

FINANCIAL REPORT

2007 - 2008

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

Mary C. Lukens
Chair
Ann Arbor
2008

Douglas B. Roberts
Vice Chair
East Lansing
2010

Alan T. Ackerman
Bloomfield Hills
2010

Stephen F. Adamini
Marquette
2014

Samuel S. Benedict
Rapid River
2008

Brian D. Cloyd
Grand Rapids
2012

Jon G. LaSalle
Marquette
2012

Gilbert L. Ziegler
Charlevoix
2014

Leslie E. Wong
President of the University
Ex Officio

Executive Officers

Leslie E. Wong
President

Susan J. Koch
Provost and Vice President for Academic Affairs

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

Finance and Administration Staff

Jill M. Compton
Internal Auditor

Felecia J. Flack
Director of AdIT Support/Consulting Services

Sandra S. Haavisto
Controller

David W. Maki
Chief Technology Officer

Carl S. Pace
Associate Vice President for Business Services
and Facilities

Ann M. Sherman
Director of Human Resources

Sherri A. Towers
Budget Director

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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, 2008, 2007 and 2006. 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 Statement 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 Statement 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 reporting model, State appropriations and gifts are reported as non-operating revenues and results in the University showing an operating loss of \$50.6 million for the year ended June 30, 2008, and \$46.9 million for the year ended June 30, 2007. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

GASB Statement No. 45, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes standards for the measurement, recognition, and display of other postretirement benefits (OPEB) and related liabilities, note disclosures and, if applicable, required supplementary information for other plans in which the University participates. This Statement is effective for the University's year ended June 30, 2008, since the University, as a component unit of the State of Michigan, is required to adopt the Statement in the same year it is adopted by the State of Michigan.

Financial Highlights

Net assets for the year ended June 30, 2008 of \$215.2 million increased by \$8.2 million over the prior year and included recognition of \$4.2 million in State appropriation revenue. The University received funding in October 2007, for the delayed August 2007, State appropriation payment that had been reserved through an allowance for doubtful accounts at June 30, 2007. Excluding the \$4.2 million recovery, net income before other revenues of \$2.9 million decreased \$7.2 million from the prior year adjusted total of \$10.1 million.

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

Financial Highlights (Continued)

Operating revenues for the year ended June 30, 2008 of \$93.8 million increased by \$2.6 million over the prior year. Tuition and Fees totaling \$52.4 million is the largest component of operating revenue and increased by \$3.0 million over the prior year. Residence life revenues of \$17.4 million increased by \$1.0 million and all other operating revenues of \$24.0 million netted to a \$1.4 million decrease. Non-operating revenues totaled \$62.6 million and, when adjusted for the \$4.2 million delayed August 2007 State appropriation payment, decreased by \$3.5 million from the prior year. The largest components of this decrease were a \$4.1 million decrease in investment income and a \$1.0 million increase in state appropriations. State appropriations totaling \$50.4 million is the largest component of non-operating revenues. Investment income totaled \$2.3 million and declined from the prior year mainly due to a change in market value on long-term investments. Pell grant revenues of \$7.9 million and \$7.5 million for the years ending June 30, 2008 and 2007, respectively were reclassified from operating revenues to non-operating revenues in accordance with new GASB guidance.

For the year ended June 30, 2007, operating and non-operating revenues of \$147.9 million increased by \$5.4 million over the prior year. Tuition and Fees of \$49.3 million is the largest component of operating revenue and increased by \$2.8 million as the result of a 4.82% increase in tuition rates for undergraduate residents and a slight enrollment increase. Residence life revenues totaled \$16.4 million and increased by \$1.7 million. This increase was the result of a 6% rate increase and the opening of the new student apartment complex. Sales and services of educational activities totaled \$9.8 million and increased by \$1.7 million. Other operational revenues remained level with the prior year. A \$3.1 million increase in investment income helped to off-set a decrease of \$4.5 million in State appropriations.

Operating and non-operating expenses of \$149.3 million for the year ended June 30, 2008 increased \$7.3 million and includes a \$4.8 million increase in salaries, wages, and benefits, a \$.6 million increase in utilities, a \$.7 million increase in student aid, a \$1.0 million increase in interest on capital asset-related debt, and a \$.2 million increase in supplies and support services. On a functional basis, instructional expenses increased \$2.5 million, operations and maintenance of plant increased \$1.3 million, interest on capital asset related debt increased \$1.0 million, student aid increased \$.7 million, depreciation expense increased \$.4 million, and other costs increased \$1.4 million.

For the year ended June 30, 2007, operating and non-operating expenses of \$141.9 million increased \$9.5 million and included a \$4.8 million increase in salaries, wages, and benefits, a \$1.2 million decrease in utilities, a \$.4 million increase in student aid, a \$.6 million increase in interest on capital asset-related debt, and a \$4.9 million increase in supplies and support services. On a functional basis, instructional expenses increased \$2.5 million, auxiliary enterprises increased \$2.4 million, student services increased \$1.1 million, operations and maintenance of plant increased \$.9 million, academic support increased \$.9 million, student aid increased \$.4 million, interest on capital asset related debt increased \$.6 million, and other costs increased \$.7 million.

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

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2008	2007	2006
ASSETS			
Current Assets	\$81,775,508	\$70,167,291	\$75,188,794
Noncurrent Assets			
Capital	237,812,707	233,248,083	225,265,785
Other	37,456,260	36,490,601	37,606,374
Total Noncurrent Assets	<u>275,268,967</u>	<u>269,738,684</u>	<u>262,872,159</u>
Total Assets	<u>357,044,475</u>	<u>339,905,975</u>	<u>338,060,953</u>
LIABILITIES			
Current Liabilities	24,435,842	23,344,421	24,114,843
Noncurrent Liabilities	117,364,505	109,489,279	112,961,543
Total Liabilities	<u>141,800,347</u>	<u>132,833,700</u>	<u>137,076,386</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	127,132,491	130,794,533	121,536,478
Restricted			
Nonexpendable	769,770	897,463	796,826
Expendable	14,623,991	11,124,509	26,830,646
Unrestricted	<u>72,717,876</u>	<u>64,255,770</u>	<u>51,820,617</u>
Total Net Assets	<u>\$215,244,128</u>	<u>\$207,072,275</u>	<u>\$200,984,567</u>

Total current assets of \$81.8 million at June 30, 2008, included \$10.5 million in unspent bond proceeds that will be used for construction projects. At June 30, 2007, total current assets of \$70.2 million included \$6.8 million in unspent bond proceeds. After adjusting for unspent bond proceeds, the ratio of current assets to current liabilities is 2.92 for the year ended June 30, 2008, and 2.72 for the year ended June 30, 2007.

The University's largest non-current asset is its investment in physical plant of \$237.8 million at June 30, 2008. Net capital assets increased \$4.6 million over the prior year after recognition of \$8.9 million in depreciation expense.

The State appropriations receivable totaled \$8.4 million at June 30, 2008. The State appropriation receivable at June 30, 2007, totaled \$3.2 million, net of an allowance for doubtful accounts of \$4.2 million for the delayed August 2007 state appropriation payment.

Long-term debt consisting of notes and bonds payable is the largest liability totaling \$110.7 million at June 30, 2008, and \$102.5 million at June 30, 2007.

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

Condensed Financial Information (Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

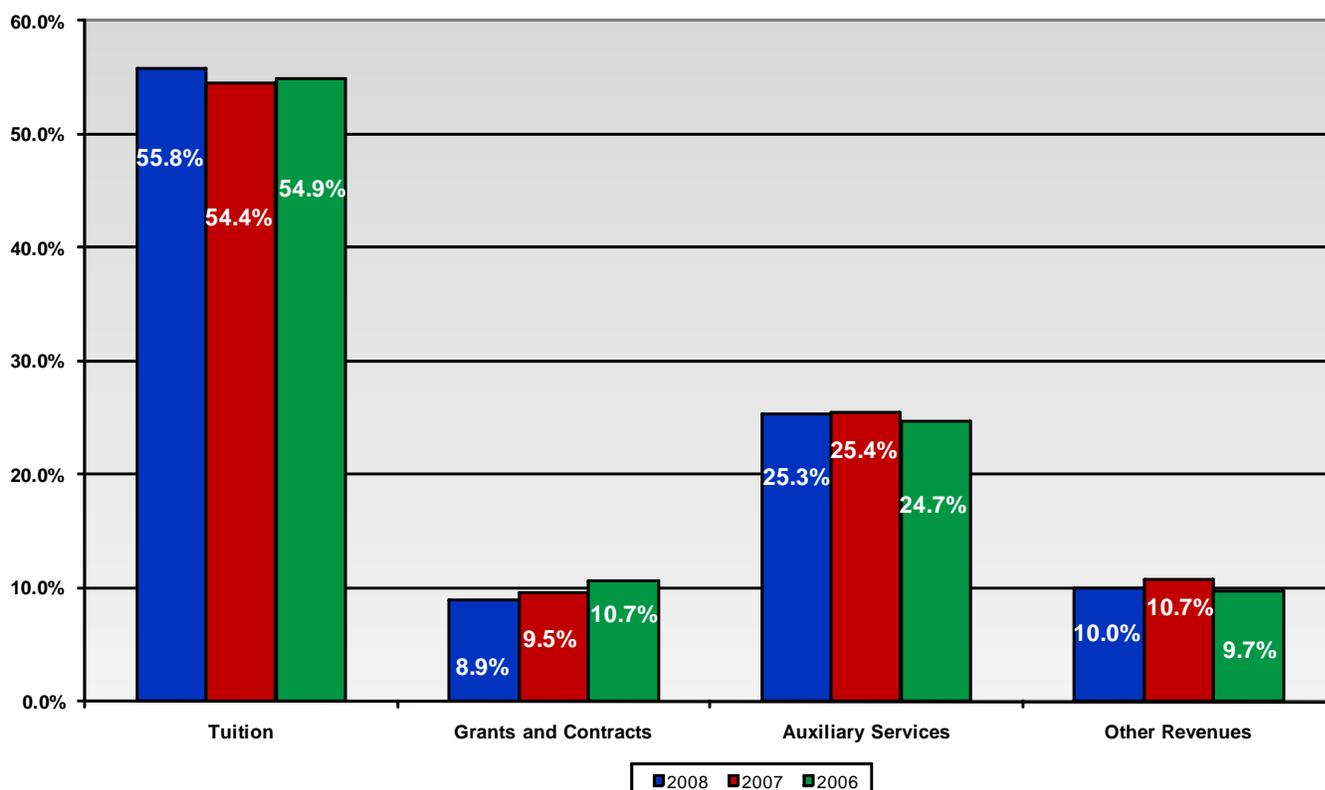
	June 30		
	2008	2007	2006
Operating Revenues			
Tuition and Fees, net	\$52,379,379	\$49,342,307	\$46,537,697
Grants and Contracts	8,310,331	8,772,738	9,078,879
Auxiliary Enterprises, net	23,712,454	23,144,616	20,893,196
Other Operating Revenues	9,412,773	9,906,921	8,238,057
Total Operating Revenues	<u>93,814,937</u>	<u>91,166,582</u>	<u>84,747,829</u>
Operating Expenses	<u>(144,383,146)</u>	<u>(138,033,251)</u>	<u>(129,082,003)</u>
Operating Loss	(50,568,209)	(46,866,669)	(44,334,174)
Non-operating Revenues (Expenses)			
State Appropriations	50,389,700	40,957,700	45,413,300
Pell Grant Revenue	7,878,563	7,524,611	7,255,866
Other Non-operating Revenues (Expenses) - net	(560,365)	4,313,841	1,754,354
Net Non-operating Revenues and Expenses	<u>57,707,898</u>	<u>52,796,152</u>	<u>54,423,520</u>
Income before Other Revenues	<u>7,139,689</u>	<u>5,929,483</u>	<u>10,089,346</u>
Capital State Appropriations		77,153	250,100
Capital Grants and Gifts	1,289,629	162,000	80,500
Capital Gifts from the NMU Foundation	60,000		14,000
Loss on Asset Disposal	(317,465)	(80,928)	(78,980)
Total Other Revenues	<u>1,032,164</u>	<u>158,225</u>	<u>265,620</u>
Total Increase in Net Assets	8,171,853	6,087,708	10,354,966
Net Assets			
Net assets—beginning of year	207,072,275	200,984,567	190,629,601
Net assets – end of year	<u>\$215,244,128</u>	<u>\$207,072,275</u>	<u>\$200,984,567</u>

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

Condensed Financial Information (Continued)

Total operating revenues were \$93.8 million for fiscal year 2008 and \$91.2 million for fiscal year 2007. The most significant sources of operating revenue for the University are tuition and fees, auxiliary enterprises, 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

	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
Undergraduate, resident	\$6,708	\$6,140	\$5,858
Undergraduate, nonresident	\$10,644	\$10,076	\$9,602
Graduate, resident	\$7,884	\$7,196	\$6,866
Graduate, nonresident	\$11,412	\$10,724	\$10,226

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

Room and Board

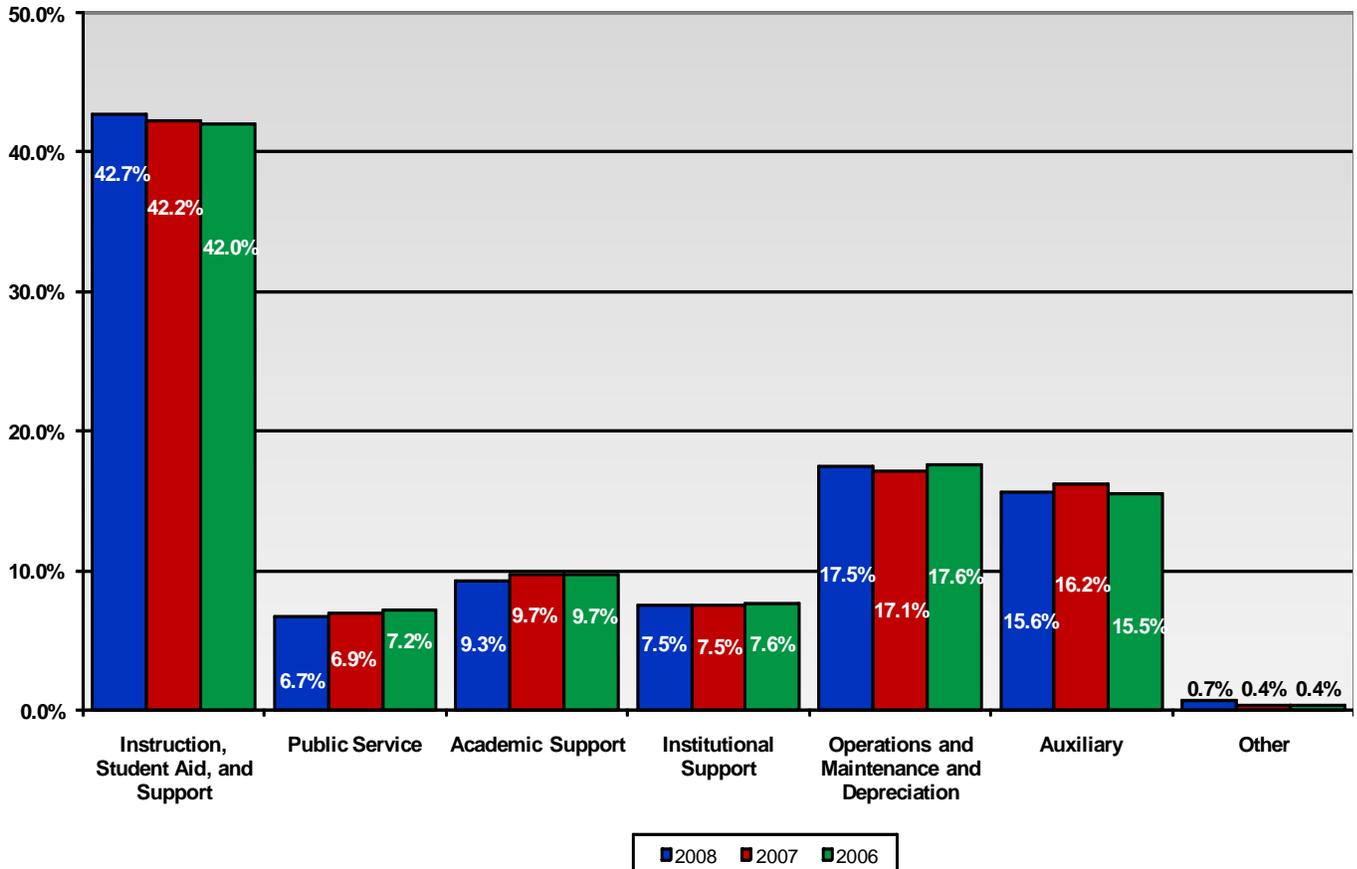
The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$7,220 for 2007-2008, \$6,692 for 2006-2007 and \$6,312 for 2005-2006. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Nine residence halls currently have a mean occupancy of 2,295 (2007 – 2,362) and are at 87 percent capacity (2007 – 90 percent capacity). Campus apartments total 367 units with occupancy varying depending on the ratio of single students to student families and the size of the household. Approximately 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, 2008, including depreciation of \$8.9 million, totaled \$144.4 million. Of this total, \$61.7 million, or 42.7 percent, was used for instruction, student aid, and student support, \$25.3 million, or 17.5 percent, was used for operation, maintenance, and depreciation, and \$22.5 million, or 15.6 percent, was used for auxiliary enterprises. Operating expenses for June 30, 2007, including depreciation of \$8.4 million, totaled \$138.0 million.

The breakout by functional expense is highlighted below:

Operating Expenses



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

Other

The State appropriation of \$50.4 million for June 30, 2008, and \$41.0 million for June 30, 2007, is the largest source of non-operating revenues. The appropriation is recognized in the period for which it is appropriated. For the year ended June 30, 2007, the University recorded a \$4.2 million allowance for doubtful accounts due to the uncertainty of collection of the August 2007 state appropriations payment. This allowance was eliminated with the receipt of funds in October 2007, and resulted in recognition of \$4.2 million increased state appropriations for the year end June 30, 2008.

Interest expense on outstanding debt was \$4.9 million for June 30, 2008, and \$3.9 million for June 30, 2007. During the period of construction, interest paid on bonds used to fund capital projects is required to be capitalized.

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		
	2008	2007	2006
Cash Provided (Used) By:			
Operating Activities	(\$40,931,038)	(\$38,149,201)	(\$32,897,680)
Noncapital Financing Activities	55,084,619	54,816,862	53,121,178
Capital and Related Financing Activities	(10,859,660)	(24,785,832)	(3,525,786)
Investing Activities	9,874,574	21,078,284	(706,166)
Net Increase in Cash and Cash Equivalents	13,168,495	12,960,113	15,991,546
Cash and Cash Equivalents – Beginning of Year	49,092,137	36,132,024	20,140,478
Cash and Cash Equivalents – End of Year	<u>\$62,260,632</u>	<u>\$49,092,137</u>	<u>\$36,132,024</u>

Major sources of funds included in operating activities are student tuition and fees of \$52.7 million, grants and contracts of \$8.0 million, and auxiliary sales of \$23.7 million for the year ended June 30, 2008; and student tuition and fees of \$49.7 million, grants and contracts of \$9.0 million, and auxiliary sales of \$22.7 million for the year ended June 30, 2007. The major source of funds included in noncapital financing activities are State appropriations of \$45.2 million and Pell grant revenue of \$7.9 million for the year ended June 30, 2008; and State appropriations of \$45.9 million and Pell grant revenue of \$7.5 million for the year ended June 30, 2007.

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. A decrease in net assets of \$1.6 million for the year ended June 30, 2008, was primarily the result of a \$1.6 million decrease in investments. For the year ended June 30, 2007, the Foundation had a \$3.0 million increase in net assets. 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

The University projects that total enrollment will increase as we move toward our goal of 10,330 students by 2009-2010. 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
2004	8,536	790	9,326	8,305	234,778	11,405	246,183
2005	8,603	728	9,331	8,424	239,858	10,189	250,047
2006	8,698	802	9,500	8,557	243,977	10,076	254,053
2007	8,880	809	9,689	8,540	243,602	9,992	253,594
2008	8,634	724	9,358	8,427	240,675	9,641	250,316

For the 2007-08 academic year, fifty-six percent (56%) 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 twenty percent (20%) 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 may 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, 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

<u>Fall Semester</u>	<u>Applications Received</u>	<u>Applications Accepted</u>	<u>Percent Accepted</u>	<u>Total New Freshmen Enrolled</u>	<u>Percent Enrolled</u>
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
2006	4,769	3,812	79.9	1,869	49.0
2007	5,302	4,118	77.7	1,880	45.7

By August 18, 2008, the University had received 5,603 freshman applications (as compared to 5,310 as of August 18, 2007) and had granted 4,348 acceptances (as compared to 4,115 as of August 18, 2007).

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

Factors Impacting Future Periods (Continued)

Admissions (Continued)

<u>Fall Semester</u>	<u>Applications Received</u>	<u>Applications Accepted</u>	<u>Percent Accepted</u>	<u>Students Enrolled</u>	<u>Percent Enrolled</u>
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
2006	1,153	733	63.6	492	67.1
2007	1,129	735	65.1	462	62.9

By August 18, 2008, the University had received 1,144 transfer applications (as compared to 1,129 as of August 18, 2007) and had granted 693 acceptances (as compared to 714 as of August 18, 2007).

Capital Plan

The University has in place a five-year strategic capital plan focusing on renovation and transformation of existing facilities to a state-of-the-art environmentally efficient campus. 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 continues to move forward with its plans for the construction of a solid bio-mass fuel facility that would generate steam and electricity for most of the buildings on campus. The University is committed to the use of wood, a renewable resource, as the primary fuel for this combined heat and power project. The project includes the construction of a research facility that will explore ways to create alternative energy. The University has applied for and is waiting on licensing from the Michigan Department of Environmental Quality. Financing will include a combination of University reserves and issuance of general revenue bonds to finance all or a portion of the project in the approximate amount of \$56 million in the next few years. The University currently projects that the project will produce savings in excess of debt service requirements and will help keep the University's operating costs as low as possible to ensure students have access to quality education at an affordable price.

The University's public radio and television stations continued their transition to digital broadcasting. With the receipt of \$1.3 million in grants during the current fiscal year, the television station completed a master control upgrade that will allow the station to program and switch multiple digital program streams. Subsequent to June 30, 2008, the University received a \$1.0 million grant from the Corporation of Public Broadcasting to help fund a new digital transmitter, antenna, and microwave system. NMU intends to use digital television and radio transmissions to offer high definition broadcasts, plus up to four optional standard definition program streams that contain classroom and course content especially designed for higher education and K-12 instruction.

The University has in place a plan to grow our enrollment to 10,330. In support of our enrollment growth, future renovation projects include conversion of four floors in the Sam M. Cohodas Hall into faculty offices and general purpose classrooms, renovation of the Learning Resource Center to provide an interactive and multi-media instructional development center for students and faculty, and continued renovation of residence halls.

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

Capital Plan (continued)

During the fiscal year ended June 30, 2008, the University issued \$100.9 million in General Revenue Fixed Rate Bonds to refund all outstanding maturities of the General Revenue Bonds Series 2001, 2005, and 2006, and to finance the renovation of Hunt Hall, a residence hall in the University's Quad II complex.

Bonds and notes payable at June 30, 2008 consist of the following:

<u>Maturity Dates</u>	<u>Interest Rates</u>		<u>Maturity Value</u>
	<u>Coupon</u>	<u>Yield</u>	
12/01/2012	3.250%	2.980%	\$2,780,000
12/01/2010	3.500%	2.500%	2,955,000
12/01/2011	3.500%	2.730%	2,990,000
12/01/2013	3.500%	3.150%	3,155,000
12/01/2014	3.750%	3.320%	3,500,000
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
12/1/2008-12/01/2009	4.500%	4.500%	795,000
12/01/2021	4.625%	4.500%	2,535,000
12/01/2022	4.625%	4.610%	3,970,000
12/01/2010	4.625%	4.625%	425,000
12/01/2023	4.750%	4.690%	4,165,000
12/1/2008-12/01/2011	4.750%	4.750%	1,590,000
12/01/2024	4.750%	4.790%	4,260,000
12/01/2009	4.800%	4.800%	195,000
12/01/2025	4.875%	4.850%	3,860,000
12/01/2008	5.000%	2.250%	2,830,000
12/01/2009	5.000%	2.330%	2,940,000
12/01/2012	5.000%	2.980%	250,000
12/01/2013	5.000%	3.150%	100,000
12/01/2016	5.000%	3.650%	3,710,000
12/01/2017	5.000%	3.820%	3,800,000
12/01/2018	5.000%	3.980%	4,070,000
12/01/2019	5.000%	4.130%	3,655,000
12/01/2021	5.000%	4.370%	1,350,000
12/01/2026	5.000%	4.860%	3,610,000
12/01/2027	5.000%	4.910%	3,775,000
12/01/2028	5.000%	4.960%	4,005,000
12/1/2010-12/01/2029	5.000%	5.000%	9,530,000
12/01/2030	5.000%	5.030%	4,385,000
12/01/2031	5.000%	5.060%	2,475,000
12/01/2038	5.000%	5.120%	1,700,000
12/01/2035	5.125%	5.110%	11,075,000
12/1/2014-12/01/2020	5.125%	5.125%	4,325,000
Total			\$113,585,000

Teaching, Learning, and Communication (TLC) Initiative

The NMU campus is a connected learning community with over 9000 notebook computers distributed to students as part of the students' tuition and fees. These computers have built-in wired and wireless networking and are replaced on a two-year cycle. Wireless technology throughout campus provides improved student access in and out of the classroom and provides greater efficiency in delivery of student services via the internet. Over the next two years, the University plans to expand the wireless network to provide community-wide access to more than 6,300 students that live off campus in the Marquette area. The improvements will include higher speed services for students to utilize in performing coursework and research.

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

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

Subsequent to June 30, 2008 the University signed a two year \$4,269,000 lease commitment for 5,700 computers. In addition, the University received an Education Broadband Service radio license in August 2008, as a first step in the wireless signal expansion throughout the city and county.

State Appropriations

Public Act 213 of 2008 was approved by the Governor on July 15, 2008. This Act set the funding level for the University's 2009 fiscal year at \$46,633,200 and is a 1% increase over the base appropriations for the year ended June 30, 2008.



INDEPENDENT AUDITORS' REPORT

September 22, 2008

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* (the "University"), a component of the State of Michigan, as of June 30, 2008 and 2007 and for the years 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 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.

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

Board of Trustees
Northern Michigan University
Marquette, Michigan
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In our opinion, based on our audits and the reports of the 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, 2008 and 2007, and the changes in financial position thereof for the years 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 September 22, 2008, 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 13 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 supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	Northern Michigan University		Component Unit	
	June 30		Northern Michigan University Foundation	
	2008	2007	2008	2007
ASSETS				
Current assets				
Cash and cash equivalents	\$ 62,260,632	\$ 49,092,137	\$ 198,911	\$ 108,761
State appropriation receivable (less allowance 2008--0; 2007--\$4,218,200)	8,393,616	3,203,154		
Accounts receivable (less allowance 2008--\$3,406,659; 2007--\$2,973,167)	7,152,267	6,784,592	36,544	14,294
Student notes receivable (less allowance 2008--\$488,929; 2007--\$433,261)	1,276,069	1,809,358		
Investment receivable	168,097	292,404		
Pledges receivable (less allowance 2008--\$77,870; 2007--\$ 44,222)			658,527	235,833
Short-term investments	75,815	6,724,390		
Inventories	1,313,291	1,352,009	1,784	1,820
Other assets	1,135,721	909,247	205,650	184,473
Total current assets	<u>81,775,508</u>	<u>70,167,291</u>	<u>1,101,416</u>	<u>545,181</u>
Noncurrent assets				
Long-term investments	26,533,972	27,353,245	22,259,377	24,228,032
Student notes receivable (less allowance 2008--\$1,466,787; 2007--\$1,299,782)	8,114,386	7,268,683		
Other long-term investments	1,094,962	1,094,962		
Pledges receivable (less allowance 2008--\$12,501; 2007--\$17,648)			853,576	1,011,315
Unamortized bond issue costs	1,712,940	773,711		
Capital assets, net	237,812,707	233,248,083		
Total noncurrent assets	<u>275,268,967</u>	<u>269,738,684</u>	<u>23,112,953</u>	<u>25,239,347</u>
Total assets	<u>357,044,475</u>	<u>339,905,975</u>	<u>24,214,369</u>	<u>25,784,528</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9,386,776	8,708,360	511,293	290,807
Accrued payroll and benefits	6,436,711	6,201,654		
Unearned revenue (unearned student fees and deposits)	4,349,161	4,414,839		
Long-term liabilities-current portion	4,263,194	4,019,568		
Total current liabilities	<u>24,435,842</u>	<u>23,344,421</u>	<u>511,293</u>	<u>290,807</u>
Noncurrent liabilities				
Annuities payable			93,280	322,158
Long-term liabilities-net of current portion	117,364,505	109,489,279		
Total noncurrent liabilities	<u>117,364,505</u>	<u>109,489,279</u>	<u>93,280</u>	<u>322,158</u>
Total liabilities	<u>141,800,347</u>	<u>132,833,700</u>	<u>604,573</u>	<u>612,965</u>
NET ASSETS				
Invested in capital assets, net of related debt	127,132,491	130,794,533		
Restricted for				
Nonexpendable				
Scholarships and fellowships	59,973	69,997	5,723,859	5,972,494
Loans	48,583	55,966		
Instruction	661,214	771,500		
Expendable				
Instruction	891,776	1,024,258	3,979,925	3,508,121
Scholarships and fellowships	534,648	614,548	8,917,646	9,062,458
Loans	2,650,700	2,600,267		
Research	34,713	40,605		
Academic, student and public service	79,545	91,445	3,683,961	4,151,283
Capital project	10,432,609	6,753,386		
Unrestricted	72,717,876	64,255,770	1,304,405	2,477,207
Total net assets	<u>\$ 215,244,128</u>	<u>\$ 207,072,275</u>	<u>\$ 23,609,796</u>	<u>\$ 25,171,563</u>

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		Component Unit Northern Michigan University Foundation	
	June 30		June 30	
	2008	2007	2008	2007
REVENUES				
Operating				
Student tuition and fees (less allowance 2008--\$11,250,200; 2007--\$11,047,700)	\$ 52,379,379	\$ 49,342,307		
Gifts and contributions			\$ 3,699,674	\$ 3,125,005
Endowment income			110,410	100,072
Federal grants and contracts	4,711,090	4,517,971		
State and local grants and contracts	2,424,122	2,921,388		
Nongovernmental grants and contracts	1,175,119	1,333,379		
Sales and services of educational activities	9,384,320	9,812,772		
Auxiliary enterprise				
Residential life (less allowance 2008--\$3,471,000; 2007--\$3,439,000)	17,432,061	16,414,888		
Other auxiliary	6,280,393	6,729,728		
Other operating revenues	28,453	94,149	178,868	186,066
Total operating revenues	<u>93,814,937</u>	<u>91,166,582</u>	<u>3,988,952</u>	<u>3,411,143</u>
EXPENSES				
Operating				
Educational and general				
Instruction	39,926,624	37,469,959		
Research	828,552	540,506		
Public service	9,729,286	9,494,926		
Academic support	13,499,596	13,373,269		
Student services	13,344,586	13,147,802		
Institutional support	10,768,228	10,336,581	1,592,406	1,506,542
Operations and maintenance of plant	16,450,044	15,158,018		
Student aid	8,442,556	7,738,482		
Depreciation	8,880,074	8,437,600		
Auxiliary enterprise				
Residential life	15,114,276	15,009,541		
Other	7,399,324	7,326,567		
Total operating expenses	<u>144,383,146</u>	<u>138,033,251</u>	<u>1,592,406</u>	<u>1,506,542</u>
Operating (loss) income	<u>(50,568,209)</u>	<u>(46,866,669)</u>	<u>2,396,546</u>	<u>1,904,601</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	50,389,700	40,957,700		
Pell grant revenue	7,878,563	7,524,611		
Gifts (including 2008--\$2,039,400 and 2007--\$1,797,900 from the NMU Foundation)	2,041,403	1,843,980		
Payments to and on behalf of the University			(2,383,496)	(2,100,674)
Investment income (net of investment expense for the University 2008--\$243,000 and 2007--\$223,000; and for the NMU Foundation 2008--\$135,215 and 2007--\$65,425)	2,276,041	6,368,852	(1,574,817)	3,175,227
Interest on capital asset-related debt	(4,877,809)	(3,898,991)		
Net non-operating revenues (expenses)	<u>57,707,898</u>	<u>52,796,152</u>	<u>(3,958,313)</u>	<u>1,074,553</u>
Income before other revenues	<u>7,139,689</u>	<u>5,929,483</u>	<u>(1,561,767)</u>	<u>2,979,154</u>
Capital state appropriations		77,153		
Capital grants and gifts	1,289,629	162,000		
Capital gifts from the NMU Foundation	60,000			
Loss on asset disposal	(317,465)	(80,928)		
Total other revenues	<u>1,032,164</u>	<u>158,225</u>		
Increase in net assets	<u>8,171,853</u>	<u>6,087,708</u>	<u>(1,561,767)</u>	<u>2,979,154</u>
NET ASSETS				
Beginning of year	207,072,275	200,984,567	25,171,563	22,192,409
End of year	<u>\$ 215,244,128</u>	<u>\$ 207,072,275</u>	<u>\$ 23,609,796</u>	<u>\$ 25,171,563</u>

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	June 30	
	2008	2007
Cash Flows from Operating Activities		
Tuition and fees	\$ 52,716,436	\$ 49,693,706
Grants and contracts	7,980,620	9,013,970
Payments to suppliers	(42,276,187)	(42,667,300)
Payments to employees	(83,443,707)	(78,072,050)
Payments for scholarships and fellowships	(8,442,556)	(7,702,930)
Loans issued to students and employees	(1,623,152)	(1,769,929)
Collection of loans to students and employees	1,310,738	1,786,800
Auxiliary enterprise		
Residential life	17,377,046	16,340,232
Other	6,358,913	6,354,810
Other receipts	9,110,811	8,873,490
Net cash used by operating activities	(40,931,038)	(38,149,201)
Cash Flows from Noncapital Financing Activities		
State appropriations	45,199,238	45,915,890
Pell grant revenue	7,869,695	7,524,611
William D. Ford direct lending receipts	27,785,305	26,934,326
William D. Ford direct lending disbursements	(27,785,305)	(26,947,741)
Gifts and grants received for other than capital purposes	2,041,403	1,873,979
Other	(25,717)	(484,203)
Net cash provided by noncapital financing activities	55,084,619	54,816,862
Cash Flows from Capital and Related Financing Activities		
Net proceeds from sale of revenue bonds	98,209,709	
Capital state appropriations		92,519
Capital grants and gifts received	1,349,629	
Purchases of capital assets	(14,872,795)	(18,918,183)
Principal paid on capital debt	(91,100,000)	(2,055,000)
Interest paid on capital debt	(4,446,203)	(3,905,168)
Net cash used by capital and related financing activities	(10,859,660)	(24,785,832)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	24,043,817	18,961,773
Interest on investments	4,356,752	5,135,032
Purchase of investments	(18,525,995)	(3,018,521)
Net cash provided by investing activities	9,874,574	21,078,284
Net increase in cash and cash equivalents	13,168,495	12,960,113
Cash and cash equivalents - beginning of the year	49,092,137	36,132,024
Cash and cash equivalents - end of year	\$ 62,260,632	\$ 49,092,137
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$(50,568,209)	\$(46,866,669)
Depreciation expense	8,880,074	8,437,600
Amortization of bond issuance costs	19,646	30,952
Change in assets and liabilities:		
Receivables, net	(524,203)	(324,192)
Inventories	38,718	(175,075)
Other assets	(233,055)	317,412
Accounts payable	1,257,935	194,719
Unearned revenue	(56,628)	(548,934)
Compensated absences and accrued payroll	254,684	784,986
Net cash used by operating activities	\$(40,931,038)	\$(38,149,201)

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2008

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.

CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition, and display of other postretirement benefits (OPEB) and related liabilities, note disclosures and, if applicable, required supplementary information for other plans in which the University participates. This Statement is effective for the University's year ended June 30, 2008, since the University, as a component unit of the State of Michigan, is required to adopt the Statement in the same year it is adopted by the State of Michigan.

The University allows retirees to purchase healthcare benefits at cost and has 64 retirees participating in health coverage at June 30, 2008. Effective January 1, 2008, the University segregated retiree payments and health care expenses separately from current employee costs. Premium rates are adjusted on January 1 each year to cover projected health care increases for the next year and any funding deficits. Rates are set by the University from a cost analysis through the University's third party health care administrators. Since the postemployment health care is charged based on costs incurred, the University did not book a liability for postemployment health care.

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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, 2008 and 2007, 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. 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, State appropriations, and Federal Pell Grants are components of non-operating 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Inventories

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

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 changes 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 2008 and 2007 is approximately \$8,880,000 and \$8,469,000, 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. In the fiscal year ended June 30, 2007, the State of Michigan had formally delayed the University's August 2007 appropriation payment of \$4.2 million. Since the University was not able to determine the collectability of the August 2007 payment, it had recorded an allowance for doubtful accounts of \$4.2 million. The State made the delayed August 2007 payment in October 2007 and therefore, the \$4.2 million is recognized in fiscal year ended June 30, 2008, through reversal of the allowance.

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).

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Reclassifications

Certain 2007 balances have been reclassified to conform to the 2008 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:

	2008	2007
Cash and cash equivalents	\$62,260,632	\$49,092,137
Short-term investments	75,815	6,724,390
Long-term investments	26,533,972	27,353,245
Other long-term investments	1,094,962	1,094,962
Total	\$89,965,381	\$84,264,734

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, 2008 and 2007, the carrying amount of the University's deposits was \$4,795,730 and \$5,936,153, respectively. The bank balance of the University's deposits at June 30, 2008 and 2007 was \$6,719,626 and \$7,148,066, respectively. Of that amount, \$6,557,035 and \$7,015,622, 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, 2008 and 2007.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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 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, 2008, the University had the following investments and maturities:

	Fair Market Value	Years			More Than 10
		Less Than 1	1-5	6-10	
Money Market Mutual Funds	\$57,464,902	\$57,464,902			
Bond Mutual Funds	15,888,177		\$12,839,928	\$3,014,314	\$33,935
Equity Mutual Funds	10,550,470	75,815	7,237,399		3,237,256
Mortgage Backed Security Funds	4,683				4,683
Alternative Investments	15,953				15,953
Equity Stock	141,468		141,468		
Fixed Income Mutual Funds	9,036				9,036
Preferred Stock	194,962				194,962
Real Estate	900,000				900,000
Total	85,169,651	\$57,540,717	\$20,218,795	\$3,014,314	\$4,395,825

Less Investments Reported as
“Cash Equivalents” on Statements
of Net Assets

(57,464,902)

Total Investments

\$27,704,749

At June 30, 2007, the University had the following investments and maturities:

	Fair Market Value	Years			More Than 10
		Less Than 1	1-5	6-10	
Money Market Mutual Funds	\$43,155,984	\$43,155,984			
Bond Mutual Funds	22,519,220		\$18,652,122	\$3,768,572	\$98,526
Equity Mutual Funds	11,382,244				11,382,243
Mortgage Backed Security Funds	2,838				2,838
Alternative Investments	9,096				9,096
Equity Stock	155,385		155,385		
Fixed Income Mutual Funds	8,852				8,852
Preferred Stock	900,000				900,000
Real Estate	194,962				194,962
Total	78,328,581	\$43,155,984	\$18,807,507	\$3,768,572	\$12,596,517

Less Investments Reported as
“Cash Equivalents” on Statements
of Net Assets

(43,155,984)

Total Investments

\$35,172,597

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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, 2008 and 2007, 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, 2008 and 2007.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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.

The 2008 investment income consists of interest and dividends, net of related expenses of \$135,215 and the present value adjustment to annuities payable of \$228,877. The 2007 investment income consists of interest and dividends, net of related expenses of \$65,425 and the present value adjustment to annuities payable of \$74,333.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Market value and unrealized appreciation on investments at June 30, 2008 are as follows:

	<u>Cost</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market mutual funds	\$676,171	\$675,564	(\$607)
Other mutual funds	20,556,509	20,516,086	(40,423)
Government bonds	367,928	376,788	8,860
Equity securities	<u>580,761</u>	<u>690,939</u>	<u>110,178</u>
Total at end of year	<u>\$22,181,369</u>	<u>\$22,259,377</u>	78,008
Total at beginning of year	<u>\$21,657,642</u>	<u>\$24,228,032</u>	<u>2,570,390</u>
Recognized gain:			
Unrealized net loss (decrease from prior year)			(2,492,382)
Realized net gain for the year			<u>332,005</u>
Total net decrease in fair value of investments			<u>(\$2,160,377)</u>

Market value and unrealized appreciation on investments at June 30, 2007 are as follows:

	<u>Cost</u>	<u>Quoted Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market mutual funds	\$187,738	\$187,738	
Other mutual funds	17,838,280	22,736,366	\$4,898,086
Government bonds	543,497	548,396	4,899
Stamp Collection	<u>498,980</u>	<u>755,532</u>	<u>256,552</u>
Total at end of year	<u>\$19,068,495</u>	<u>\$24,228,032</u>	5,159,537
Total at beginning of year	<u>\$18,784,674</u>	<u>\$21,093,304</u>	<u>2,308,630</u>
Recognized gain:			
Unrealized net gain (increase from prior year)			2,850,907
Realized net gain for the year			<u>53,778</u>
Total net increase in fair value of investments			<u>\$2,904,685</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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:

	2008	2007
State appropriations - net	\$8,393,616	\$3,203,154
Student notes receivable – net	9,390,455	9,078,041
Charter schools	2,799,954	2,641,767
NMU Foundation	131,098	244,938
State, federal and private grants	1,097,095	1,011,593
Students, employees, and vendors - net	3,124,120	2,886,294
Investment receivable	168,097	292,404
Total	\$25,104,435	\$19,358,191

For the years ended June 30, 2008 and 2007, the University received \$15,416,457 and \$14,696,985, 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, 2008:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$5,580,044	\$185,284		\$5,765,328
Land improvements	10,826,729		\$175,000	10,651,729
Buildings and improvements	258,888,921	10,114,380	84,643	268,918,658
Infrastructure	18,432,961	190,909	9,726	18,614,144
Equipment	36,966,542	2,570,688	357,054	39,180,176
Books	14,159,122	330,999	55,280	14,434,841
Construction in progress	6,924,821	369,903		7,294,724
Totals at historical cost	351,779,140	13,762,163	681,703	364,859,600
Less accumulated depreciation for:				
Land improvements	3,660,942	483,078	107,845	4,036,175
Buildings and improvements	71,958,836	5,752,751	7,819	77,703,768
Infrastructure	8,322,594	618,415	(60,074)	9,001,083
Equipment	22,945,759	1,643,127	283,213	24,305,673
Books	11,642,926	382,703	25,435	12,000,194
Total accumulated depreciation	118,531,057	8,880,074	364,238	127,046,893
Capital assets, net	\$233,248,083	\$4,882,089	\$317,465	\$237,812,707

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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, 2007:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$ 5,380,032	\$200,012		\$5,580,044
Land improvements	10,826,729			10,826,729
Buildings and improvements	240,149,145	20,199,758	\$1,459,982	258,888,921
Infrastructure	18,287,070	145,891		18,432,961
Equipment	29,795,273	7,375,857	204,588	36,966,542
Books	13,731,384	427,738		14,159,122
Construction in progress	18,827,895	(11,848,429)	54,645	6,924,821
Totals at historical cost	336,997,528	16,500,827	1,719,215	351,779,140
Less accumulated depreciation for:				
Land improvements	3,172,353	488,589		3,660,942
Buildings and improvements	68,030,997	5,387,821	1,459,982	71,958,836
Infrastructure	7,703,732	618,862		8,322,594
Equipment	21,605,205	1,518,858	178,304	22,945,759
Books	11,219,456	423,470		11,642,926
Total accumulated depreciation	111,731,743	8,437,600	1,638,286	118,531,057
Capital assets, net	<u>\$225,265,785</u>	<u>\$8,063,227</u>	<u>\$80,929</u>	<u>\$233,248,083</u>

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$5,938,000 and \$3,299,000 at June 30, 2008 and 2007, 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE H--PAYABLES

Payables of the University include the following at June 30:

	<u>2008</u>	<u>2007</u>
Accrued payroll and benefits	\$6,436,711	\$6,201,654
Construction contractors	910,367	2,020,993
Charter schools	2,715,955	2,562,514
Vendors	5,325,048	4,022,175
Interest payable	435,406	102,678
Total	<u>\$15,823,487</u>	<u>\$14,910,014</u>

NOTE I--NONCANCELABLE LEASES

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

<u>Year ending June 30</u>	<u>Amount</u>
2009	\$1,686,990
2010	273,923
Total	<u>\$1,960,913</u>

Lease expense for 2008 and 2007 is approximately \$4,639,000 and \$4,420,000, respectively.

NOTE J--BONDS AND NOTES PAYABLE

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.

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. All bonds were called and paid in full in April 2008, with proceeds from the Series 2008 General Revenue Bonds.

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. All bonds were called and paid in full in April 2008, with proceeds from the Series 2008 General Revenue Bonds.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--BONDS AND NOTES PAYABLE (continued)

In 2001, the University sold a \$30,000,000 General Revenue Bond issue for various renovations and construction needs on campus. All bonds were called and paid in full in April 2008, with proceeds from the Series 2008 General Revenue Bonds.

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swaps. The intention of the swaps were to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate. The swaps were terminated on March 12, 2008, as part of the reissuance of related debt for a total termination cost of \$3,029,000.

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.

As of June 30, 2008, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2009	\$3,405,000	\$5,248,954	\$8,653,954
2010	3,545,000	5,077,624	8,622,624
2011	3,585,000	4,923,553	8,508,553
2012	3,650,000	4,788,619	8,438,619
2013	3,720,000	4,652,256	8,372,256
Total Five Years	17,905,000	24,691,006	42,596,006
Thereafter			
2014-2018	20,810,000	20,830,128	41,640,128
2019-2023	24,935,000	15,365,138	40,300,138
2024-2028	22,085,000	9,536,100	31,621,100
2029-2033	17,655,000	4,593,981	22,248,981
2034-2038	9,600,000	1,036,753	10,636,753
2039	595,000	14,875	609,875
Total	113,585,000	\$76,067,981	\$189,652,981
Less: deferred amount on refunding, net	(4,972,813)		
Less: unamortized re-offering premium	2,068,029		
Total	<u>\$110,680,216</u>		

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--BONDS AND NOTES PAYABLE (continued)

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	\$103,750,000	\$100,935,000	\$91,100,000	\$113,585,000	\$3,405,000
Deferred amount on refunding	(1,296,450)	(5,033,052)	(1,356,689)	(4,972,813)	(240,954)
Premium on bond issuance		2,095,499	27,470	2,068,029	109,878
Total notes and bonds payable	102,453,550	97,997,447	89,770,781	110,680,216	3,273,924
Other liabilities:					
Severance benefits	1,866,385	503,118	718,037	1,651,466	772,717
Compensated absences	2,309,474	279,924	124,401	2,464,997	216,553
Federal portion of Perkins Loan Program	6,879,438		48,418	6,831,020	
Total other liabilities	11,055,297	783,042	890,856	10,947,483	989,270
Total long-term liabilities	\$113,508,847	\$98,780,489	\$90,661,637	\$121,627,699	\$4,263,194

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	\$105,805,000		\$2,055,000	\$103,750,000	\$3,170,000
Deferred amount on refunding	(1,384,595)		(88,145)	(1,296,450)	(88,145)
Total notes and bonds payable	104,420,405		1,966,855	102,453,550	3,081,855
Other liabilities:					
Severance benefits	2,204,834	\$485,286	823,735	1,866,385	694,741
Compensated absences	2,209,755	318,696	218,977	2,309,474	242,972
Federal portion of Perkins Loan Program	6,903,946		24,508	6,879,438	
Total other liabilities	11,318,535	803,982	1,067,220	11,055,297	937,713
Total long-term liabilities	\$115,738,940	\$803,982	\$3,034,075	\$113,508,847	\$4,019,568

NOTE K--OPERATING EXPENSES

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

	2008	2007
Salaries, wages and benefits	\$83,698,391	\$78,918,727
Supplies and support services	36,098,210	36,209,642
Utilities	7,263,915	6,697,848
Depreciation expense	8,880,074	8,468,552
Scholarships	8,442,556	7,738,482
Total	\$144,383,146	\$138,033,251

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE L--RETIREMENT PLANS

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

MPERS 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 MPERS are established and may be amended by state statute. Because of the State of Michigan House Bill HB4047, University employees hired after December 31, 1995 can no longer participate in this retirement plan, unless they were previously enrolled in the plan at the University or one of the other six universities that are part of MPERS. Pension data for MPERS is contained in MPERS' Comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909.

The following represents the employer's share of retirement contributions for MPERS 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 MPERS as a percentage due on their covered MPERS payroll. For the State's fiscal year 2008, this rate is 5.84%, and is applied to payrolls occurring on or after October 1, 2007. For the State's fiscal year 2007, this rate was 6.38%, and was applied to payrolls occurring on or after October 1, 2006, and for the State's fiscal year 2006, this rate was 6.30%, and was applied to payrolls occurring on or after October 1, 2005.
- 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 2008, this rate is 7.29% and is applied to payrolls occurring on or after October 1, 2007. For the State's fiscal year 2007, this rate was 6.85%, and was applied to payrolls occurring on or after October 1, 2006, and for the State's fiscal year 2006, this rate was 3.65%, and was applied to payrolls occurring on or after October 1, 2005.
- 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, 2008, which encompasses 9 months of the State's fiscal year 2008 and 3 months of the State's fiscal year 2007, the University's total cost for retiree's health insurance was \$2,095,339. For the year ended June 30, 2007, which encompasses 9 months of the State's fiscal year 2007 and 3 months of the State's fiscal year 2006, the University's total cost for retiree's health insurance was \$2,250,921. 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.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE L--RETIREMENT PLANS (continued)

The University's contributions to the plans are as follows for the year ended June 30, 2008:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$5,715,494	\$4,068,968	\$9,784,462
Covered Payroll	\$37,987,156	\$12,054,659	\$50,041,815

The University's contributions to the plans are as follows for the year ended June 30, 2007:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$5,243,848	\$4,123,623	\$9,367,471
Covered Payroll	\$34,864,761	\$13,330,270	\$48,195,031

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
Covered Payroll	\$31,774,814	\$12,870,196	\$44,645,010

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, 2008 and 2007 was \$8,000 and \$44,000, 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, 2008 and 2007 was \$1,047,000 and \$1,428,000, 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 through 2008. 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. Severance benefits totaling \$503,000 were added for the period ending June 30, 2008. The remaining RIF liability as of June 30, 2008 and 2007 was \$589,000 and \$395,000, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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 \$18,761,379 at June 30, 2007, based on the last published financial statements.

Self-insurance

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

Stop-loss coverage has been purchased by the University for the self-funded hospital/medical benefits and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to \$10.7 million and \$11.0 million in aggregate for fiscal year ended June 30, 2008 and 2007, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$250,000 in aggregate for fiscal years ended June 30, 2008 and 2007.

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 a two year lease commitment of \$4,269,000 for 5,700 laptop computers.

NOTE Q--NEW ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2006. Statement No. 49 requires estimation of expected pollution remediation outlays, when specified obligating events occur, and to determine whether these outlays should be accrued for as a liability. GASB 49 will be effective for the University for the year ending June 30, 2009. At June 30, 2008, the University did not have any obligations for remediation outlays.