

FINANCIAL REPORT

2009 - 2010

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

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Chair
East Lansing
2010

Brian D. Cloyd
Vice Chair
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2012

Stephen F. Adamini
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Leslie E. Wong
President of the University
Ex Officio

Executive Officers

Leslie E. Wong
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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, 2010, 2009 and 2008. 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 nonoperating. Under the reporting model, State appropriations and gifts are reported as nonoperating revenues and results in the University showing an operating loss of \$52.1 million for the year ended June 30, 2010, and \$53.5 million for the year ended June 30, 2009. 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.

Financial Highlights

Net assets for the year ended June 30, 2010 of \$219.3 million increased by \$5.7 million from the prior year and included recognition of \$45.1 million in State appropriation revenue.

Operating revenues for the year ended June 30, 2010 of \$96.3 million decreased by \$0.5 million from the prior year. Tuition and Fees totaling \$55.2 million is the largest component of operating revenue and increased by \$1.2 million over the prior year. Residential life revenues of \$17.6 million decreased by \$1.2 million, and all other operating revenues of \$23.5 million netted to a \$0.4 million decrease. Nonoperating revenues totaling \$63.0 million increased by \$5.8 million from the prior year. The largest components of this increase were a \$2.8 million increase in investment income, a \$5.1 million increase in Pell grant revenues, and a \$1.5 million decrease in state appropriations. State appropriations totaling \$45.1 million is the largest component of nonoperating revenues. Net investment income totaled \$2.3 million and increased from the prior year net investment loss of (\$0.5) million mainly due to a change in market value on long-term investments.

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 \$54.0 million is the largest component of operating revenue and increased by \$1.7 million over the prior year. Residential life revenues of \$18.8 million increased by \$1.3 million, and all other operating revenues of \$23.9 million netted to a \$0.1 million decrease. Nonoperating 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 nonoperating 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.

Operating and nonoperating expenses of \$153.5 million for the year ended June 30, 2010 decreased \$2.0 million and includes a \$1.4 million increase in salaries, wages, and benefits, a \$1.8 million decrease in utilities, a \$0.7 million increase in student aid, a \$0.1 million decrease in interest on capital asset-related debt, a \$2.5 million decrease in supplies and support services, and a \$0.2 million increase in depreciation. On a functional basis, instructional expenses decreased \$0.5 million, operations and maintenance of plant decreased \$2.6 million, interest on capital asset related debt decreased \$0.1 million, student aid increased \$0.7 million, depreciation expense increased \$0.2 million, and other costs increased \$0.2 million.

Operating and nonoperating 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 \$2.5 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.

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2010	2009	2008
ASSETS			
Current Assets	\$68,509,560	\$71,445,843	\$81,775,508
Noncurrent Assets			
Capital	230,140,131	235,593,423	237,812,707
Other	55,739,100	43,691,923	37,456,260
Total Noncurrent Assets	<u>285,879,231</u>	<u>279,285,346</u>	<u>275,268,967</u>
Total Assets	354,388,791	350,731,189	357,044,475
LIABILITIES			
Current Liabilities	25,577,754	23,991,383	24,435,842
Noncurrent Liabilities	109,533,707	113,181,153	117,364,505
Total Liabilities	<u>135,111,461</u>	<u>137,172,536</u>	<u>141,800,347</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt Restricted	126,147,763	128,187,130	127,132,491
Nonexpendable	674,024	627,558	769,770
Expendable	3,955,680	6,016,064	14,623,991
Unrestricted	88,499,863	78,727,901	72,717,876
Total Net Assets	<u>\$219,277,330</u>	<u>\$213,558,653</u>	<u>\$215,244,128</u>

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

Condensed Financial Information (continued)

Current assets totaled \$68.5 million at June 30, 2010 and included no unspent bond proceeds. At June 30, 2009, total current assets of \$71.4 million included \$2.2 million in unspent bond proceeds. After adjusting for unspent bond proceeds, the ratio of current assets to current liabilities is 2.70 for the year ended June 30, 2010, and 2.88 for the year ended June 30, 2009.

The University's largest noncurrent asset is its investment in physical plant of \$230.1 million at June 30, 2010. Net capital assets decreased \$5.5 million from the prior year after recognition of \$9.7 million in depreciation expense.

The State appropriations receivable totaled \$8.2 million at June 30, 2010. The State appropriations receivable at June 30, 2009, totaled \$8.5 million.

Long-term debt consisting of notes and bonds payable is the largest liability totaling \$104.0 million at June 30, 2010, and \$107.4 million at June 30, 2009.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

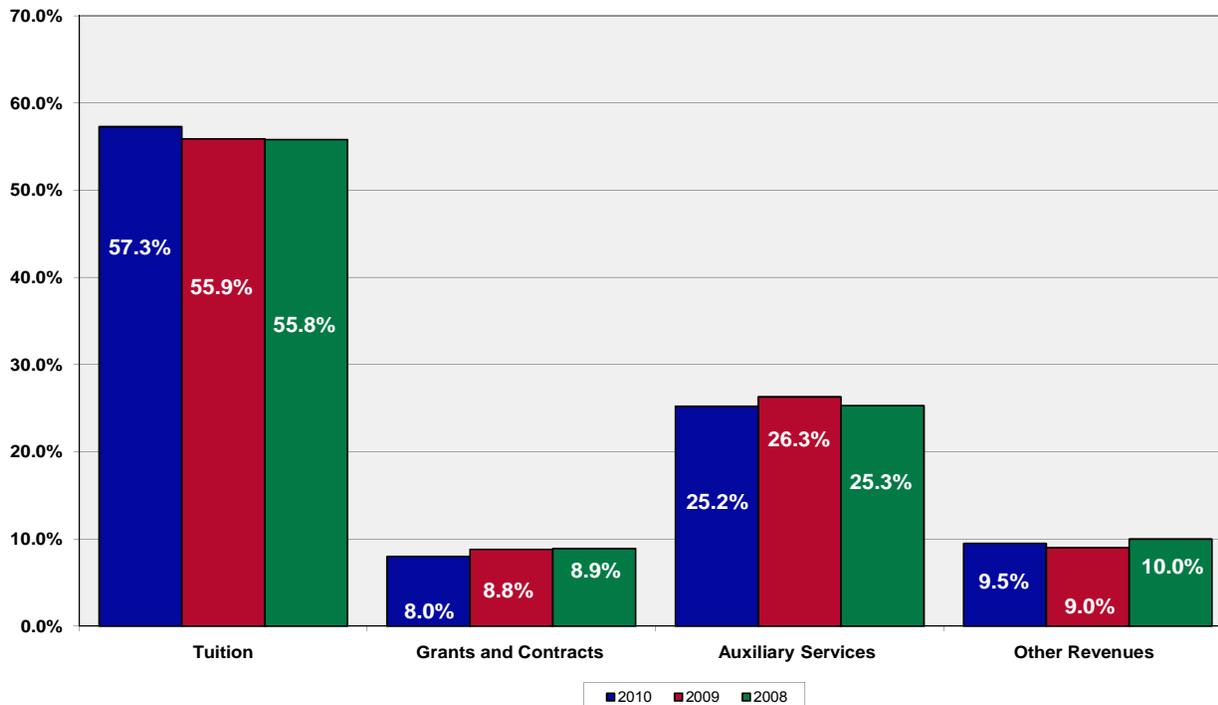
	June 30		
	2010	2009	2008
Operating Revenues			
Tuition and Fees, net	\$55,246,297	\$54,050,385	\$52,379,379
Grants and Contracts	7,654,918	8,520,775	8,310,331
Auxiliary Enterprises, net	24,245,045	25,480,240	23,712,454
Other Operating Revenues	9,123,355	8,712,703	9,412,773
Total Operating Revenues	<u>96,269,615</u>	<u>96,764,103</u>	<u>93,814,937</u>
Operating Expenses	<u>(148,336,311)</u>	<u>(150,270,856)</u>	<u>(144,383,146)</u>
Operating Loss	(52,066,696)	(53,506,753)	(50,568,209)
Nonoperating Revenues (Expenses)			
State Appropriations	45,148,900	46,633,200	50,389,700
Pell Grant Revenue	13,874,985	8,817,707	7,878,563
Other Nonoperating Revenues (Expenses) - net	(1,203,845)	(3,594,243)	(560,365)
Net Nonoperating Revenues and Expenses	<u>57,820,040</u>	<u>51,856,664</u>	<u>57,707,898</u>
Income (Loss) before Other Revenues	<u>5,753,344</u>	<u>(1,650,089)</u>	<u>7,139,689</u>
Capital Grants and Gifts		621,213	1,289,629
Capital Gifts from the NMU Foundation			60,000
Loss on Asset Disposal	(34,667)	(656,599)	(317,465)
Total Other (Expenses) Revenues	<u>(34,667)</u>	<u>(35,386)</u>	<u>1,032,164</u>
Total Increase (Decrease) in Net Assets	5,718,677	(1,685,475)	8,171,853
Net Assets			
Net assets—beginning of year	213,558,653	215,244,128	207,072,275
Net assets – end of year	<u>\$219,277,330</u>	<u>\$213,558,653</u>	<u>\$215,244,128</u>

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

Condensed Financial Information (continued)

Total operating revenues were \$96.3 million for fiscal year 2010 and \$96.8 million for fiscal year 2009. 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 for the academic year indicated.

Average Annual Full-Time Student Tuition and Fees

	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Undergraduate, resident	\$7,454	\$7,078	\$6,708
Undergraduate, nonresident	\$11,828	\$11,230	\$10,644
Graduate, resident	\$8,768	\$8,332	\$7,884
Graduate, nonresident	\$12,686	\$12,052	\$11,412

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

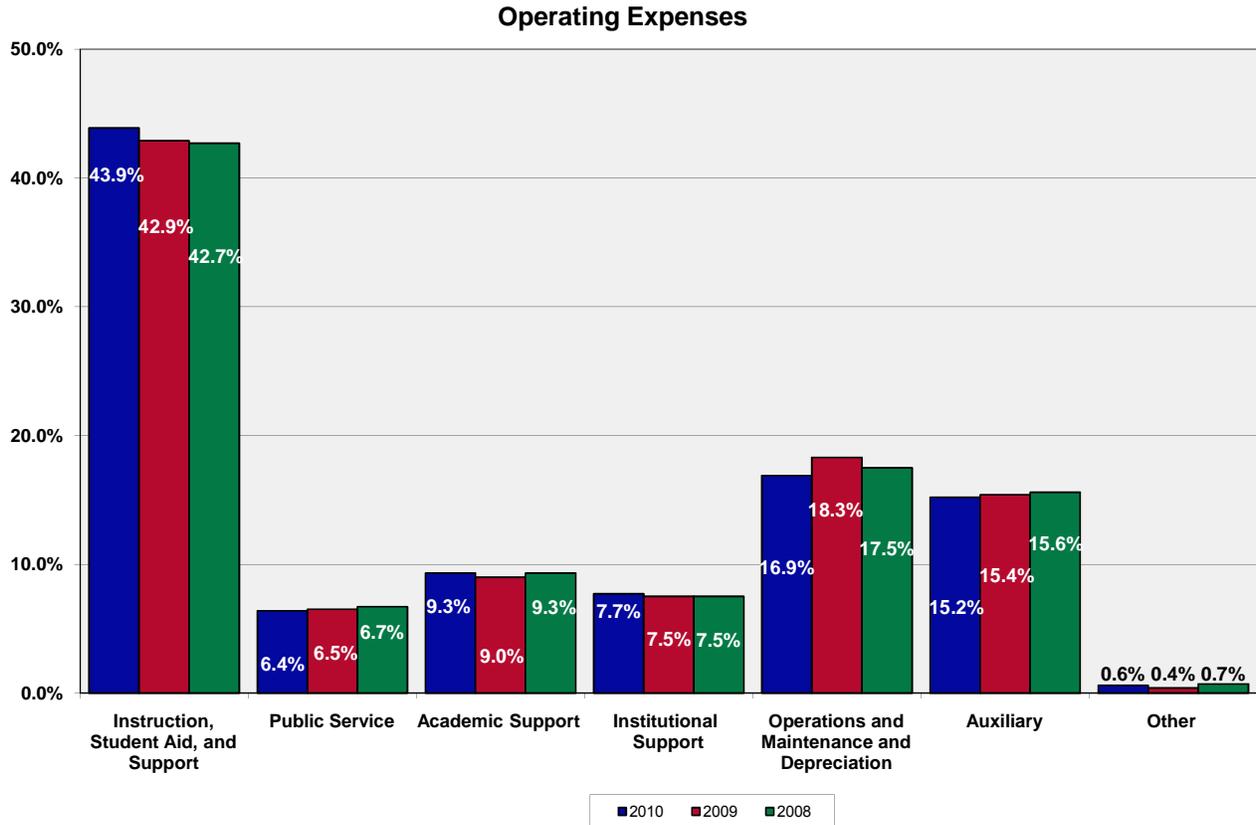
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$7,846 for 2009-2010, \$7,636 for 2008-2009, and \$7,220 for 2007-2008. 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 2,335 (2009 – 2,357) and are at 89% capacity (2009 – 90% 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 92% of apartments are rented during the academic year. All residence hall students are required to be on one of four different meal plans which can be used at two on-campus dining facilities.

Operating Expenses

Operating expenses for June 30, 2010, including depreciation of \$9.7 million, totaled \$148.3 million. Of this total, \$65.1 million, or 43.9%, was used for instruction, student aid, and student support, \$25.1 million, or 16.9%, was used for operation, maintenance, and depreciation, and \$22.5 million, or 15.2%, was used for auxiliary enterprises. Operating expenses for June 30, 2009, including depreciation of \$9.5 million, totaled \$150.3 million.

The breakout by functional expense is highlighted below:



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

Other

The State appropriation of \$45.1 million for June 30, 2010, and \$46.6 million for June 30, 2009, is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was \$5.2 million for June 30, 2010, and \$5.3 million for June 30, 2009. 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		
	2010	2009	2008
Cash Provided (Used) By:			
Operating Activities	(\$39,939,947)	(\$45,097,006)	(\$40,931,038)
Noncapital Financing Activities	60,465,911	56,695,437	55,084,619
Capital and Related Financing Activities	(13,636,112)	(14,685,557)	(10,859,660)
Investing Activities	(10,367,562)	(7,381,306)	9,874,574
Net (Decrease) Increase in Cash and Cash Equivalents	(3,477,710)	(10,468,432)	13,168,495
Cash and Cash Equivalents – Beginning of Year	51,792,200	62,260,632	49,092,137
Cash and Cash Equivalents – End of Year	<u>\$48,314,490</u>	<u>\$51,792,200</u>	<u>\$62,260,632</u>

Major sources of funds included in operating activities are student tuition and fees of \$54.2 million, grants and contracts of \$7.6 million and auxiliary sales of \$24.3 million for the year ended June 30, 2010; and 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. The major source of funds included in noncapital financing activities are State appropriations of \$45.4 million and Pell grant revenue of \$13.9 million for the year ended June 30, 2010; and State appropriations of \$46.6 million and Pell grant revenue of \$8.8 million for the year ended June 30, 2009.

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. An increase in net assets of \$3.2 million for the year ended June 30, 2010, was primarily the result of a \$2.3 million increase in investments. For the year ended June 30, 2009, the Foundation had a \$2.0 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
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
2010	8,684	744	9,428	8,588	245,822	9,463	255,285

For the 2009-10 academic year, fifty-four percent (54%) of the University's students represent Upper Peninsula Michigan residents, twenty-seven percent (27%) 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 new freshman enrollments is possible, 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 a decrease in new freshman enrollment despite an increase in the numbers of applications and admissions for new freshmen. Transfer enrollments are expected to increase.

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>
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
2009	5,955	4,338	72.8	1,829	42.2

By August 4, 2010, the University had received 6,123 freshman applications (as compared to 6,079 as of August 5, 2009) and had granted 4,307 acceptances (as compared to 4,271 as of August 5, 2009).

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>
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
2009	1,294	780	60.3	523	67.1

By August 4, 2010, the University had received 1,569 transfer applications (as compared to 1,382 as of August 5, 2009) and had granted 850 acceptances (as compared to 745 as of August 5, 2009).

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.

This year the University has initiated sustainability efforts to improve energy management systems, reduce energy usage, and improve recycling and conservation efforts. Several projects have been implemented such as the installation of variable frequency drives on fans and feed water pumps at the Ripley Heating Plant, campus wide steam trap replacement, and WiMax power reduction in residence halls, along with several boiler replacements in campus apartments.

In May of 2010, the University entered into a performance contract totaling \$2.3 million for energy management and control upgrades to several buildings on campus. The University expects to recover its costs through energy savings over the next several years and produce long-term energy savings in the future.

The University continues to move forward with its plans for the construction of a solid bio-mass fuel facility and the construction of a research facility that will explore ways to create alternative energy. The Michigan Department of Environmental Quality's Air Quality Division issued a permit on December 16, 2009 for this project and the University has 18 months to commence construction. The facility would generate steam and electricity for most of the buildings on campus. The goal is to increase energy efficiency, improve the reliability of electricity, utilize renewable resources and diversify the fuel sources. The estimated annual cost avoidance after debt service (over a 30 year period) to the University varies from \$500,000 to \$1,900,000, depending on the cost of biomass, gas, and oil. The University is currently seeking federal and state funding to help underwrite the costs of construction that is estimated at approximately \$65 million. Financing will also include the issuance of general revenue bonds in an amount up to \$30 million.

Future renovation projects include renovation of Jamrich Hall to create a modern, high quality classroom facility that supports active learning, provides academic department office space within the facility close to classroom and other departments, and 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, 2010 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
12/01/2021	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
12/01/2025	4.875%	4.850%	3,860,000
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			<u>\$106,635,000</u>

Teaching, Learning, and Communication (TLC) Initiative

The University's high-tech learning environment plays a critical role in student achievement with over 9,500 notebook computers distributed as part of NMU's tuition and fees. Featuring wired and wireless network connectivity, each computer is replaced on a two-year cycle and provides students with all of the software and internet service necessary for course related learning systems. Students rely heavily on their computer for communication with faculty and staff and use the University's on-line business and course management systems to manage their academic, financial and student life matters.

A key component of the University's technology portfolio has been the deployment of a carrier-grade WiMAX wireless network that now encompasses a seven-city area surrounding NMU. Serving the communities of Marquette, Marquette Township, Harvey, Sawyer, Gwinn, Ishpeming and Negaunee, more than 6,300 students use the WiMAX network to manage course related activities and research, including bandwidth intensive applications such as streaming media, video conferencing and large data file transfers.

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

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

Back-haul network services are a critical component of the WiMAX service and as a result, NMU has structured cooperative agreements with local communities that allow NMU to partner with government and education institutions to develop programs and services that take advantage of the wireless network. In addition, campus construction continues to focus on the upgrade of routers, switches and servers that support gigabit Ethernet services using fiber optic and CAT 6 or better wiring. All notebook computers are now equipped with multi-band radios and chip sets that permit wired, wireless, and WiMax connections. The expanded coverage will bring broadband wireless Internet access to the majority of off-campus students and University employees.

The University's TLC initiative also includes the integration of digital broadcasting services into its curriculum. WNMU-TV and WNMU-FM have transitioned to digital transmissions following a four-year migration from analog broadcasting. A new technical core equipped with multi-channel capabilities coupled with upgraded microwave systems, TV and FM transmitters and broadcast antennas have afforded the stations the ability to quadruple its programming capacity, provide high definition TV and radio programming and improve emergency broadcasting and EAS services to the Upper Peninsula region. Primary funding for this \$3 million digital transition has been provided by the Corporation for Public Broadcasting (CPB), the National Telecommunications and Information Agency (NTIA) and the Department of Agriculture's Rural Utility Service (RUS).

The final phase of WNMU-TV's digital conversion is currently underway with a completion date of early 2011. A mobile HD production system and new HD studio production facilities will allow the station to produce original HD content for local and regional distribution. These new digital technologies will increase program quality and aid in the development of upper level production courses for students enrolled in the University's digital media and new technology programs.

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, 2010.

INDEPENDENT AUDITORS' REPORT

September 14, 2010

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, 2010 and 2009, 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. 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.

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, 2010 and 2009, 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 14, 2010, 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 12 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, reading "Lehmann Johnson".

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	Northern Michigan University		Component Unit	
	June 30		Northern Michigan University Foundation June 30	
	2010	2009	2010	2009
ASSETS				
Current assets				
Cash and cash equivalents	\$ 48,314,489	\$ 51,792,200	\$ 110,617	\$ 54,703
State appropriation receivable	8,208,895	8,470,663		
Accounts receivable (less allowance 2010--\$2,032,240; 2009--\$2,264,655)	7,268,052	7,123,059	182,813	92,688
Student notes receivable (less allowance 2010--\$662,182; 2009--\$582,200)	1,384,789	1,349,513		
Investment receivable	69,901	60,088		
Pledges receivable (less allowance 2010--\$23,020; 2009--\$18,869)			606,702	211,707
Inventories	1,380,190	1,317,644		1,619
Other assets	1,883,244	1,332,676	239,818	222,275
Total current assets	<u>68,509,560</u>	<u>71,445,843</u>	<u>1,139,950</u>	<u>582,992</u>
Noncurrent assets				
Long-term investments	47,141,741	33,577,335	20,461,267	18,562,404
Student notes receivable (less allowance 2010--\$1,986,545; 2009--\$1,746,598)	6,847,153	7,385,536		
Other long-term investments	194,962	1,094,962		
Pledges receivable (less allowance 2010--\$195; 2009--\$12,048)			1,907,340	1,052,926
Unamortized bond issue costs	1,555,244	1,634,090		
Capital assets, net	230,140,131	235,593,423	1,574,885	1,608,294
Total noncurrent assets	<u>285,879,231</u>	<u>279,285,346</u>	<u>23,943,492</u>	<u>21,223,624</u>
Total assets	<u>354,388,791</u>	<u>350,731,189</u>	<u>25,083,442</u>	<u>21,806,616</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9,755,572	8,696,175	176,077	143,921
Accrued payroll and benefits	7,443,580	6,832,791		
Unearned revenue (unearned student fees and deposits)	4,486,030	4,296,361		
Long-term liabilities-current portion	3,892,572	4,166,056		
Total current liabilities	<u>25,577,754</u>	<u>23,991,383</u>	<u>176,077</u>	<u>143,921</u>
Noncurrent liabilities				
Annuities payable			111,550	102,740
Long-term liabilities-net of current portion	109,533,707	113,181,153		
Total noncurrent liabilities	<u>109,533,707</u>	<u>113,181,153</u>	<u>111,550</u>	<u>102,740</u>
Total liabilities	<u>135,111,461</u>	<u>137,172,536</u>	<u>287,627</u>	<u>246,661</u>
NET ASSETS				
Invested in capital assets, net of related debt	126,147,763	128,187,130		
Restricted for				
Nonexpendable				
Scholarships and fellowships	50,227	46,991	2,181,148	2,124,906
Loans	42,047	38,225		
Instruction	581,750	542,342		
Expendable				
Instruction	742,267	691,491	4,527,978	3,656,286
Scholarships and fellowships	307,397	279,412	12,484,955	10,979,356
Loans	2,723,574	2,684,374		
Research	116,948	113,664		
Academic, student and public service	65,494	61,086	3,463,050	4,464,639
Capital project		2,186,037		
Unrestricted	88,499,863	78,727,901	2,138,684	334,768
Total net assets	<u>\$ 219,277,330</u>	<u>\$ 213,558,653</u>	<u>\$ 24,795,815</u>	<u>\$ 21,559,955</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	
	Year Ended June 30		Northern Michigan University Foundation	
	2010	2009	2010	2009
REVENUES				
Operating				
Student tuition and fees (less allowance 2010--\$16,693,000; 2009--\$12,555,000)	\$ 55,246,297	\$ 54,050,385		
Gifts and contributions			\$ 4,187,850	\$ 5,014,199
Endowment income			68,412	114,438
Federal grants and contracts	5,475,906	4,991,166		
State and local grants and contracts	852,308	2,354,767		
Nongovernmental grants and contracts	1,326,704	1,174,842		
Sales and services of educational activities	9,123,355	8,712,249		
Auxiliary enterprise				
Residential life (less allowance 2010--\$4,974,000; 2009--\$3,953,500)	17,560,653	18,775,123		
Other auxiliary	6,684,392	6,705,117		
Other operating revenues		454	56,196	84,086
Total operating revenues	<u>96,269,615</u>	<u>96,764,103</u>	<u>4,312,458</u>	<u>5,212,723</u>
EXPENSES				
Operating				
Educational and general				
Instruction	41,853,316	42,366,591		
Research	871,832	840,507		
Public service	9,522,173	9,697,068		
Academic support	13,752,345	13,487,049		
Student services	14,196,427	13,803,785		
Institutional support	11,448,667	11,213,551	1,461,306	1,543,104
Operations and maintenance of plant	15,449,135	18,010,317		
Student aid	9,043,236	8,304,441		
Depreciation	9,682,295	9,450,066		
Auxiliary enterprise				
Residential life	14,699,753	15,058,521		
Other	7,817,132	8,038,960		
Total operating expenses	<u>148,336,311</u>	<u>150,270,856</u>	<u>1,461,306</u>	<u>1,543,104</u>
Operating (loss) income	<u>(52,066,696)</u>	<u>(53,506,753)</u>	<u>2,851,152</u>	<u>3,669,619</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	45,148,900	46,633,200		
Pell grant revenue	13,874,985	8,817,707		
Gifts (including 2010--\$1,685,000 and 2009--\$2,225,500 from the NMU Foundation)	1,685,003	2,225,547		
Payments to and on behalf of the University			(1,917,517)	(2,494,876)
Investment income (loss) (net of investment expense for the University 2010--\$278,900 and 2009--\$241,000; and for the NMU Foundation 2010--\$129,107 and 2009--\$112,182)	2,295,391	(521,766)	2,302,225	(3,224,584)
Interest on capital asset-related debt	(5,184,239)	(5,298,024)		
Net nonoperating revenues (expenses)	<u>57,820,040</u>	<u>51,856,664</u>	<u>384,708</u>	<u>(5,719,460)</u>
Income (Loss) before other (expenses) revenues	<u>5,753,344</u>	<u>(1,650,089)</u>	<u>3,235,860</u>	<u>(2,049,841)</u>
Capital grants and gifts		621,213		
Loss on asset disposal	(34,667)	(656,599)		
Total other (expenses) revenues	<u>(34,667)</u>	<u>(35,386)</u>		
Increase (Decrease) in net assets	<u>5,718,677</u>	<u>(1,685,475)</u>	<u>3,235,860</u>	<u>(2,049,841)</u>
NET ASSETS				
Beginning of year	213,558,653	215,244,128	21,559,955	23,609,796
End of year	<u>\$219,277,330</u>	<u>\$213,558,653</u>	<u>\$ 24,795,815</u>	<u>\$ 21,559,955</u>

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2010	2009
Cash Flows from Operating Activities		
Tuition and fees	\$ 54,233,055	\$ 53,084,981
Grants and contracts	7,624,171	8,071,668
Payments to suppliers	(39,723,418)	(47,355,691)
Payments to employees	(88,230,481)	(86,953,763)
Payments for scholarships and fellowships	(9,043,236)	(8,304,441)
Loans issued to students and employees	(912,016)	(686,123)
Collection of loans to students and employees	1,382,452	1,341,528
Auxiliary enterprise		
Residential life	17,597,679	18,697,750
Other	6,732,204	6,388,937
Other receipts	10,399,643	10,618,148
Net cash used by operating activities	(39,939,947)	(45,097,006)
Cash Flows from Noncapital Financing Activities		
State appropriations	45,410,668	46,556,153
Pell grant revenue	13,874,985	8,817,707
William D. Ford direct lending receipts	39,941,315	33,292,953
William D. Ford direct lending disbursements	(39,949,935)	(33,284,967)
Gifts and grants received for other than capital purposes	1,650,526	2,225,547
Other	(461,648)	(911,956)
Net cash provided by noncapital financing activities	60,465,911	56,695,437
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received		621,213
Purchases of capital assets	(5,023,619)	(6,722,779)
Principal paid on capital debt	(3,545,000)	(3,405,000)
Interest paid on capital debt	(5,067,493)	(5,178,991)
Net cash used by capital and related financing activities	(13,636,112)	(14,685,557)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	16,907,480	3,599,708
Interest on investments	1,367,195	2,438,613
Purchase of investments	(28,642,237)	(13,419,627)
Net cash (used) provided by investing activities	(10,367,562)	(7,381,306)
Net (decrease) increase in cash and cash equivalents	(3,477,710)	(10,468,432)
Cash and cash equivalents - beginning of the year	51,792,200	62,260,632
Cash and cash equivalents - end of year	\$ 48,314,490	\$ 51,792,200
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	(\$52,066,696)	(\$53,506,753)
Depreciation expense	9,682,295	9,450,066
Amortization of bond issuance costs	78,850	78,850
Change in assets and liabilities:		
Receivables, net	551,953	813,569
Inventories	(62,546)	(4,353)
Other assets	(552,836)	(197,270)
Accounts payable	1,637,316	(2,075,376)
Unearned revenue	235,097	(60,786)
Compensated absences and accrued payroll	556,620	405,047
Net cash used by operating activities	(\$39,939,947)	(\$45,097,006)

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2010

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

BASIS OF PRESENTATION

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

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

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

REPORTING ENTITY

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

The Northern Michigan University Foundation (Foundation), which was formerly known as the Northern Michigan University Development Fund, is a legally separate, tax-exempt organization supporting Northern Michigan University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The thirty-three-member Board of Trustees of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University. 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, 2010 and 2009, the Foundation made distributions of \$1.9 million and \$2.5 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—Northern Michigan University

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

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

Basis of Accounting—Component Unit

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

Cash Equivalents

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

Investments (including component unit)

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

Inventories

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Institutional Physical Properties

Institutional physical properties are stated at cost when purchased and at appraised value for other acquisitions. At the time of disposal, capital assets are removed from the records and any gain or loss is recognized in the statement of revenues, expenses, and 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 2010 and 2009 was approximately \$9,680,000 and \$9,450,000, respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

State Appropriations

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

Non-Exchange Transactions

In accordance with GASB Statement No. 33, gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

Compensated Absences

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

Unearned Revenue

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

Income Taxes

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

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

Reclassifications

Certain 2009 balances have been reclassified to conform to the 2010 presentation.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B--DEPOSITS AND INVESTMENTS--UNIVERSITY

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

	2010	2009
Cash and cash equivalents	\$48,314,489	\$51,792,200
Long-term investments	47,141,741	33,577,335
Other long-term investments	194,962	1,094,962
Total	\$95,651,192	\$86,464,497

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, 2010 and 2009, the carrying amount of the University's deposits was \$6,582,240 and \$5,600,056, respectively. The bank balance of the University's deposits at June 30, 2010 and 2009 was \$7,505,655 and \$6,995,935, respectively. Of that amount, \$7,005,655 and \$6,827,292, 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 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, 2010 and 2009.

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 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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, 2010, the University had the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	\$41,732,249	\$41,732,249			
Bond Mutual Funds	38,735,943		\$35,735,813	\$1,802,704	\$1,197,426
Equity Mutual Funds	8,366,001		5,099,266		3,266,735
Mortgage Backed Security Funds	8,904				8,904
Alternative Investments	8,640				8,640
Equity Stock	14,745		14,745		
Fixed Income Mutual Funds	7,508				7,508
Real Estate	194,962				194,962
Total	89,068,952	\$41,732,249	\$40,849,824	\$1,802,704	\$4,684,175
Less Investments Reported as "Cash Equivalents" on Statements of Net Assets	(41,732,249)				
Total Investments	\$47,336,703				

At June 30, 2009, the University had the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	\$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				

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, 2010 and 2009, 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 counterparty, 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, 2010 and 2009.

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.
5. Individual underwater endowment accounts must be restored to their original principal value and have earnings prior to making any awards.

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 2010 investment income consists of interest and dividends, net of related expenses of \$129,107 and the present value adjustment to annuities payable of \$10,222. 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.

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

Market value and unrealized appreciation on investments at June 30, 2010 are as follows:

	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Money market mutual funds	\$259,954	\$259,954	
Other mutual funds	17,799,027	19,563,009	\$1,763,982
Government bonds	291,526	304,437	12,911
Equity securities	332,684	333,867	1,183
Total at end of year	<u>18,683,191</u>	<u>20,461,267</u>	<u>1,778,076</u>
Total at beginning of year	<u>\$20,776,028</u>	<u>\$18,562,404</u>	<u>(2,213,624)</u>
Recognized gain (loss):			
Unrealized net gain (increase from prior year)			3,991,700
Realized net loss for the year			<u>(2,129,530)</u>
Total net increase in fair value of investments			<u>\$1,862,170</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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>

NOTE D--INVESTMENT IN COMMUNITY DEVELOPMENT

In 2009, other investments included \$900,000, 5% Series E 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. On January 8, 2010 Shorebank began a process of restructuring and raising new capital under a formal agreement with the Federal Reserve Bank of Chicago. As part of the restructuring, the University signed a commitment to exchange the Series E Preferred Stock for non-voting common stock at a discount value of 30% which resulted in a write down of \$630,000 in April 2010. At June 30, 2010, the restructuring agreement has not been approved and the exchange has not been completed, therefore, the remaining investment balance of \$270,000 has been written off. On August 20, 2010, Shorebank was closed by the Illinois Department of Financial and Professional Regulation.

NOTE E--RECEIVABLES

Receivables of the University include the following at June 30:

	2010	2009
State appropriations - net	\$8,208,895	\$8,470,663
Student notes receivable – net	8,230,742	8,735,049
Charter schools	3,217,928	3,023,993
NMU Foundation	91,254	24,809
State, federal and private grants	1,069,242	1,167,798
Students, employees, and vendors - net	2,890,828	2,906,459
Investment receivable	69,901	60,088
Total	<u>\$23,778,790</u>	<u>\$24,388,859</u>

For the years ended June 30, 2010 and 2009, the University received \$16,464,033 and \$16,686,440, 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, 2010:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$6,008,599	\$51,859		\$6,060,458
Land improvements	10,681,204			10,681,204
Buildings and improvements	274,788,299	1,607,350	\$101,932	276,293,717
Infrastructure	18,614,144	35,951		18,650,095
Equipment	39,219,299	5,305,429	\$94,505	44,430,223
Books	14,736,602	252,029	58,044	14,930,587
Construction in progress	4,619,596	(2,988,948)		1,630,648
Totals at historical cost	368,667,743	4,263,670	254,481	372,676,932
Less accumulated depreciation for:				
Land improvements	4,511,986	465,662		4,977,648
Buildings and improvements	82,095,041	6,415,169	101,932	88,408,278
Infrastructure	9,629,261	625,695		10,254,956
Equipment	24,496,031	1,918,044	76,922	26,337,153
Books	12,342,001	257,725	40,960	12,558,766
Total accumulated depreciation	133,074,320	9,682,295	219,814	142,536,801
Capital assets, net	<u>\$235,593,423</u>	<u>(\$5,418,625)</u>	<u>\$34,667</u>	<u>\$230,140,131</u>

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>

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$1,589,000 and \$2,069,000 at June 30, 2010 and 2009, 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. 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:

	2010	2009
Accrued payroll and benefits	\$7,443,580	\$6,832,791
Construction contractors	1,652,600	2,074,969
Charter schools	3,121,390	2,933,273
Vendors	4,572,548	3,264,570
Interest payable	409,034	423,363
Total	\$17,199,152	\$15,528,966

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:

Year ending June 30	Amount
2011	\$1,458,785
2012	199,607
Total	\$1,658,392

Lease expense for 2010 and 2009 is approximately \$3,681,000 and \$3,704,000 respectively.

NOTE J--LINE OF CREDIT

The Board of Trustees adopted a resolution on July 17, 2009, 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K--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 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, 2010, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
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
2015	4,030,000	4,354,256	8,384,256
Total Five Years	18,970,000	23,227,497	42,197,497
Thereafter			
2016-2020	22,605,000	18,825,038	41,430,038
2021-2025	25,570,000	12,977,641	38,547,641
2026-2030	19,855,000	7,472,681	27,327,681
2031-2035	14,970,000	2,947,319	17,917,319
2036-2039	4,665,000	291,228	4,956,228
Total	106,635,000	\$65,741,404	\$172,376,404
Less: deferred amount refunding, net	(4,490,905)		
Less: unamortized re-offering premium	1,848,273		
Total	<u>\$103,992,368</u>		

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K--BONDS AND NOTES PAYABLE (continued)

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	\$110,180,000		\$3,545,000	\$106,635,000	\$3,585,000
Deferred amount on refunding	(4,731,859)		(240,954)	(4,490,905)	(240,954)
Premium on bond issuance	1,958,151		109,878	1,848,273	109,878
Total notes and bonds payable	107,406,292		3,413,924	103,992,368	3,453,924
Other liabilities:					
Severance benefits	915,128	\$610,209	708,193	817,144	293,527
Compensated absences	2,401,500	1,397,179	1,562,239	2,236,440	145,121
Federal portion of Perkins Loan Program	6,624,289		243,962	6,380,327	
Total other liabilities	9,940,917	2,007,388	2,514,394	9,433,911	438,648
Total long-term liabilities	\$117,347,209	\$2,007,388	\$5,928,318	\$113,426,279	\$3,892,572

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

NOTE L--OPERATING EXPENSES

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

	2010	2009
Salaries, wages and benefits	\$88,787,100	\$87,358,811
Supplies and support services	33,809,286	36,344,698
Utilities	7,014,394	8,812,840
Depreciation expense	9,682,295	9,450,066
Scholarships	9,043,236	8,304,441
Total	\$148,336,311	\$150,270,856

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE M--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 offered by 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 2010, this rate is 4.58%, and is applied to payrolls occurring on or after October 1, 2009. For the State's fiscal year 2009, this rate was 5.66%, and was 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.
- 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 2010, this rate is 7.72% and is applied to payrolls occurring on or after October 1, 2009. For the State's fiscal year 2009, this rate was 6.98% and was 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.
- 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, 2010, which encompasses 9 months of the State's fiscal year 2010 and 3 months of the State's fiscal year 2009, the University's total cost for retiree's health insurance was \$2,485,230. 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.

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 M--RETIREMENT PLANS (continued)

The University's contributions to the plans are as follows for the year ended June 30, 2010:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$6,031,972	\$4,364,428	\$10,396,400
Covered Payroll	\$40,262,528	\$11,099,217	\$51,361,745

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

The University allows retirees to purchase healthcare benefits at cost and has 42 retirees participating in health coverage at June 30, 2010. 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.

NOTE N--EARLY RETIREMENT INCENTIVES

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, 2010 and 2009 was \$246,000 and \$640,000, 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 2011. 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 \$610,000 were added for the period ending June 30, 2010. The remaining RIF liability as of June 30, 2010 and 2009 was \$571,000 and \$275,000, respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE O--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 \$13,027,829 at June 30, 2009, 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 \$13.5 million and \$12.2 million in aggregate for fiscal year ended June 30, 2010 and 2009, respectively. The workers' compensation stop-loss insurance limits the University's liability for claims paid per individual to \$350,000 for fiscal years ended June 30, 2010 and 2009.

NOTE P--CONTINGENCIES

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