

FINANCIAL REPORT

2008 - 2009

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

Douglas B. Roberts
Chair
East Lansing
2010

Brian D. Cloyd
Vice Chair
Grand Rapids
2012

Stephen F. Adamini
Marquette
2014

Larry C. Inman
Williamsburg
2010

Jon G. LaSalle
Marquette
2012

Leigh Garnet Lewis
Freeland
2016

H. Sook Wilkinson
Bloomfield Hills
2016

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

Arthur J. Gischia
Associate Vice President for Business/Auxiliary Services

Sandra S. Haavisto
Controller

David W. Maki
Chief Technology Officer

Kathy A. Richards
Associate Vice President for Engineering and Facilities

Michael J. Roy
Special Projects Consultant

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, 2009, 2008 and 2007. 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 \$53.5 million for the year ended June 30, 2009, and \$50.6 million for the year ended June 30, 2008. 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 was 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, 2009 of \$213.6 million decreased by \$1.7 million from the prior year and included recognition of \$46.6 million in State appropriation revenue. In fiscal year 2008, the University received funding for the delayed August 2007, State appropriation payment of \$4.2 million. Excluding the \$4.2 million recovery in fiscal year 2008, the current year net loss before other revenues of \$1.7 million decreased \$4.6 million from the prior year adjusted total of \$2.9 million.

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

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2009 of \$96.8 million increased by \$2.9 million over the prior year. Tuition and Fees totaling \$52.9 million is the largest component of operating revenue and increased by \$0.5 million over the prior year. Residential life revenues of \$18.8 million increased by \$1.3 million, and all other operating revenues of \$25.1 million netted to a \$1.1 million increase. Non-operating revenues totaling \$57.2 million decreased by \$1.2 million from the prior year after adjusting for the \$4.2 million delayed August 2007 State appropriation payment. The largest components of this decrease were a \$2.8 million decrease in investment income, a \$0.9 million increase in Pell grant revenues, and a \$0.5 million increase in state appropriations, after adjusting fiscal year 2008 for the \$4.2 million delayed payment. State appropriations totaling \$46.6 million is the largest component of non-operating revenues. Net investment loss totaled (\$0.5) million and declined from the prior year investment income of \$2.3 million mainly due to a change in market value on long-term investments.

For the year ended June 30, 2008, operating revenues 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. Residential 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.

Operating and non-operating expenses of \$155.6 million for the year ended June 30, 2009 increased \$6.3 million and includes a \$3.7 million increase in salaries, wages, and benefits, a \$1.5 million increase in utilities, a \$0.1 million decrease in student aid, a \$0.4 million increase in interest on capital asset-related debt, a \$0.2 million increase in supplies and support services, and a \$0.6 million increase in depreciation. On a functional basis, instructional expenses increased \$2.4 million, operations and maintenance of plant increased \$1.6 million, interest on capital asset related debt increased \$0.4 million, student aid decreased \$0.1 million, depreciation expense increased \$0.6 million, and other costs increased \$1.4 million.

For the year ended June 30, 2008, operating and non-operating expenses of \$149.3 million increased \$7.3 million and includes a \$4.8 million increase in salaries, wages, and benefits, a \$0.6 million increase in utilities, a \$0.7 million increase in student aid, a \$1.0 million increase in interest on capital asset-related debt, a \$0.2 million decrease in supplies and support services, and a \$0.4 million increase in depreciation. 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 \$0.7 million, depreciation expense increased \$0.4 million, and other costs increased \$1.4 million.

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

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2009	2008	2007
ASSETS			
Current Assets	\$71,445,843	\$81,775,508	\$70,167,291
Noncurrent Assets			
Capital	235,593,423	237,812,707	233,248,083
Other	43,691,923	37,456,260	36,490,601
Total Noncurrent Assets	<u>279,285,346</u>	<u>275,268,967</u>	<u>269,738,684</u>
Total Assets	<u>350,731,189</u>	<u>357,044,475</u>	<u>339,905,975</u>
LIABILITIES			
Current Liabilities	23,991,383	24,435,842	23,344,421
Noncurrent Liabilities	113,181,153	117,364,505	109,489,279
Total Liabilities	<u>137,172,536</u>	<u>141,800,347</u>	<u>132,833,700</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	128,187,130	127,132,491	130,794,533
Restricted			
Nonexpendable	627,558	769,770	897,463
Expendable	6,062,430	14,623,991	11,124,509
Unrestricted	<u>78,681,535</u>	<u>72,717,876</u>	<u>64,255,770</u>
Total Net Assets	<u>\$213,558,653</u>	<u>\$215,244,128</u>	<u>\$207,072,275</u>

Total current assets of \$71.4 million at June 30, 2009, included \$2.2 million in unspent bond proceeds that will be used for construction projects. At June 30, 2008, total current assets of \$81.8 million included \$10.5 million in unspent bond proceeds. After adjusting for unspent bond proceeds, the ratio of current assets to current liabilities is 2.88 for the year ended June 30, 2009, and 2.92 for the year ended June 30, 2008.

The University's largest non-current asset is its investment in physical plant of \$235.6 million at June 30, 2009. Net capital assets decreased \$2.2 million from the prior year after recognition of \$9.5 million in depreciation expense.

The State appropriations receivable totaled \$8.5 million at June 30, 2009. The State appropriations receivable at June 30, 2008, totaled \$8.4 million.

Long-term debt consisting of notes and bonds payable is the largest liability totaling \$107.4 million at June 30, 2009, and \$110.7 million at June 30, 2008.

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

Condensed Financial Information (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

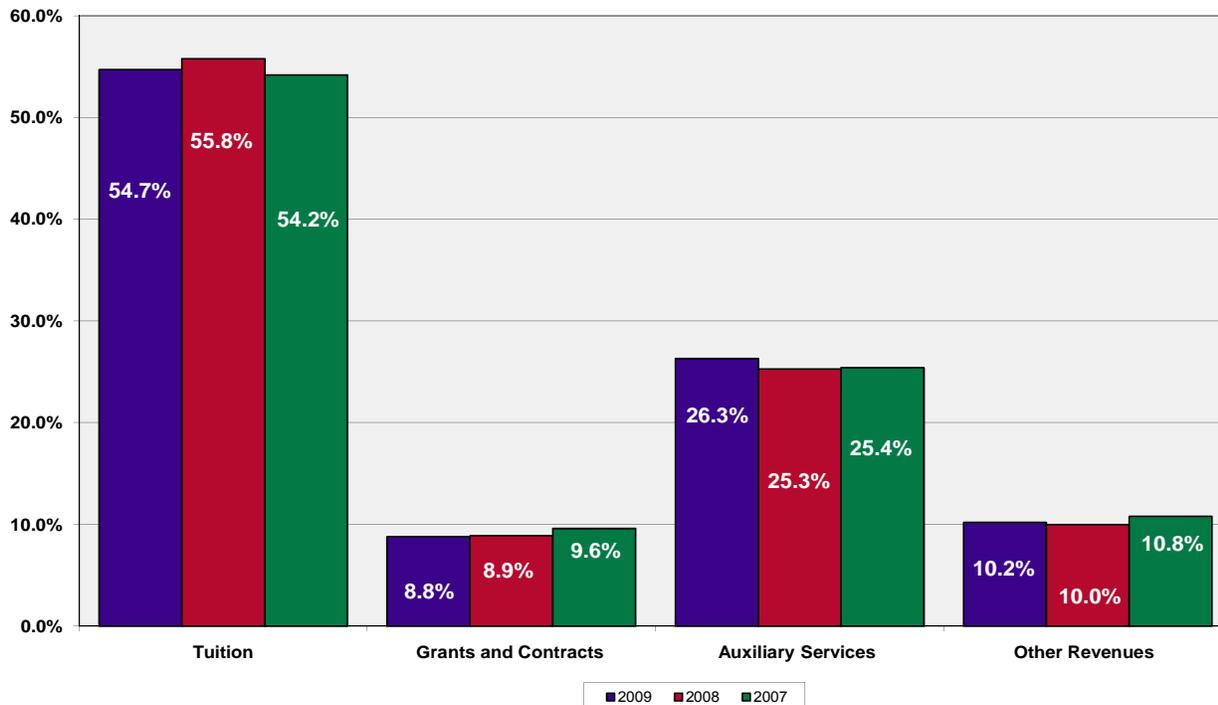
	June 30		
	2009	2008	2007
Operating Revenues			
Tuition and Fees, net	\$52,852,685	\$52,379,379	\$49,342,307
Grants and Contracts	8,520,775	8,310,331	8,772,738
Auxiliary Enterprises, net	25,480,240	23,712,454	23,144,616
Other Operating Revenues	9,910,403	9,412,773	9,906,921
Total Operating Revenues	<u>96,764,103</u>	<u>93,814,937</u>	<u>91,166,582</u>
Operating Expenses	<u>(150,270,856)</u>	<u>(144,383,146)</u>	<u>(138,033,251)</u>
Operating Loss	(53,506,753)	(50,568,209)	(46,866,669)
Non-operating Revenues (Expenses)			
State Appropriations	46,633,200	50,389,700	40,957,700
Pell Grant Revenue	8,817,707	7,878,563	7,524,611
Other Non-operating Revenues (Expenses) - net	<u>(3,594,243)</u>	<u>(560,365)</u>	<u>4,313,841</u>
Net Non-operating Revenues and Expenses	<u>51,856,664</u>	<u>57,707,898</u>	<u>52,796,152</u>
(Loss) Income before Other Revenues	<u>(1,650,089)</u>	<u>7,139,689</u>	<u>5,929,483</u>
Capital State Appropriations			77,153
Capital Grants and Gifts	621,213	1,289,629	162,000
Capital Gifts from the NMU Foundation		60,000	
Loss on Asset Disposal	<u>(656,599)</u>	<u>(317,465)</u>	<u>(80,928)</u>
Total Other (Expenses) Revenues	<u>(35,386)</u>	<u>1,032,164</u>	<u>158,225</u>
Total (Decrease) Increase in Net Assets	<u>(1,685,475)</u>	<u>8,171,853</u>	<u>6,087,708</u>
Net Assets			
Net assets—beginning of year	215,244,128	207,072,275	200,984,567
Net assets – end of year	<u>\$213,558,653</u>	<u>\$215,244,128</u>	<u>\$207,072,275</u>

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

Condensed Financial Information (continued)

Total operating revenues were \$96.8 million for fiscal year 2009 and \$93.8 million for fiscal year 2008. 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>2008-2009</u>	<u>2007-2008</u>	<u>2006-2007</u>
Undergraduate, resident	\$7,078	\$6,708	\$6,140
Undergraduate, nonresident	\$11,230	\$10,644	\$10,076
Graduate, resident	\$8,332	\$7,884	\$7,196
Graduate, nonresident	\$12,052	\$11,412	\$10,724

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

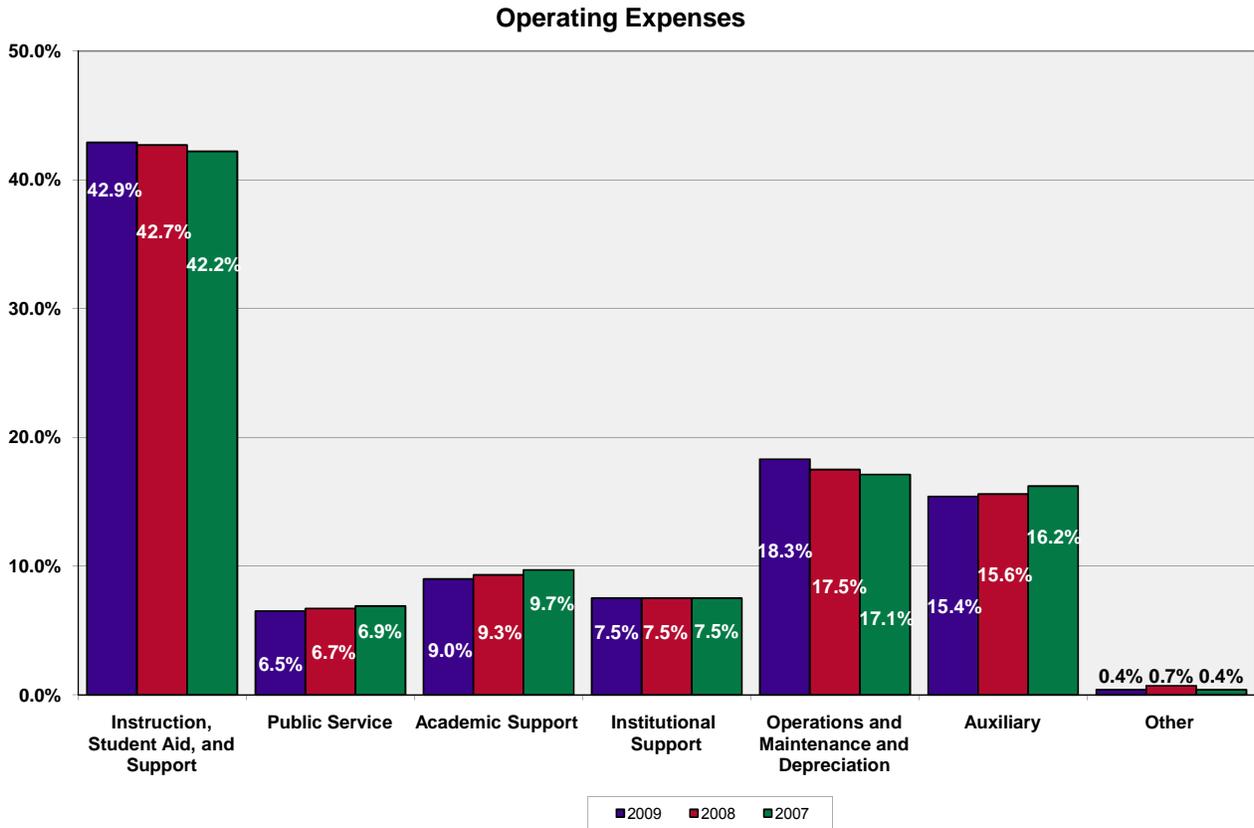
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$7,636 for 2008-2009, \$7,220 for 2007-2008, and \$6,692 for 2006-2007. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Ten residence halls currently have a mean occupancy of 2,357 (2008 – 2,295) and are at 90 percent capacity (2008 – 87 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, 2009, including depreciation of \$9.5 million, totaled \$150.3 million. Of this total, \$64.5 million, or 42.9%, was used for instruction, student aid, and student support, \$27.5 million, or 18.3%, was used for operation, maintenance, and depreciation, and \$23.1 million, or 15.4%, was used for auxiliary enterprises. Operating expenses for June 30, 2008, including depreciation of \$8.9 million, totaled \$144.4 million.

The breakout by functional expense is highlighted below:



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

Other

The State appropriation of \$46.6 million for June 30, 2009, and \$50.4 million for June 30, 2008, 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 \$5.3 million for June 30, 2009, and \$4.9 million for June 30, 2008. 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		
	2009	2008	2007
Cash Provided (Used) By:			
Operating Activities	(\$45,097,006)	(\$40,931,038)	(\$38,149,201)
Noncapital Financing Activities	56,695,437	55,084,619	54,816,862
Capital and Related Financing Activities	(14,685,557)	(10,859,660)	(24,785,832)
Investing Activities	(7,381,306)	9,874,574	21,078,284
Net (Decrease) Increase in Cash and Cash Equivalents	(10,468,432)	13,168,495	12,960,113
Cash and Cash Equivalents – Beginning of Year	62,260,632	49,092,137	36,132,024
Cash and Cash Equivalents – End of Year	<u>\$51,792,200</u>	<u>\$62,260,632</u>	<u>\$49,092,137</u>

Major sources of funds included in operating activities are student tuition and fees of \$53.1 million, grants and contracts of \$8.1 million and auxiliary sales of \$25.1 million for the year ended June 30, 2009; and 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. The major source of funds included in noncapital financing activities are State appropriations of \$46.6 million and Pell grant revenue of \$8.8 million for the year ended June 30, 2009; and State appropriations of \$45.2 million and Pell grant revenue of \$7.9 million for the year ended June 30, 2008.

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 \$2.0 million for the year ended June 30, 2009, was primarily the result of a \$3.2 million decrease in investments which was offset by a \$1.6 million capital gift of a golf course. For the year ended June 30, 2008, the Foundation had a \$1.6 million decrease 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 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
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
2009	8,598	749	9,347	8,417	239,850	9,942	249,792

For the 2008-09 academic year, fifty-five percent (55%) of the University's students represent Upper Peninsula Michigan residents, twenty-six percent (26%) 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 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>
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
2008	5,608	4,367	77.9	1,898	43.5

By August 3, 2009, the University had received 5,931 freshman applications (as compared to 5,561 as of August 3, 2008) and had granted 4,261 acceptances (as compared to 4,315 as of August 3, 2008).

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>
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
2008	1,134	704	62.1	437	62.1

By August 3, 2009, the University had received 1,286 transfer applications (as compared to 1,106 as of August 3, 2008) and had granted 734 acceptances (as compared to 658 as of August 3, 2008).

Capital Plan

The University has in place a five-year strategic capital plan focusing on renovations and transformation of existing facilities to a state-of-the-art environmentally efficient campus. Campus renovations have focused on reducing the environmental impact on the planet by reducing the use of fossil fuels, conserving resources, and reducing waste. Recently completed renovations emphasize the University's continued commitment to leadership in energy and environmental design.

The University achieved a Leadership in Energy and Environmental Design (LEED) certification on the renovation of Meyland Hall and a LEEDS Silver certification on the renovation of Van Antwerp Hall. The Hunt Hall renovation was completed in August 2008, and the University expects to receive a LEEDS Silver certification on this project. The LEED Green Building Rating System™ is the nationally accepted benchmark for the design, construction, and operation of high performance green buildings. LEED promotes a whole-building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality.

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 goal is to increase energy efficiency, improve the reliability of electricity, utilize renewable resources and diversify the fuel sources. The project includes the construction of a research facility that will explore ways to create alternative energy.

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, 2009 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
12/01/2008-12/01/2009	4.500%	4.500%	410,000
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
12/01/2008-12/01/2011	4.750%	4.750%	1,400,000
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
12/01/2009	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
12/01/2010-12/01/2029	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
12/01/2014-12/01/2020	5.125%	5.125%	4,325,000
Total			\$110,180,000

Teaching, Learning, and Communication (TLC) Initiative

A major part of the University's success is its high-tech learning environment. The campus is a connected learning community with over 9,500 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.

The University received an Education Broadband Service radio license in August of 2008 and will use WiMax technology to expand the wireless network to the surrounding community. Over the next two years, the University plans to expand its signal to the surrounding county and provide wireless access from campus directly 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)

A connected learning environment requires that we continue to improve our support systems, technology infrastructure, and facilities. For all new construction, remodeling, or networking redesign, buildings will be connected with an increased number of strands of single-mode fiber to facilitate 10 Gigabit Ethernet, data wiring cable will be Cat 6 or better quality, and wireless access points will be 802.11abgn or 802.16e WiMax.

On June 12, 2009, the University complied with the FCC's mandated transition from analog to digital transmissions by replacing its transmitter, antenna, and transmission line for WNMU-TV. The project included digital upgrades to the station's microwave studio-to-transmitter link, as well as tower modifications. This project received primary funding through a Corporation for Public Broadcasting \$1.0 million grant and is slated for completion by August, 2009. As a result of the digital transition, the station can deliver three simultaneous program streams with HD signal quality. In addition to over-the-air transmission capabilities, WNMU-TV has recently been added to the channel line-up of both subscriber-based satellite dish providers and continues to be carried by Upper Michigan and Northeastern Wisconsin cable companies. The University's public radio station shares microwave transmission facilities and with the new digital broadcasting capabilities, the radio station can add additional program streams as funding and programming allows.

The final phase of WNMU-TV's digital conversion also began in 2009 and is slated to be completed by the end of 2010. A new mobile HD production system has been acquired and in 2009, the station will be upgrading its studio control room facilities to digital. When complete, the station will have finished all three phases of its digital conversion. These new digital technologies will increase program quality and add channel capacity that aid in facilitating additional programming opportunities and experiences for students.

State Appropriations

The University does not have a set funding level for State Appropriations for the upcoming fiscal year as the State of Michigan does not have an approved budget in place for the State's fiscal year beginning October 1, 2009.

INDEPENDENT AUDITORS' REPORT

September 16, 2009

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, 2009 and 2008, 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, 2009 and 2008, 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 16, 2009, 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 June 30	
	2009	2008	2009	2008
ASSETS				
Current assets				
Cash and cash equivalents	\$ 51,792,200	\$ 62,260,632	\$ 54,703	\$ 198,911
State appropriation receivable	8,470,663	8,393,616		
Accounts receivable (less allowance 2009--\$2,264,655; 2008--\$3,406,659)	7,123,059	7,152,267	92,688	36,544
Student notes receivable (less allowance 2009--\$582,200; 2008--\$488,929)	1,349,513	1,276,069		
Investment receivable	60,088	168,097		
Pledges receivable (less allowance 2009--\$18,869; 2008--\$77,870)			211,707	658,527
Short-term investments		75,815		
Inventories	1,317,644	1,313,291	1,619	1,784
Other assets	1,332,676	1,135,721	222,275	205,650
Total current assets	<u>71,445,843</u>	<u>81,775,508</u>	<u>582,992</u>	<u>1,101,416</u>
Noncurrent assets				
Long-term investments	33,577,335	26,533,972	18,562,404	22,259,377
Student notes receivable (less allowance 2009--\$1,746,598; 2008--\$1,466,787)	7,385,536	8,114,386		
Other long-term investments	1,094,962	1,094,962		
Pledges receivable (less allowance 2009--\$12,048; 2008--\$12,501)			1,052,926	853,576
Unamortized bond issue costs	1,634,090	1,712,940		
Capital assets, net	235,593,423	237,812,707	1,608,294	
Total noncurrent assets	<u>279,285,346</u>	<u>275,268,967</u>	<u>21,223,624</u>	<u>23,112,953</u>
Total assets	<u>350,731,189</u>	<u>357,044,475</u>	<u>21,806,616</u>	<u>24,214,369</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	8,696,175	9,386,776	143,921	511,293
Accrued payroll and benefits	6,832,791	6,436,711		
Unearned revenue (unearned student fees and deposits)	4,296,361	4,349,161		
Long-term liabilities-current portion	4,166,056	4,263,194		
Total current liabilities	<u>23,991,383</u>	<u>24,435,842</u>	<u>143,921</u>	<u>511,293</u>
Noncurrent liabilities				
Annuities payable			102,740	93,280
Long-term liabilities-net of current portion	113,181,153	117,364,505		
Total noncurrent liabilities	<u>113,181,153</u>	<u>117,364,505</u>	<u>102,740</u>	<u>93,280</u>
Total liabilities	<u>137,172,536</u>	<u>141,800,347</u>	<u>246,661</u>	<u>604,573</u>
NET ASSETS				
Invested in capital assets, net of related debt	128,187,130	127,132,491		
Restricted for				
Nonexpendable				
Scholarships and fellowships	46,991	59,973	2,124,906	2,531,308
Loans	38,225	48,583		
Instruction	542,342	661,214		
Expendable				
Instruction	691,491	891,776	3,656,286	3,979,925
Scholarships and fellowships	412,917	534,648	10,979,356	12,110,197
Loans	2,684,374	2,650,700		
Research	26,525	34,713		
Academic, student and public service	61,086	79,545	4,464,639	3,683,961
Capital project	2,186,037	10,432,609		
Unrestricted	78,681,535	72,717,876	334,768	1,304,405
Total net assets	<u>\$ 213,558,653</u>	<u>\$ 215,244,128</u>	<u>\$ 21,559,955</u>	<u>\$ 23,609,796</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	
	June 30		Northern Michigan University Foundation	
	2009	2008	2009	2008
REVENUES				
Operating				
Student tuition and fees (less allowance 2009--\$12,555,000; 2008--\$11,250,200)	\$ 52,852,685	\$ 52,379,379		
Gifts and contributions			\$ 5,014,199	\$ 3,699,674
Endowment income			114,438	110,410
Federal grants and contracts	4,991,166	4,711,090		
State and local grants and contracts	2,354,767	2,424,122		
Nongovernmental grants and contracts	1,174,842	1,175,119		
Sales and services of educational activities	9,909,949	9,384,320		
Auxiliary enterprise				
Residential life (less allowance 2009--\$3,953,500; 2008--\$3,471,000)	18,775,123	17,432,061		
Other auxiliary	6,705,117	6,280,393		
Other operating revenues	454	28,453	84,086	178,868
Total operating revenues	<u>96,764,103</u>	<u>93,814,937</u>	<u>5,212,723</u>	<u>3,988,952</u>
EXPENSES				
Operating				
Educational and general				
Instruction	42,366,591	39,926,624		
Research	840,507	828,552		
Public service	9,697,068	9,729,286		
Academic support	13,487,049	13,499,596		
Student services	13,803,785	13,344,586		
Institutional support	11,213,551	10,768,228	1,543,104	1,592,406
Operations and maintenance of plant	18,010,317	16,450,044		
Student aid	8,304,441	8,442,556		
Depreciation	9,450,066	8,880,074		
Auxiliary enterprise				
Residential life	15,058,521	15,114,276		
Other	8,038,960	7,399,324		
Total operating expenses	<u>150,270,856</u>	<u>144,383,146</u>	<u>1,543,104</u>	<u>1,592,406</u>
Operating (loss) income	<u>(53,506,753)</u>	<u>(50,568,209)</u>	<u>3,669,619</u>	<u>2,396,546</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	46,633,200	50,389,700		
Pell grant revenue	8,817,707	7,878,563		
Gifts (including 2009--\$2,225,500 and 2008--\$2,039,400 from the NMU Foundation)	2,225,547	2,041,403		
Payments to and on behalf of the University			(2,494,876)	(2,383,496)
Investment (loss) income (net of investment expense for the University 2009--\$241,000 and 2008--\$243,000; and for the NMU Foundation 2009--\$112,182 and 2008--\$135,215)	(521,766)	2,276,041	(3,224,584)	(1,574,817)
Interest on capital asset-related debt	(5,298,024)	(4,877,809)		
Net non-operating revenues (expenses)	<u>51,856,664</u>	<u>57,707,898</u>	<u>(5,719,460)</u>	<u>(3,958,313)</u>
(Loss) Income before other (expenses) revenues	<u>(1,650,089)</u>	<u>7,139,689</u>	<u>(2,049,841)</u>	<u>(1,561,767)</u>
Capital state appropriations				
Capital grants and gifts	621,213	1,289,629		
Capital gifts from the NMU Foundation		60,000		
Loss on asset disposal	(656,599)	(317,465)		
Total other (expenses) revenues	<u>(35,386)</u>	<u>1,032,164</u>		
(Decrease) Increase in net assets	<u>(1,685,475)</u>	<u>8,171,853</u>	<u>(2,049,841)</u>	<u>(1,561,767)</u>
NET ASSETS				
Beginning of year	215,244,128	207,072,275	23,609,796	25,171,563
End of year	<u>\$213,558,653</u>	<u>\$215,244,128</u>	<u>\$ 21,559,955</u>	<u>\$ 23,609,796</u>

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	June 30	
	2009	2008
Cash Flows from Operating Activities		
Tuition and fees	\$ 53,084,981	\$ 52,716,436
Grants and contracts	8,071,668	7,980,620
Payments to suppliers	(47,355,691)	(42,276,187)
Payments to employees	(86,953,763)	(83,443,707)
Payments for scholarships and fellowships	(8,304,441)	(8,442,556)
Loans issued to students and employees	(686,123)	(1,623,152)
Collection of loans to students and employees	1,341,528	1,310,738
Auxiliary enterprise		
Residential life	18,697,750	17,377,046
Other	6,388,937	6,358,913
Other receipts	10,618,148	9,110,811
Net cash used by operating activities	(45,097,006)	(40,931,038)
Cash Flows from Noncapital Financing Activities		
State appropriations	46,556,153	45,199,238
Pell grant revenue	8,817,707	7,869,695
William D. Ford direct lending receipts	33,292,953	27,785,305
William D. Ford direct lending disbursements	(33,284,967)	(27,785,305)
Gifts and grants received for other than capital purposes	2,225,547	2,041,403
Other	(911,956)	(25,717)
Net cash provided by noncapital financing activities	56,695,437	55,084,619
Cash Flows from Capital and Related Financing Activities		
Net proceeds from sale of revenue bonds		98,209,709
Capital grants and gifts received	621,213	1,349,629
Purchases of capital assets	(6,722,779)	(14,872,795)
Principal paid on capital debt	(3,405,000)	(91,100,000)
Interest paid on capital debt	(5,178,991)	(4,446,203)
Net cash used by capital and related financing activities	(14,685,557)	(10,859,660)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,599,708	24,043,817
Interest on investments	2,438,613	4,356,752
Purchase of investments	(13,419,627)	(18,525,995)
Net cash (used) provided by investing activities	(7,381,306)	9,874,574
Net (decrease) increase in cash and cash equivalents	(10,468,432)	13,168,495
Cash and cash equivalents - beginning of the year	62,260,632	49,092,137
Cash and cash equivalents - end of year	\$ 51,792,200	\$ 62,260,632
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$(53,506,753)	\$(50,568,209)
Depreciation expense	9,450,066	8,880,074
Amortization of bond issuance costs	78,850	19,646
Change in assets and liabilities:		
Receivables, net	813,569	(524,203)
Inventories	(4,353)	38,718
Other assets	(197,270)	(233,055)
Accounts payable	(2,075,376)	1,257,935
Unearned revenue	(60,786)	(56,628)
Compensated absences and accrued payroll	405,047	254,684
Net cash used by operating activities	(\$45,097,006)	(\$40,931,038)

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2009

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, was 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 59 retirees participating in health coverage at June 30, 2009. 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-three-member Board of Trustees of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is

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, 2009 and 2008, the Foundation made distributions of \$2.5 million and \$2.4 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.

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 2009 and 2008 is approximately \$9,450,000 and \$8,880,000, 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 2008 balances have been reclassified to conform to the 2009 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:

	2009	2008
Cash and cash equivalents	\$51,792,200	\$62,260,632
Short-term investments		75,815
Long-term investments	33,577,335	26,533,972
Other long-term investments	1,094,962	1,094,962
Total	\$86,464,497	\$89,965,381

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, 2009 and 2008, the carrying amount of the University's deposits was \$5,600,056 and \$4,795,730, respectively. The bank balance of the University's deposits at June 30, 2009 and 2008 was \$6,995,935 and \$6,719,626, respectively. Of that amount, \$6,827,292 and \$6,557,035, 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, 2009 and 2008.

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.

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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, 2009, 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	\$46,192,144	\$46,192,144			
Bond Mutual Funds	25,403,504		\$23,003,409	\$1,129,257	\$1,270,838
Equity Mutual Funds	8,127,114		5,466,864		2,660,250
Mortgage Backed Security Funds	4,538				4,538
Alternative Investments	11,808				11,808
Equity Stock	23,220		23,220		
Fixed Income Mutual Funds	7,151				7,151
Preferred Stock	900,000				900,000
Real Estate	194,962				194,962
Total	80,864,441	\$46,192,144	\$28,493,493	\$1,129,257	\$5,049,547
Less Investments Reported as "Cash Equivalents" on Statements of Net Assets	(46,192,144)				
Total Investments	\$34,672,297				

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	900,000				194,962
Real Estate	194,962				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				

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, 2009 and 2008, 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, 2009 and 2008.

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 investments for the Endowment Fund will be to provide for long-term growth of principal without undue exposure risk, through capital appreciation, income, donor development and gifts.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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 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 2009 investment income consists of interest and dividends, net of related expenses of \$112,182 and the present value adjustment to annuities payable of \$9,460. 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.

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

Market value and unrealized depreciation on investments at June 30, 2009 are as follows:

	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Money market mutual funds	\$357,383	\$357,383	
Other mutual funds	19,535,308	17,340,910	(\$2,194,398)
Government bonds	292,177	306,379	14,202
Equity securities	591,160	557,732	(33,428)
Total at end of year	<u>20,776,028</u>	<u>18,562,404</u>	<u>(2,213,624)</u>
Total at beginning of year	<u>\$22,181,369</u>	<u>\$22,259,377</u>	<u>78,008</u>
Recognized gain (loss):			
Unrealized net loss (decrease from prior year)			(2,291,632)
Realized net loss for the year			<u>(1,454,197)</u>
Total net decrease in fair value of investments			<u><u>(\$3,745,829)</u></u>

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:

	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
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	580,761	690,939	110,178
Total at end of year	<u>22,181,369</u>	<u>22,259,377</u>	<u>78,008</u>
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			332,005
Total net decrease in fair value of investments			<u>(\$2,160,377)</u>

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. The June 30, 2009 dividend has been deferred.

NOTE E--RECEIVABLES

Receivables of the University include the following at June 30:

	2009	2008
State appropriations - net	\$8,470,663	\$8,393,616
Student notes receivable - net	8,735,049	9,390,455
Charter schools	3,023,993	2,799,954
NMU Foundation	24,809	131,098
State, federal and private grants	1,167,798	1,097,095
Students, employees, and vendors - net	2,906,459	3,124,120
Investment receivable	60,088	168,097
Total	<u>\$24,388,859</u>	<u>\$25,104,435</u>

For the years ended June 30, 2009 and 2008, the University received \$16,686,440 and \$15,416,457, respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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, 2009:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$5,765,328	\$243,271		\$6,008,599
Land improvements	10,651,729	29,475		10,681,204
Buildings and improvements	268,918,658	8,462,288	\$2,592,647	274,788,299
Infrastructure	18,614,144			18,614,144
Equipment	39,180,176	1,525,714	1,486,591	39,219,299
Books	14,434,841	301,761		14,736,602
Construction in progress	7,294,724	(2,675,128)		4,619,596
Totals at historical cost	364,859,600	7,887,381	4,079,238	368,667,743
Less accumulated depreciation for:				
Land improvements	4,036,175	475,811		4,511,986
Buildings and improvements	77,703,768	6,327,980	1,936,707	82,095,041
Infrastructure	9,001,083	628,178		9,629,261
Equipment	24,305,673	1,676,290	1,485,932	24,496,031
Books	12,000,194	341,807		12,342,001
Total accumulated depreciation	127,046,893	9,450,066	3,422,639	133,074,320
Capital assets, net	<u>\$237,812,707</u>	<u>(\$1,562,685)</u>	<u>\$656,599</u>	<u>\$235,593,423</u>

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	<u>\$233,248,083</u>	<u>\$4,882,089</u>	<u>\$317,465</u>	<u>\$237,812,707</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 \$2,069,000 and \$5,938,000 at June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE F--CAPITAL ASSETS (continued)

Northern Michigan University received grants from the U.S. Department of Commerce under the Public Telecommunication Facilities Program to assist in the purchase of equipment for WNMU-TV and WNMU-FM. Total acquisition costs under this program consisted of approximately \$958,900 for 2009 and \$909,300 for 2008. In accordance with established regulations, the federal government will maintain a priority lien on this equipment for a period of ten years.

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:

	<u>2009</u>	<u>2008</u>
Accrued payroll and benefits	\$6,832,791	\$6,436,711
Construction contractors	2,074,969	910,367
Charter schools	2,933,273	2,715,955
Vendors	3,264,570	5,325,048
Interest payable	423,363	435,406
Total	<u>\$15,528,966</u>	<u>\$15,823,487</u>

NOTE I—NON-CANCELABLE 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>
2010	\$2,686,314
2011	192,364
Total	<u>\$2,878,678</u>

Lease expense for 2009 and 2008 is approximately \$3,704,000 and \$4,639,000, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--BONDS AND NOTES PAYABLE (continued)

As of June 30, 2009, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
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
2014	3,985,000	4,508,813	8,493,813
Total Five Years	18,485,000	23,950,865	42,435,865
Thereafter			
2015-2019	21,540,000	19,871,444	41,411,444
2020-2024	25,395,000	14,175,548	39,570,548
2025-2029	20,915,000	8,481,782	29,396,782
2030-2034	16,355,000	3,738,816	20,093,816
2035-2039	7,490,000	600,575	8,090,575
Total	110,180,000	\$70,819,030	\$180,999,030
Less: deferred amount refunding, net	(4,731,859)		
Less: unamortized re-offering premium	1,958,151		
Total	\$107,406,292		

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	\$113,585,000		\$3,405,000	\$110,180,000	\$3,545,000
Deferred amount on refunding	(4,972,813)		(240,954)	(4,731,859)	(240,954)
Premium on bond issuance	2,068,029		109,878	1,958,151	109,878
Total notes and bonds payable	110,680,216		3,273,924	107,406,292	3,413,924
Other liabilities:					
Severance benefits	1,651,466	58,643	794,981	915,128	593,177
Compensated absences	2,464,997	130,011	193,508	2,401,500	158,955
Federal portion of Perkins Loan Program	6,831,020		206,731	6,624,289	
Total other liabilities	10,947,483	188,654	1,195,220	9,940,917	752,132
Total long-term liabilities	\$121,627,699	\$188,654	\$4,469,144	\$117,347,209	\$4,166,056

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

NOTE K--OPERATING EXPENSES

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

	2009	2008
Salaries, wages and benefits	\$87,358,811	\$83,698,391
Supplies and support services	36,344,698	36,098,210
Utilities	8,812,840	7,263,915
Depreciation expense	9,450,066	8,880,074
Scholarships	8,304,441	8,442,556
Total	\$150,270,856	\$144,383,146

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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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 2009, this rate is 5.66%, and is applied to payrolls occurring on or after October 1, 2008. For the State's fiscal year 2008, this rate was 5.84%, and was 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.
- 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 2009, this rate is 6.98% and is applied to payrolls occurring on or after October 1, 2008. For the State's fiscal year 2008, this rate was 7.29% and was 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.
- 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, 2009, which encompasses 9 months of the State's fiscal year 2009 and 3 months of the State's fiscal year 2008, the University's total cost for retiree's health insurance was \$2,473,377. 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.

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, 2009:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$6,030,331	\$4,414,073	\$10,444,404
Covered Payroll	\$39,731,749	\$11,915,142	\$51,646,891

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

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, 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

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, 2009 and 2008 was \$0 and \$8,000, 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, 2009 and 2008 was \$640,000 and \$1,047,000, 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 \$58,600 were added for the period ending June 30, 2009. The remaining RIF liability as of June 30, 2009 and 2008 was \$275,000 and \$589,000, 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 \$15,105,574 at June 30, 2008, based on the last published financial statements.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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 \$12.2 million and \$10.7 million in aggregate for fiscal year ended June 30, 2009 and 2008, 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, 2009 and 2008.

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

In a meeting on July 17, 2009, the Board of Trustees adopted a resolution authorizing Management to negotiate agreements for one or more lines of credit with one or more banks, if needed, with an aggregate sum of up to \$12,800,000. To date, no line of credit agreements have been established.