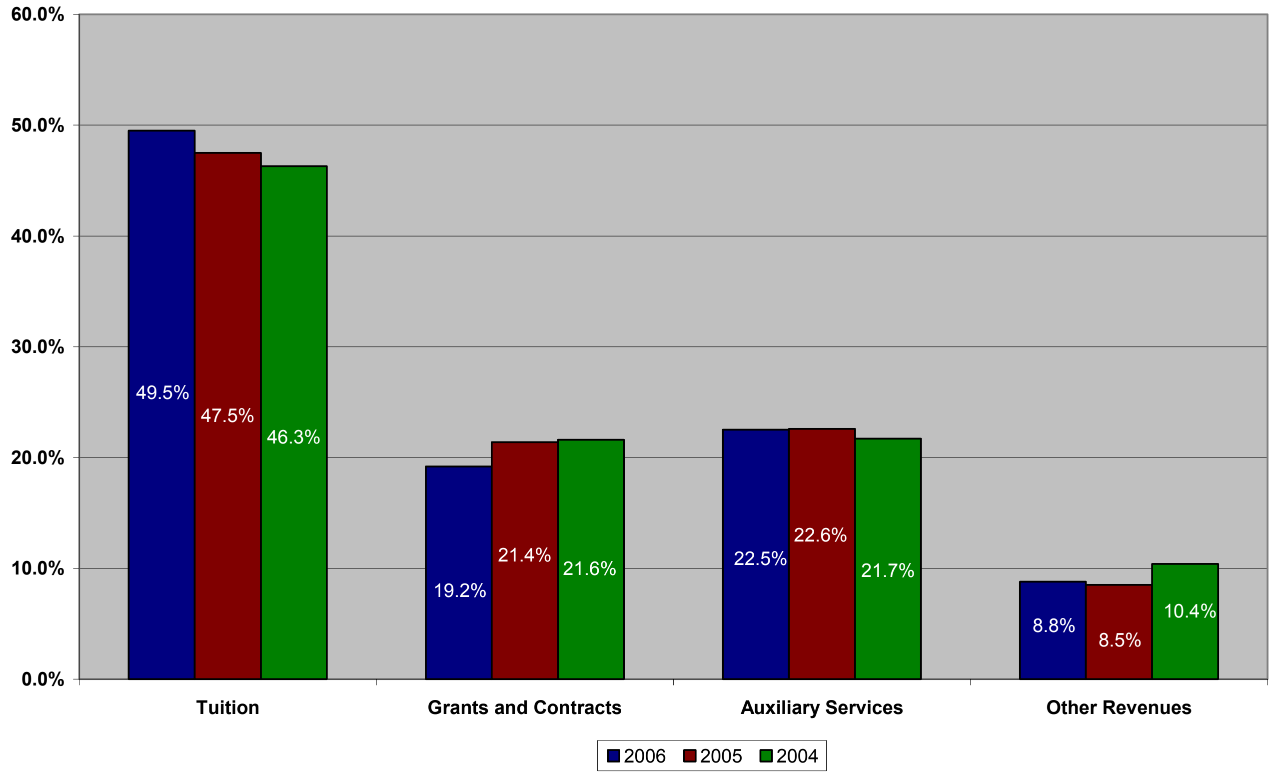
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	June 30		
	2006	2005	2004
Operating Revenues			
Tuition and Fees, net	$ 46,231,895	$ 39,625,035	$ 37,028,944
Grants and Contracts	17,899,630	17,857,583	17,323,491
Auxiliary Enterprises, net	21,003,480	18,867,981	17,124,164
Other Operating Revenues	8,238,057	7,060,500	8,560,812
Total Operating Revenues	93,373,062	83,411,099	80,037,411
Operating Expenses	(130,451,370)	(128,313,226)	(123,703,948)
Operating Income/(Loss)	(37,078,308)	(44,902,127)	(43,666,537)
Non-operating Revenues (Expenses)			
State Appropriations	45,413,300	46,115,649	44,824,131
Other Non-operating Revenues - net	1,754,354	1,301,399	999,328
Net Non-operating Revenues and Expenses	47,167,654	47,417,048	45,823,459
Income before Other Revenues	10,089,346	2,514,921	2,156,922
Capital State Appropriations	250,100	12,067,891	15,224,642
Capital Grants and Gifts	80,500	253,928	620,054
Capital Gifts from the NMU Foundation	14,000	1,217,333	
Loss on Asset Disposal	(78,980)	(1,633,195)	(451,135)
Total Other Revenues	265,620	11,905,957	15,393,561
Total Increase in Net Assets	10,354,966	14,420,878	17,550,483
Net Assets			
Net assets—beginning of year	190,629,601	176,208,723	158,658,240
Net assets – end of year	$200,984,567	$190,629,601	$176,208,723

Condensed Financial Information (Continued)

Total operating revenues were $93.4 million for fiscal year 2006 and $83.4 million for fiscal year 2005. The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts, as shown below:

Operating Revenues



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, plus the registration fees for the academic year indicated.

Average Annual Full-Time Student Tuition and Fees

	2005-2006	2004-2005	2003-2004
Undergraduate, resident	$5,858	$5,334	$5,210
Undergraduate, nonresident	$9,602	$8,742	$8,438
Graduate, resident	$6,866	$6,198	$5,924
Graduate, nonresident	$10,226	$9,270	$8,882

Room and Board

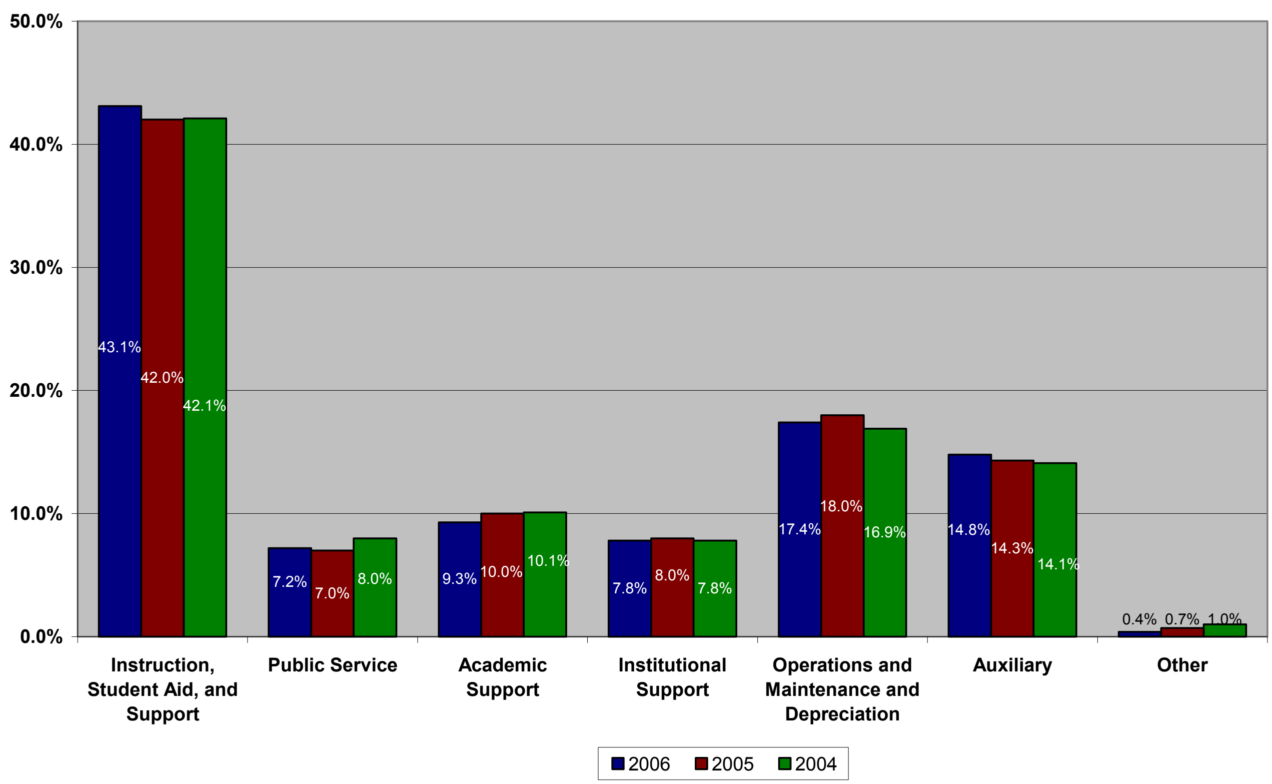
The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was $6,312 for 2005-2006, $6,012 for 2004-2005, and $5,724 for 2003-2004. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Nine residence halls currently have a mean occupancy of 2,281 (2005 – 2,143) and are at 86 percent capacity (2005 – 93 percent capacity). Campus apartments total 278 units with occupancy varying depending on the ratio of single students to student families and the size of the household. Approximately 93 percent of apartments are rented during the academic year. A constant pass meal plan is available which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2006, including depreciation of $8.5 million, totaled $130.5 million. Of this total, $56.2 million, or 43.1 percent, was used for instruction, student aid, and student support, $22.7 million, or 17.4 percent was used for operation, maintenance, and depreciation, and $19.3 million, or 14.8 percent, was used for auxiliary services. Operating expenses for June 30, 2005, including depreciation of $8.4 million, totaled $128.3 million.

The breakout by functional expense is highlighted below:

Operating Expenses



Other

The State appropriation of $45.4 million for June 30, 2006 and $46.1 million for June 30, 2005, is the largest source of non-operating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was $3.3 million for June 30, 2006 and $2.8 million for June 30, 2005.

The Statements of Cash Flows

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

Condensed Statements of Cash Flows

	June 30		
	2006	2005	2004
Cash Provided (Used) By:			
Operating Activities	$(25,641,814)	$(36,947,656)	$(33,502,793)
Noncapital Financing Activities	45,865,312	46,863,027	46,514,715
Capital and Related Financing Activities	(3,525,786)	15,385,446	(23,828,463)
Investing Activities	(706,166)	(16,699,782)	(4,503,276)
Net Increase (Decrease) in Cash and Cash Equivalents	15,991,546	8,601,035	(15,319,817)
Cash and Cash Equivalents – Beginning of Year	20,140,478	11,539,443	26,859,260
Cash and Cash Equivalents – End of Year	$36,132,024	$ 20,140,478	$ 11,539,443

Major sources of funds included in operating activities are student tuition and fees of $46.5 million, grants and contracts of $19.5 million, and auxiliary sales of $21.5 million for the year ended June 30, 2006; and student tuition and fees of $40.0 million, grants and contracts of $18.7 million, and auxiliary sales of $18.6 million for the year ended June 30, 2005. The major source of funds included in noncapital financing activities is State appropriations of $45.2 million for the year ended June 30, 2006, and $46.1 million for the year ended June 30, 2005.

Northern Michigan University Foundation

The mission of the Northern Michigan University Foundation (Foundation) is to cultivate and promote the private philanthropic support of the University's mission through a comprehensive advancement effort. Through these efforts an increase in net assets was realized of $1.7 million for the year ended June 30, 2006 and $0.7 million for the year ended June 30, 2005. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

Factors Impacting Future Periods

Enrollment

The University projects that total enrollment will continue to grow as we move toward our goal of 10,330 students by 2007. The following table indicates the total fall headcount enrollment of undergraduate and graduate students. Also indicated are the fiscal year equated students and total annual credit hours for all students attending the University.

Fall Headcount Enrollment

Academic Year	Undergraduate Students	Graduate Students	Total	Fiscal Year Equated Students	Annual Total Credit Hours Taken
2002	7,724	853	8,577	7,718	228,551
2003	8,113	903	9,016	8,047	238,349
2004	8,536	790	9,326	8,304	246,149
2005	8,603	728	9,331	8,424	250,047
2006	8,698	802	9,500	8,557	254,053

For the 2006-07 academic year, it is projected that sixty percent (60%) of the University's students represent Upper Peninsula Michigan residents, twenty-two percent (22%) of the University's students come from Michigan's Lower Peninsula, and the remaining eighteen percent (18%) come from other states and foreign countries.

For the 2005-06 academic year, fifty-seven percent (57%) of the University's students represent Upper Peninsula Michigan residents, twenty-four percent (24%) of the University's students came from Michigan's Lower Peninsula, and the remaining nineteen percent (19%) came from other states and foreign countries.

Admissions

Given the projected decline in Upper Peninsula high school enrollments, NMU is expanding its recruiting in the Lower Peninsula of Michigan, as well as in targeted regions of Illinois and Wisconsin, which have relatively large population densities. While the potential for more student enrollments is high, the University converts a lower percentage of admitted students to enrolled students the farther away the University recruits from Marquette. Thus, the University is likely to see an increase in enrollment despite a drop in the admitted to enrolled conversion rate.

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

First Year Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
2001	4,473	3,776	84.4	1,818	48.1
2002	4,421	3,780	85.5	1,801	47.6
2003	4,461	3,762	84.3	1,835	48.8
2004	5,001	4,154	83.1	1,939	46.7
2005	4,728	3,984	84.3	1,874	47.0

By July 27, 2006, the University had received 4,790 freshman applications (as compared to 4,754 as of July 27, 2005) and had granted 3,793 acceptances (as compared to 3,911 as of July 27, 2005).

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
2001	1,186	878	74.0	494	56.3
2002	1,070	780	72.9	474	60.8
2003	1,131	850	75.2	530	62.4
2004	1,144	787	68.8	533	67.7
2005	1,128	745	66.0	509	68.3

By July 27, 2006, the University had received 1,141 transfer applications (as compared to 1,074 as of July 27, 2005) and had granted 677 acceptances (as compared to 662 as of July 27, 2005).

Capital Plan

The University has in place a five-year strategic capital plan focusing on renovation and transformation of existing facilities to provide state-of-the-art learning environments. A connected learning environment requires that we continue to improve our support systems, technology infrastructure, and facilities. Campus facilities continued to be renovated through the use of internal resources and funds from bond proceeds.

The University is currently in the planning phase for the construction of a solid fuel facility and anticipates issuing general revenue bonds to finance all or a portion of such project in the approximate amount of $35-40 million in the next few years. The University currently projects that the project will produce savings in excess of debt service requirements on the bond.

During the fiscal year ended June 30, 2006, the University issued $19.5 million in General Revenue Variable Rate Bonds to finance, in part, the construction of a new 300-bed student apartment complex, renovate and improve residence halls, and renovate and/or upgrade campus infrastructure. As a means of lowering borrowing costs, the University entered into an interest rate swap of $19.5 million to effectively change the variable rate on the bonds to a synthetic fixed rate.

The University has in place a plan to grow our enrollment to 10,330 by 2007. In support of our enrollment growth, future renovation projects include conversion of space vacated in the Cohodas Administrative Center by student service departments into faculty offices, general purpose classrooms, and a conference center, and renovation of the Learning Resource Center to provide an interactive and multi-media instructional development center for students and faculty.

Teaching, Learning, and Communication (TLC) Initiative

The University believes that providing high-quality technology to students as part of full-time enrollment will assist in preparing our graduates to easily move into the increasingly technology driven, global workplace. The NMU campus is a connected learning community with over 9,000 notebook computers distributed to students. Wireless technology throughout campus provides improved student access in and out of the classroom while reducing renovation costs for University facilities and enabling greater efficiency in the delivery of student services via the internet. The Teaching, Learning, and Communications (TLC) program is one of many steps the University has made toward its vision and goal of students becoming independent lifelong learners.

NMU's plan to keep current in technology has all student and staff notebook and desktop computers replaced on a two-year cycle. Subsequent to June 30, 2006, the University anticipates signing $5,082,000 in leases for 6,000 computers.

State Appropriations

The University currently projects a 3.0% increase in State appropriations for fiscal year 2007. The final determination in funding for higher education is expected by the end of the State's fiscal year, September 30, 2006.

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INDEPENDENT AUDITOR'S REPORT

July 28, 2006

Board of Trustees
Northern Michigan University
Marquette, Michigan

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of ***Northern Michigan University,*** a component unit of the State of Michigan, as of June 30, 2006 and for the year then ended, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the 2006 financial statements of the Northern Michigan University Foundation, a discretely presented component unit. Except as explained in the third paragraph, those statements were audited by other auditors whose report thereon 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. The financial statements of ***Northern Michigan University*** as of June 30, 2005, were audited by other auditors whose report dated August 4, 2005, expressed an unqualified opinion on those statements.

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 2006 financial statements are free of material misstatements. The 2006 financial statements of the Northern Michigan University Foundation were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

The opinion of the other auditors on the 2006 financial statements of Northern Michigan University Foundation was qualified because it was not practicable for them to extend their audit with respect to revenues beyond the amounts currently recorded as received or receivable.

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had the other auditors been able to extend their audit with respect to revenues beyond amounts currently recorded, the financial statements of the discretely presented component unit present fairly in all material respects, the financial position of the Northern Michigan University Foundation as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In addition, in our opinion, the 2006 financial statements of ***Northern Michigan University*** present fairly, in all material respects, the financial position of the business-type activities of ***Northern Michigan University*** as of June 30, 2006, and the changes in financial position and cash flows, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 28, 2006, on our consideration of the University's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 3 through 11 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2006 supplemental information. However, we did not audit the 2006 information and express no opinion on it.

Rehmann Robson

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	Northern Michigan University June 30		Component Unit: Northern Michigan University Foundation June 30	
ASSETS	**2006**	**2005**	**2006**	**2005**
Current assets				
Cash and cash equivalents	$ 36,132,024	$ 20,140,478	$ 86,086	$ 354,754
State appropriation receivable	8,176,711	9,071,234		
Accounts receivable (less allowance 2006--$2,808,573; 2005--$2,284,279)	6,250,902	6,696,368	26,630	32,685
Student notes receivable (less allowance 2006--$412,792; 2005--$374,826)	2,576,927	1,466,155		
Investment receivable	296,539	170,786		
Pledges receivable (less allowance 2006--$ 54,284 ; 2005--$34,277)			280,975	295,013
Short-term investments	19,436,257			
Inventories	1,176,929	1,355,840		
Other assets	1,111,553	695,212	174,730	165,704
Total current assets	75,157,842	39,596,073	568,421	848,156
Noncurrent assets				
Long-term investments	29,346,667	44,930,063	21,093,304	19,352,894
Student notes receivable (less allowance 2006--$1,238,377; 2005--$1,124,478)	6,504,601	7,907,109		
Other long-term investments	1,094,962	1,094,962		
Pledges receivable (less allowance 2006--$21,704; 2005--$21,022)			1,055,923	1,092,167
Capital assets, net	225,956,881	212,166,926		
Total noncurrent assets	262,903,111	266,099,060	22,149,227	20,445,061
Total assets	338,060,953	305,695,133	22,717,648	21,293,217
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	10,884,760	6,936,496	127,810	308,471
Accrued payroll and benefits	5,402,608	5,275,416		
Unearned revenue (unearned student fees and deposits)	5,050,078	3,959,919		
Long-term liabilities-current portion	2,777,397	3,210,147		
Total current liabilities	24,114,843	19,381,978	127,810	308,471
Noncurrent liabilities				
Annuities payable			397,429	468,506
Long-term liabilities-net of current portion	112,961,543	95,683,554		
Total noncurrent liabilities	112,961,543	95,683,554	397,429	468,506
Total liabilities	137,076,386	115,065,532	525,239	776,977
NET ASSETS				
Invested in capital assets, net of related debt	144,288,631	144,690,077		
Restricted for				
Nonexpendable				
Scholarships and fellowships	62,215	116,581	5,577,765	5,476,570
Loans	49,690	48,358		
Instruction	684,921	633,089		
Expendable				
Instruction	895,683	500,802	3,360,786	3,273,117
Scholarships and fellowships	538,856	494,752	7,387,779	6,731,694
Loans	2,528,716	2,540,277		
Research	36,168	34,963		
Academic, student and public service	79,070	70,048	3,674,310	3,326,249
Unrestricted	51,820,617	41,500,654	2,191,769	1,708,610
Total net assets	$ 200,984,567	$ 190,629,601	$ 22,192,409	$ 20,516,240

The accompanying notes are an integral part of these financial statements

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

	Northern Michigan University June 30		Component Unit: Northern Michigan University Foundation June 30	
REVENUES	**2006**	**2005**	**2006**	**2005**
Operating				
Student tuition and fees (less allowance 2006--$11,177,237; 2005--$11,536,787)	$ 46,231,895	$ 39,625,035		
Gifts and contributions			$ 3,007,728	$ 3,310,387
Endowment income			136,471	141,922
Federal grants and contracts	11,939,809	11,716,965		
State and local grants and contracts	4,724,433	4,943,490		
Nongovernmental grants and contracts	1,235,388	1,197,128		
Sales and services of educational activities	8,063,182	6,825,938		
Auxiliary enterprise				
Residential life (less allowance 2006--$3,343,307; 2005--$3,492,151)	14,870,657	12,790,855		
Other auxiliary	6,132,823	6,077,126		
Other operating revenues	174,875	234,562	112,673	178,015
Total operating revenues	93,373,062	83,411,099	3,256,872	3,630,324
EXPENSES				
Operating				
Educational and general				
Instruction	34,965,208	33,726,950		
Research	527,625	923,431		
Public service	9,343,182	9,035,748		
Academic support	12,162,635	12,819,479		
Student services	12,487,211	12,050,268		
Institutional support	10,197,605	10,228,726	977,821	657,543
Operations and maintenance of plant	14,242,830	14,767,310		
Student aid	8,713,733	8,008,084		
Depreciation	8,463,735	8,434,496		
Auxiliary enterprise				
Residential life	12,971,601	11,741,219		
Other	6,376,005	6,577,515		
Total operating expenses	130,451,370	128,313,226	977,821	657,543
Operating (loss) income	(37,078,308)	(44,902,127)	2,279,051	2,972,781
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	45,413,300	46,115,649		
Gifts (including 2006--$1,755,438 and 2005--$1,823,888 from the NMU Foundation	1,789,304	1,861,303		
Payments to and on behalf of the University			(2,157,956)	(3,362,430)
Investment income (net of investment expense for the University 2006--$158,000 and 2005--$159,000; and for the NMU Foundation 2006--$ 131,000 and 2005--$90,000)	3,272,445	2,270,176	1,555,074	1,134,517
Interest on capital asset-related debt	(3,307,395)	(2,830,080)		
Net non-operating revenues (expenses)	47,167,654	47,417,048	(602,882)	(2,227,913)
Income before other revenues	10,089,346	2,514,921	1,676,169	744,868
Capital state appropriations	250,100	12,067,891		
Capital grants and gifts	80,500	253,928		
Capital gifts from the NMU Foundation	14,000	1,217,333		
Loss on asset disposal	(78,980)	(1,633,195)		
Total other revenues	265,620	11,905,957		
Increase in net assets	10,354,966	14,420,878	1,676,169	744,868
NET ASSETS				
Beginning of year	190,629,601	176,208,723	20,516,240	19,771,372
End of year	$ 200,984,567	$ 190,629,601	$ 22,192,409	$ 20,516,240

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	June 30	
	2006	**2005**
Cash Flows from Operating Activities		
Tuition and fees	$ 46,529,657	$ 40,032,229
Grants and contracts	19,524,505	18,749,197
Payments to suppliers	(36,461,831)	(40,103,977)
Payments to employees	(74,824,999)	(73,311,875)
Payments for scholarships and fellowships	(9,585,550)	(7,999,151)
Loans issued to students and employees	(2,306,145)	(1,698,448)
Collection of loans to students and employees	2,590,342	1,272,524
Auxiliary enterprise		
Residential Life	14,798,951	12,502,226
Other	6,651,905	6,107,085
Other receipts	7,441,351	7,502,534
Net cash used by operating activities	(25,641,814)	(36,947,656)
Cash Flows from Noncapital Financing Activities		
State appropriations	45,213,017	46,080,619
William D. Ford direct lending receipts	27,878,681	25,546,095
William D. Ford direct lending disbursements	(27,362,542)	(26,019,695)
Gifts and grants received for other than capital purpose	585,972	1,861,303
Other	(449,816)	(605,295)
Net cash provided by noncapital financing activities	45,865,312	46,863,027
Cash Flows from Capital and Related Financing Activities		
Bonds issued	19,525,000	44,225,000
Capital state appropriations	1,344,906	19,657,447
Capital grants and gifts received	1,297,833	1,480,081
Purchases of capital assets	(20,304,831)	(21,647,367)
Principal paid on capital debt	(2,065,000)	(25,282,122)
Interest paid on capital debt	(3,323,694)	(3,047,593)
Net cash provided (used) by capital and related financing activities	(3,525,786)	15,385,446
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	18,435,838	10,434,163
Interest on investments	3,519,758	1,915,684
Purchase of investments	(22,661,762)	(29,049,629)
Net cash used by investing activities	(706,166)	(16,699,782)
Net increase (decrease) in cash and cash equivalents	15,991,546	8,601,035
Cash and cash equivalents - beginning of the year	20,140,478	11,539,443
Cash and cash equivalents - end of year	$ 36,132,024	$ 20,140,478
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	$(37,078,309)	$(44,902,127)
Depreciation expense	8,463,735	8,434,496
Change in assets and liabilities:		
Receivables, net	139,581	45,942
Inventories	178,911	(57,413)
Other assets	(413,963)	256,494
Accounts payable	1,828,642	90,423
Unearned revenue	1,107,025	880,243
Compensated absences and accrued payroll	132,564	(1,695,714)
Net cash used by operating activities	$(25,641,814)	$(36,947,656)

The accompanying notes are an integral part of these financial statements

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

BASIS OF PRESENTATION

The financial statements of Northern Michigan University (University) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the "business-type" activities requirements of GASB Statement No. 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 assets, statements of revenues, expenses and changes in net assets, and statements of cash flows for the University as a whole
- Notes to the financial statements

The University is required to report revenues net of discounts and allowances. Discounts and allowances previously reported as scholarship expenditures are now reported as an allowance against tuition and related revenues.

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), which was formerly known as the Northern Michigan University Development Fund, 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-one-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. However, the Foundation's financial activities are summarized with those of the University in the notes to the financial statements.

During the years ended June 30, 2006 and 2005, the Foundation made distributions of $2.2 million and $3.4 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

NOTE A--BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. Transactions related to capital and related financing activities, noncapital financing activities, investing activities, and State appropriations 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 Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 116, Accounting for Contributions Received and Contributions made, and FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Cash Equivalents

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

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.

NOTE A--BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Institutional Physical Properties

Institutional physical properties 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 charges in net assets.

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, 5 years for books, and 5 to 20 years for equipment.

Depreciation expense for 2006 and 2005 is approximately $8,464,000 and $8,434,000, 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 GASB Statement No. 33, gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

Compensated Absences

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

Unearned Revenue

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

Income Taxes

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

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

Reclassifications

Certain 2005 balances have been reclassified to conform to the 2006 presentation.

NOTE B--DEPOSITS AND INVESTMENTS--UNIVERSITY

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

	2006	2005
Cash and cash equivalents	$36,132,024	$20,140,478
Short-term investments	19,436,257	
Long-term investments	29,346,667	44,930,063
Other long-term investments	1,094,962	1,094,962
Total	$86,009,910	$66,165,503

Deposits

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. The University does not have a deposit policy for custodial credit risk. At June 30, 2006 and 2005, the carrying amount of the University's deposits was $5,957,726 and $1,088,044, respectively. The bank balance of the University's deposits at June 30, 2006 and 2005 was $7,021,640 and $4,284,561, respectively. Of that amount, $6,837,384 and $4,084,561, respectively, was exposed to custodial credit risk as it was uninsured and uncollateralized.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates that will adversely affect the fair value of a deposit. The University does not have a deposit policy for foreign currency risk. The University did not have any deposits denominated in foreign currencies at June 30, 2006 and 2005.

Investments

University cash and investments are managed in accordance with the Michigan Compiled Laws.

The Board of Trustees established an Investment Policy for cash and investments which authorized the University to invest in various types of funds. Securities are to be highly liquid and convertible into cash at any time. All bonds shall have a quality rating of "A" or better at the time of purchase and the average quality of the short fixed income portfolio shall be between "AA" and "AAA".

Short Fixed Income funds are defined as investments with maturities of three years and no more than seven years with an average maturity portfolio between one and three years. It is expected that the total return over a three year moving period shall exceed the return of the Merrill Lynch 1-3 year Bond Index.

Intermediate Fixed Income funds are defined as investments with maturities of three years and no more than fifteen years with an average maturity portfolio between three and six years. Securities are to be highly liquid and convertible to cash at any time. It is expected that the total return over a three year moving period shall exceed the return of the Lehman Intermediate Government/Corporate Bond Index.

NOTE B--DEPOSITS AND INVESTMENTS--UNIVERSITY (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the University's investment policy limits the average weighted maturities and the maximum maturities of its investments. For investments expected to be expended within one year, the average weighted maturity cannot exceed one year. For investments expected to be liquidated between one and three years, the average weighted maturity must be between one and three years and the maximum maturity of any investment cannot exceed seven years. The average weighted maturity of investments not anticipated to be liquidated for at least three years can be between three and six years, while the maximum maturity cannot exceed fifteen years.

The NMU Foundation's (Foundation) investments are not managed by the University and are invested under a separate investment policy of the Foundation. The Foundation's investment policy does not specifically address interest rate risk. The Foundation's policy prohibits (except commingled funds) investment in warrants, options, futures, collectibles, leveraging the portfolio, convertible securities, mutual funds (money market funds exempted), hedge funds, LLCs, unit investment trusts, margin purchases or short sales, and loaning or pledging securities. The target portfolio composition is seventy-five percent equities, twenty-five percent fixed income securities, and zero percent cash equivalents.

At June 30, 2006, the University had the following investments and maturities:

	Fair Market Value	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Money Market Mutual Funds	$30,174,298	$30,174,298			
Bond Mutual Funds	38,873,310	19,436,257	$15,644,861	$3,728,234	$ 63,958
Equity Mutual Funds	9,906,962				9,906,962
Mortgage Backed Security Funds	2,652				2,652
Preferred Stock	900,000				900,000
Real Estate	194,962				194,962
Total	80,052,184	$49,610,555	$15,644,861	$3,728,234	$11,068,534
Less Investments Reported as "Cash Equivalents" on Statements of Net Assets	(30,174,298)				
Total Investments	$49,877,886				

At June 30, 2005, the University had the following investments and maturities:

	Fair Market Value	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Money Market Mutual Funds	$19,052,432	$19,052,432			
Bond Mutual Funds	35,246,728		$32,173,398	$3,073,330	
Mortgage Backed Security Funds	16,463				$16,463
Equity Mutual Funds	9,666,874				9,666,874
Preferred Stock	900,000				900,000
Real Estate	194,962				194,962
Total	65,077,459	$19,052,432	$32,173,398	$3,073,330	$10,778,299
Less Investments Reported as "Cash Equivalents" on Statements of Net Assets	(19,052,432)				
Total Investments	$46,025,027				

NOTE B--DEPOSITS AND INVESTMENTS--UNIVERSITY(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 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 average weighted credit rating must be AAA and the minimum acceptable credit rating of any security is AA. For other University investments, the average credit rating must be between AA and AAA and the minimum credit rating of any investment must be at least A. 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.

The Foundation's investments are not managed by the University and are invested under a separate investment policy of the Foundation. The Foundation's investment policy allows up to twenty-five percent of the portfolio to be invested in debt investments rated between BB and CCC, with at least eighty percent of these securities being rated BB or B.

At June 30, 2006 and 2005, the University's bond mutual funds and money market mutual funds are not rated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the University 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 investments 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. The University therefore has no custodial credit risk in its investment portfolio.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy limits investment in any single company or issuer to ten percent of the total investment, except there is no limit on investments issued by the U.S. government. No more than eight percent of the endowment portfolio may be invested in one issuer or company, except investment in U.S. government securities which is not limited.

The Foundation's investments are not managed by the University and are invested under a separate investment policy of the Foundation. The Foundation's investment policy limits investments to not more than five percent of the outstanding securities of one issuer and not more than five percent of their portfolios' assets in the outstanding securities of one issuer at the time of purchase, except for Treasury and Agency securities.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University's investment policy does not address foreign currency risk. The University did not have any investments denominated in foreign currencies at June 30, 2006 and 2005.

The Foundation's investments are not managed by the University and are invested under a separate investment policy of the Foundation. 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.

NOTE C--DEPOSITS AND INVESTMENTS--FOUNDATION

The primary objective of the Foundation's investments in its Endowment Fund is to provide for long-term growth of principal without undue exposure risk, through capital appreciation, income, donor development, and gifts.

The purpose of the Foundation Endowment Spending Policy is to provide for stability in income together with preservation of purchasing power. Current operations for which the endowment was established shall have funds made available for spending according to the following rules:

1. Every endowment account shall annually be allocated an amount, available to be spent in accordance with stated guidelines, equal to 5% of the prior 20 quarters moving average value, lagged to June 30th fiscal year.
2. All investment earnings in excess of 5% are to be reinvested, less an investment and administration fee assessed by the Foundation.
3. If earned income (interest and dividends) is insufficient to meet the spending rate, the amount will be taken from accumulated gains.
4. Original gift principal, consisting of the sum of all gifts designated to any specific endowment account shall never be spent.

Resources from the Foundation's unrestricted, temporarily restricted, and permanently restricted net assets have been pooled and invested through the trust department of a local bank. 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. The net asset balance percentage participation is recalculated on a daily basis with investment earnings, gains, and losses allocated to the respective funds.

Investment income consists of interest and dividends, net of related expenses of $130,664 and the present value adjustment to annuities payable of $72,015.

NOTE C--DEPOSITS AND INVESTMENTS--FOUNDATION (continued)

Market value and unrealized appreciation on investments at June 30, 2006 are as follows:

	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Money market mutual funds	$ 486,538	$ 486,538	
Other mutual funds	17,189,909	19,367,559	$ 2,177,650
Government bonds	700,196	704,148	3,952
Corporate bonds	27,852	27,852	
Equity Securities	380,179	507,207	127,028
Total at end of year	$18,784,674	$21,093,304	2,308,630
Total at beginning of year	$16,005,284	$19,352,897	3,347,613
Recognized Gain (Loss):			
Unrealized net loss (increase from prior year)			(1,038,983)
Realized net gain for the year			2,314,402
Total net increase (decrease) in fair value of investments			$ 1,275,419

Market value and unrealized appreciation on investments at June 30, 2005 are as follows:

	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Money market mutual funds	$ 108,861	$ 108,861	
Other mutual funds	14,549,007	17,758,207	$ 3,209,200
Government bonds	767,458	795,546	28,088
Corporate bonds	27,543	29,702	2,159
Equity Securities	414,115	565,581	151,466
Stamp Collection	138,300	95,000	(43,300)
Total at end of year	$16,005,284	$19,352,897	3,347,613
Total at beginning of year	$15,749,624	$18,546,337	2,796,713
Recognized Gain:			
Unrealized net gain (increase from prior year)			550,900
Realized net gain for the year			354,066
Total net increase in fair value of investments			$ 904,966

NOTE D--INVESTMENT IN COMMUNITY DEVELOPMENT

The other investments include $900,000, 5% Cumulative Convertible Non-Voting Preferred Stock, in the Shorebank Corporation (Shorebank). The proceeds of the Units were used by Shorebank, among other purposes, to capitalize and incorporate North Coast BIDCO, Inc. ("North Coast"), a rural business and industrial development corporation ("BIDCO") in the Upper Peninsula, and to develop a loan production office ("LPO") of South Shore Bank of Chicago ("South Shore"), Shorebank's wholly-owned banking subsidiary in the Upper Peninsula. All dividends have been paid to date.

NOTE E--RECEIVABLES

Receivables of the University include the following at June 30:

	2006	2005
State appropriations	$ 8,161,345	$ 7,961,062
State capital appropriations	15,366	1,110,172
Student notes receivable – net	9,081,528	9,373,264
Charter schools	2,559,771	2,365,252
NMU Foundation	30,201	280,931
State and federal grants	1,655,914	1,398,333
Students, employees, and vendors	2,005,016	2,651,852
Investment receivable	296,539	170,786
Total	$23,805,680	$25,311,652

For the years ended June 30, 2006 and 2005, the University received $14,096,685 and $12,996,372, respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTE F--CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2006:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	$ 5,220,714	$ 159,318	$	$ 5,380,032
Land improvements	10,073,206	753,523		10,826,729
Buildings and improvements	238,574,016	2,150,346	575,217	240,149,145
Infrastructure	18,287,070			18,287,070
Equipment	28,897,502	1,735,128	56,683	30,575,947
Books	13,309,560	439,130	17,306	13,731,384
Construction in progress	1,732,670	17,095,225		18,827,895
Totals at historical cost	316,094,738	22,332,670	649,206	337,778,202
Less accumulated depreciation for:				
Land improvements	2,740,669	431,684		3,172,353
Buildings and improvements	63,375,661	5,172,976	517,640	68,030,997
Infrastructure	7,146,902	556,830		7,703,732
Equipment	19,966,722	1,774,997	46,936	21,694,783
Books	10,697,858	527,248	5,650	11,219,456
Total accumulated depreciation	103,927,812	8,463,735	570,226	111,821,321
Capital assets, net	$212,166,926	$ 13,868,935	$ 78,980	$225,956,881

NOTE F--CAPITAL ASSETS (continued)

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2005:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	$ 4,794,870	$ 425,844		$ 5,220,714
Land improvements	9,184,036	1,374,352	$485,182	10,073,206
Buildings and improvements	202,654,039	40,194,565	4,274,588	238,574,016
Infrastructure	18,287,070			18,287,070
Equipment	27,279,273	1,678,911	60,682	28,897,502
Books	13,257,824	451,495	399,759	13,309,560
Construction in progress	23,959,575	(22,226,905)		1,732,670
Totals at historical cost	299,416,687	21,898,262	5,220,211	316,094,738
Less accumulated depreciation for:				
Land improvements	2,505,008	441,862	206,201	2,740,669
Buildings and improvements	61,501,859	4,853,714	2,979,912	63,375,661
Infrastructure	6,417,242	729,660		7,146,902
Equipment	18,178,885	1,842,452	54,615	19,966,722
Books	10,473,338	566,808	342,288	10,697,858
Total accumulated depreciation	99,076,332	8,434,496	3,583,016	103,927,812
Capital assets, net	$200,340,355	$13,463,766	$1,637,195	$212,166,926

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 $7,205,000 and $6,601,000 at June 30, 2006 and 2005, respectively.

University facilities including the Heating Plant, the Service Building, the Art Annex, the Seaborg Center Complex, the Art and Design addition, the Student Services Center, and the Thomas Fine Arts building have been or are scheduled to be financed in whole or in part by State Building Authority (SBA) bond issues which are secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease terms the SBA will hold title to the respective buildings and the University will pay all operating and maintenance costs. At the expiration 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 assets are recorded in the Statements of Net Assets.

NOTE G--COLLECTIONS

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

NOTE H--PAYABLES

Payables of the University include the following at June 30:

	2006	2005
Accrued payroll and benefits	$ 5,402,608	$ 5,275,416
Construction contractors	4,305,137	2,141,778
Charter schools	2,559,771	2,365,252
Vendors	3,822,852	2,300,124
Interest payable	197,000	129,342
Total	$16,287,368	$12,211,912

NOTE I--NONCANCELABLE LEASES

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

Year ending June 30	Amount
2007	$1,815,992
2008	127,756
Total	$1,943,748

Lease expense for 2006 and 2005 is approximately $4,907,000 and $4,388,000, respectively.

NOTE J--BONDS AND NOTES PAYABLE

In May 2006, the University sold a $19,525,000 General Revenue Bond issue for various renovations and construction needs on campus. The principal and interest on the 2006 Revenue Bonds is payable primarily from general University revenues, will bear interest based on a daily rate, and mature in varying amounts through 2035. The interest rate at June 30, 2006 was 3.5%.

As a means to lower its borrowing costs, when compared against fixed-rate bonds, the University entered into a forward swap on April 4, 2005, for $19,525,000 with a fixed rate of 3.7% and receives a variable payment computed as 69 percent of the U.S. Dollar – London Interbank Offered Rate (USD-LIBOR-BBA). The intention of the swap was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate as of April 2005. On May 10, 2006, the University renegotiated the swap and received a new fixed rate of 3.696%.

Under the renegotiated swap, the University pays the counterparty a fixed payment of 3.6962% and receives a variable payment computed as 69 percent of the U.S. Dollar – London Interbank Offered Rate (USD-LIBOR-BBA). The swap has a notional amount of $19.525 million and the associated variable-rate bond has a $19.525 million principal amount. The bonds are planned to mature on December 1, 2035. The related swap agreement matures on December 1, 2035. As of June 30, 2006, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.696%
Variable payment from counterparty	69% of USD-LIBOR-BBA	(3.505%)
Net interest rate swap payments		0.191%
Variable rate bond coupon payments	Actual daily variable rate	3.500%
Synthetic interest rates on bonds		3.691%

NOTE J--BONDS AND NOTES PAYABLE (Continued)

In 2005, the University sold a $44,225,000 General Revenue Bond issue for various renovations and construction needs on campus, and to defease in substance $7,115,000 of the 1998 outstanding bonds and $14,855,000 of the 1997 outstanding bonds by depositing funds in an irrevocable trust with an escrow agent. The balance of the defeased bonds at June 30 was $7,115,000 and $14,855,000, respectively. The principal and interest on the 2005 Revenue Bonds are primarily payable from general University revenues, bear interest based on a 35 day auction rate, and mature in varying amounts through 2035. The interest rate at June 30, 2006 was 3.81%.

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2005, the University entered into an interest rate swap for $44,225,000. The intention of the swap was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate.

Under the swap, the University pays the counterparty a fixed payment of 3.2 percent and receives a variable payment computed as 69 percent of the U.S. Dollar – London Interbank Offered Rate (USD-LIBOR-BBA). The swap has a notional amount of $44.225 million and the associated variable-rate bond has a $44.225 million principal amount. The swap was entered into at the same time the bonds were issued (2005). The bonds and related swap both mature on December 1, 2035. As of June 30, 2006, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.200%
Variable payment from counterparty	69% of USD-LIBOR-BBA	(3.450%)
Net interest rate swap payments		(0.250%)
Variable rate bond coupon payments	Actual monthly auction variable rate	3.810%
Synthetic interest rates on bonds		3.560%

In 2001, the University sold a $30,000,000 General Revenue Bond issue for various renovations and construction needs on campus. The principal and interest on the 2001 Revenue Bonds are primarily payable from general University revenues, bear interest based on a daily rate, and mature in varying amounts through 2031. The interest rate at June 30, 2006 was 3.94%.

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2001, the University entered into an interest rate swap for $20,000,000 of the Series 2001, General Revenue Variable Rate Demand Bonds. The intention of the swap was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate.

Under the swap, the University pays the counterparty a fixed payment of 4.015 percent and receives a variable payment computed as 67 percent of the U.S. Dollar – London Interbank Offered Rate (USD-LIBOR-BBA). The swap has a notional amount of $20 million and the associated variable-rate bond has a $30 million principal amount. The swap was entered into at the same time the bonds were issued (2001). The bonds mature on June 1, 2031. The related swap agreement matures on June 1, 2025, when the first $20,000,000 of the associated debt is repaid. As of June 30, 2006, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.015%
Variable payment from counterparty	67% of USD-LIBOR-BBA	(3.388%)
Net interest rate swap payments		0.627%
Variable rate bond coupon payments	Actual daily tax-exempt variable rate	3.940%
Synthetic interest rates on bonds		4.567%

NOTE J--BONDS AND NOTES PAYABLE (Continued)

The University has not calculated the fair value of the swap agreements. As of June 30, 2006, and as long as the variable rate portion of the swap being received by the University is less than the fixed rate being paid, the University will be in a negative position on the swap. That is, the University will be paying more in interest expense than they would without the swap agreements. The University entered into the swap agreements to secure a synthetic fixed rate. The University believes that the future interest expense through the use of synthetic fixed rates will be less than if it had issued long term fixed rate bonds.

Bond Series	Fixed Rates
2006 Bonds	3.696%
2005 Bonds	3.200%
2001 Bonds	4.015%

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations, when the swap has a positive fair value. Since the University did not calculate the fair value of the swaps, it is not known if there is any potential credit risk. However, as of June 30, 2006, the counterparties to the swap agreements were rated A+ by Standard & Poors.

As noted above, the swaps expose the University to basis risks should the relationship between LIBOR and the University's actual daily tax-exempt variable rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

The swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "optional termination rights." The University has the right to terminate the swap transactions at any time upon receipt of notice by the counterparty at least 20 calendar days and no more than 30 calendar days, prior to the specified date. The optional termination amount with respect to this transaction shall equal the present value of the difference on a monthly basis between the cash flows generated at the Settlement Rate and the Fixed Rate of a swap with the then remaining schedule for the notional amounts, discounted monthly to the date the optional termination amount shall be paid using a LIBOR curve of yields calculated under then prevailing industry standards subject to approval by the University and such approval is not to be unreasonably withheld.

In 1998, the University sold a $17,600,000 General Revenue 1998 Bond issue for various renovations and construction needs on campus, and to defease in substance $8,020,000 of outstanding 1993 bonds by depositing funds in an irrevocable trust with an escrow agent. All defeased 1993 bonds were called and paid in full on June 1, 2003. The principal and interest on the 1998 Revenue Bonds are primarily payable from general University revenues, bear interest at rates from 4.20% to 5.00%, and mature in varying amounts through 2026.

Also in 1998, the University sold a $24,560,000 General Revenue 1997 Bond issue for a portion of the University's 25% match of the $47 million State of Michigan funding for the Glenn T. Seaborg Center, and various other renovations and construction needs on campus, and to defease in substance $6,175,000 of outstanding 1992 bonds by depositing funds in an irrevocable trust with an escrow agent. All defeased 1992 bonds were called and paid in full on June 1, 2002. The principal and interest on the 1997 Revenue Bonds are primarily payable from general University revenues, bear interest at rates from 4.45% to 5.13%, and mature in varying amounts through 2021.

The 2001 bond issue is collateralized with a $27,325,000 letter of credit through GE Capital, and the 2006 bond issue is collateralized with a $19,525,000 letter of credit through DEPFA Bank.

NOTE J--BONDS AND NOTES PAYABLE (Continued)

Using rates as of June 30, 2006, debt service requirements of the long-term debt and interest rate swaps, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

		Interest		
Fiscal Year	**Principal**	**Bonds**	**Interest Rate Swap**	**Total**
2007	$2,055,000	$3,573,600	$ 19,590	$5,648,190
2008	3,170,000	3,763,644	32,543	6,966,187
2009	3,040,000	3,639,757	30,586	6,710,343
2010	3,400,000	3,521,749	29,106	6,950,855
2011	3,280,000	3,399,929	27,448	6,707,377
Total Five Years	14,945,000	17,898,679	139,273	32,982,952
Thereafter				
2012-2016	18,770,000	14,974,693	111,455	33,856,148
2017-2021	20,075,000	11,456,877	87,575	31,619,452
2022-2026	24,255,000	7,304,116	22,403	31,581,519
2027-2031	16,860,000	3,514,543	(18,319)	20,356,224
2032-2036	10,900,000	917,371	(6,298)	11,811,073
Total	105,805,000	$56,066,279	$336,089	$162,207,367
Less: Deferred amount on refunding, net	(1,384,595)			
Total	$104,420,405			

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds payable:					
Bonds payable	$88,345,000	$19,525,000	$2,065,000	$105,805,000	$2,055,000
Deferred amount on refunding	(1,472,740)		(88,145)	(1,384,595)	(88,145)
Total notes and bonds payable	86,872,260	19,525,000	1,976,855	104,420,405	1,966,855
Other liabilities:					
Severance benefits	2,881,794	390,345	1,067,305	2,204,834	719,388
Compensated absences	2,172,384	128,525	91,154	2,209,755	91,154
Federal portion of Perkins Loan Program	6,967,263		63,317	6,903,946	
Total other liabilities	12,021,441	518,870	1,221,776	11,318,535	810,542
Total long-term liabilities	$98,893,701	$20,043,870	$3,198,631	$115,738,940	$2,777,397

NOTE J--BONDS AND NOTES PAYABLE (Continued)

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	$67,900,000	$44,225,000	$23,780,000	$88,345,000	$2,065,000
Deferred amount on refunding		(1,502,122)	(29,382)	(1,472,740)	(88,145)
Total notes and bonds payable	67,900,000	42,722,878	23,750,618	86,872,260	1,976,855
Other liabilities:					
Severance benefits	3,950,521	275,171	1,343,898	2,881,794	1,084,335
Compensated absences	2,088,636	83,748		2,172,384	148,957
Federal portion of Perkins Loan Program	6,958,443	8,820		6,967,263	
Total other liabilities	12,997,600	367,739	1,343,898	12,021,441	1,233,292
Total long-term liabilities	$80,897,600	$43,090,617	$25,094,516	$98,893,701	$3,210,147

NOTE K--OPERATING EXPENSES

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

	2006	2005
Salaries, wages and benefits	$ 73,917,541	$ 71,961,185
Supplies and support services	31,437,455	33,529,396
Utilities	7,918,906	6,380,065
Depreciation expense	8,463,735	8,434,496
Scholarships	8,713,733	8,008,084
Total	$130,451,370	$128,313,226

NOTE L--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 is a non-contributory defined benefit cost sharing multiple employer retirement plan through the Michigan Public School Employees' Retirement System Plan (the "Plan"). 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 Systems, 7150 Harris Dr., P.O. Box 30026, Lansing, MI 40801.

NOTE L--RETIREMENT PLANS (Continued)

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

- Pension Normal Cost: This 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 due on their covered MPSERS payroll. For the State's fiscal year 2006, this rate is 6.30%, and is applied to payrolls occurring on or after October 1, 2005. For the State's fiscal year 2005, this rate was 6.52%, and was applied to payrolls occurring on or after October 1, 2004.

- Pension Unfunded Liability: This contribution rate is determined each year by the retirement system's actuary, and is charged to the covered universities as a percentage on their combined member and non-member/non-optional retirement programs payrolls. For the State's fiscal year 2006, this rate is 3.65% and is applied to payrolls occurring on or after October 1, 2005. For the State's fiscal year 2005, this rate was 4.46%, and was applied to payrolls occurring on or after October 1, 2004.

- Retiree Health Insurance: For its fiscal year 2004, the State changed its method for calculating retiree health insurance. Prior to 2004, the Office of Retirement Systems calculated the annual cost for each university, based on the relative percentage of retirees for each university to the total number of all university retirees. This annual cost was divided into equal monthly payments. 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. Beginning with the State's fiscal year 2004, 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, 2006, which encompasses 9 months of the State's fiscal year 2006 and 3 months of the State's fiscal year 2005, the University's total cost for retiree's health insurance was $2,290,920. For the year ended June 30, 2005, which encompasses 9 months of the State's fiscal year 2005 and 3 months of the State's fiscal year 2004, the University's total cost for retiree's health insurance was $2,138,555.

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, 2006:

	TIAA-CREF	**MPSERS**	**University Total**
University Contributions	$ 4,767,609	$ 3,688,491	$ 8,456,100
Employee Contributions		286,912	286,912
Covered Payroll	31,774,814	12,870,196	44,645,010

The University's contributions to the plans are as follows for the year ended June 30, 2005:

	TIAA-CREF	**MPSERS**	**University Total**
University Contributions	$ 4,724,719	$ 3,409,571	$ 8,134,290
Employee Contributions		402,987	402,987
Covered Payroll	31,222,129	14,407,737	45,629,866

NOTE L—RETIREMENT PLANS (Continued)

The University's contributions to the plans are as follows for the year ended June 30, 2004:

	TIAA-CREF	MPSERS	University Total
University Contributions	$ 4,529,652	$ 3,054,232	$ 7,583,884
Employee Contributions		320,544	320,544
Covered Payroll	29,891,220	14,130,933	44,022,153

NOTE M--EARLY RETIREMENT INCENTIVES

The University has in place a Severance Incentive Program (SIP) available to all active full-time salaried employees who have completed ten years of service. The enrollment period for the first SIP was December 15, 1995 through August 30, 1996. Approved employees were eligible for post-separation benefits consisting of health insurance benefits, if needed, and/or cash severance benefits in varying amounts based on years of service and separation date, but not to exceed 100 percent of annual salary. The remaining SIP liability as of June 30, 2006 and 2005 was $171,000 and $347,000, respectively.

The University established a second Severance Incentive Program (SIP) available to all active full-time salaried and clerical/technical employees who have completed ten years of service. The employee had to enroll and sever employment between July 1, 2000 and June 30, 2001. Approved employees were eligible for post-separation benefits consisting of health insurance benefits, if needed, and/or cash severance benefits. The SIP is expected to be paid over a ten-year period beginning in fiscal year ending 2001. The remaining SIP liability as of June 30, 2006 and 2005 was $1,808,000 and $2,094,000, respectively.

During fiscal year 2003, the University established a Reduction in Force (RIF) plan for those full-time employees whose positions were eliminated because of budget cuts by July 1, 2004. The employees could not exercise their bumping rights in accordance with their applicable collective bargaining agreement. Employees were eligible for post-separation benefits consisting of health insurance benefits and/or cash severance benefits. The remaining RIF liability as of June 30, 2006 and 2005 was $226,000 and $441,000, respectively.

NOTE N--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, errors and omissions losses, commonly covered by insurance and provides risk management and loss control services and programs. M.U.S.I.C. provides coverage for claims in excess of agreed upon deductibles.

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

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled $15,796,851 at June 30, 2005, based on the last published financial statements.

NOTE N--LIABILITY INSURANCE (continued)

Self-insurance

The University is self-insured for health, workers' compensation, and short-term disability for all employees. Dental and vision benefits are self-insured for all employees except the NMU-FA union group which has a purchased plan. Liabilities for estimates of losses retained by the University under self-insurance programs have been established.

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to $11.1 million and $10.5 million in aggregate for fiscal year end June 30, 2006 and 2005, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to $250,000 and $5,000,000 in aggregate for fiscal year end June 30, 2006 and 2005.

NOTE O--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 affect on the financial statements.

NOTE P--SUBSEQUENT EVENTS

Subsequent to year end, the University signed lease commitments of $5,082,000 for laptop computers.