

FINANCIAL REPORT

2010 - 2011

NORTHERN MICHIGAN UNIVERSITY

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Board of Trustees

Terms ending December 31 in year shown

Brian D. Cloyd
Chair
Grand Rapids
2012

Jon G. LaSalle
Vice Chair
Marquette
2012

Stephen F. Adamini
Marquette
2014

Stephen Gulis Jr.
Rockford
2018

Rick Popp
Northville
2018

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

Paul L. Lang
Interim 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, 2011, 2010 and 2009. This discussion, which includes The Northern Michigan University Foundation, whenever appropriate, has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

Reporting Entity

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

Using the Annual Report

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

The Statement of Net 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 \$54.9 million for the year ended June 30, 2011, and \$52.1 million for the year ended June 30, 2010. 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, 2011 of \$225.1 million increased by \$5.9 million from the prior year and included recognition of \$45.1 million in State appropriation revenue.

Operating revenues for the year ended June 30, 2011 of \$97.2 million increased by \$0.9 million from the prior year. Student tuition and fees totaling \$56.0 million is the largest component of operating revenue and increased by \$0.8 million over the prior year. During the current year the University used \$1.3 million in stimulus funds to reduce tuition for Michigan residents. All other operating revenues of \$41.1 million netted to a \$0.1 million increase. Nonoperating revenues totaling \$61.9 million increased by \$3.9 million from the prior year. The largest components of this increase were a \$1.5 million increase in investment income, a \$1.3 million increase in Pell grant revenues, and receipt of \$1.3 million in State fiscal stabilization funds.

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

Financial Highlights (continued)

Operating revenues for the year ended June 30, 2010 of \$96.3 million decreased by \$0.5 million from the prior year. Student 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.

Operating and nonoperating expenses of \$157.0 million for the year ended June 30, 2011 increased \$3.5 million and includes a \$0.3 million increase in salaries, wages, and benefits, a \$0.3 million decrease in utilities, a \$0.5 million increase in student aid, a \$0.2 million decrease in interest on capital asset-related debt, a \$3.3 million increase in supplies and support services of which \$2.3 million was for performance contracting. On a functional basis, instructional expenses increased \$1.1 million, operations and maintenance of plant increased \$2.1 million, interest on capital asset related debt decreased \$0.2 million, student aid increased \$0.5 million, and other costs remained level with the prior year.

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.

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2011	2010	2009
ASSETS			
Current Assets	\$66,898,399	\$68,509,560	\$71,445,843
Noncurrent Assets			
Capital	223,637,005	230,140,131	235,593,423
Other	57,971,656	55,739,100	43,691,923
Total Noncurrent Assets	<u>281,608,661</u>	<u>285,879,231</u>	<u>279,285,346</u>
Total Assets	<u>348,507,060</u>	<u>354,388,791</u>	<u>350,731,189</u>
LIABILITIES			
Current Liabilities	22,717,164	25,577,754	23,991,383
Noncurrent Liabilities	100,654,065	109,533,707	113,181,153
Total Liabilities	<u>123,371,229</u>	<u>135,111,461</u>	<u>137,172,536</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt Restricted	128,103,561	126,147,763	128,187,130
Nonexpendable	783,998	674,024	627,558
Expendable	4,197,186	3,955,680	6,016,064
Unrestricted	92,051,086	88,499,863	78,727,901
Total Net Assets	<u>\$225,135,831</u>	<u>\$219,277,330</u>	<u>\$213,558,653</u>

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

Condensed Financial Information (continued)

Current assets totaled \$66.9 million at June 30, 2011 and \$68.5 million at June 30, 2010. The ratio of current assets to current liabilities was 2.9 for the year ended June 30, 2011, and 2.7 for the year ended June 30, 2010.

The University's largest noncurrent asset is its investment in physical plant of \$223.6 million at June 30, 2011. Net capital assets decreased \$6.5 million from the prior year after recognition of \$9.6 million in depreciation expense.

The State appropriations receivable totaled \$8.2 million at June 30, 2011 and at June 30, 2010.

Long-term debt including notes and bonds payable is the largest liability totaling \$95.5 million at June 30, 2011, and \$104.0 million at June 30, 2010.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

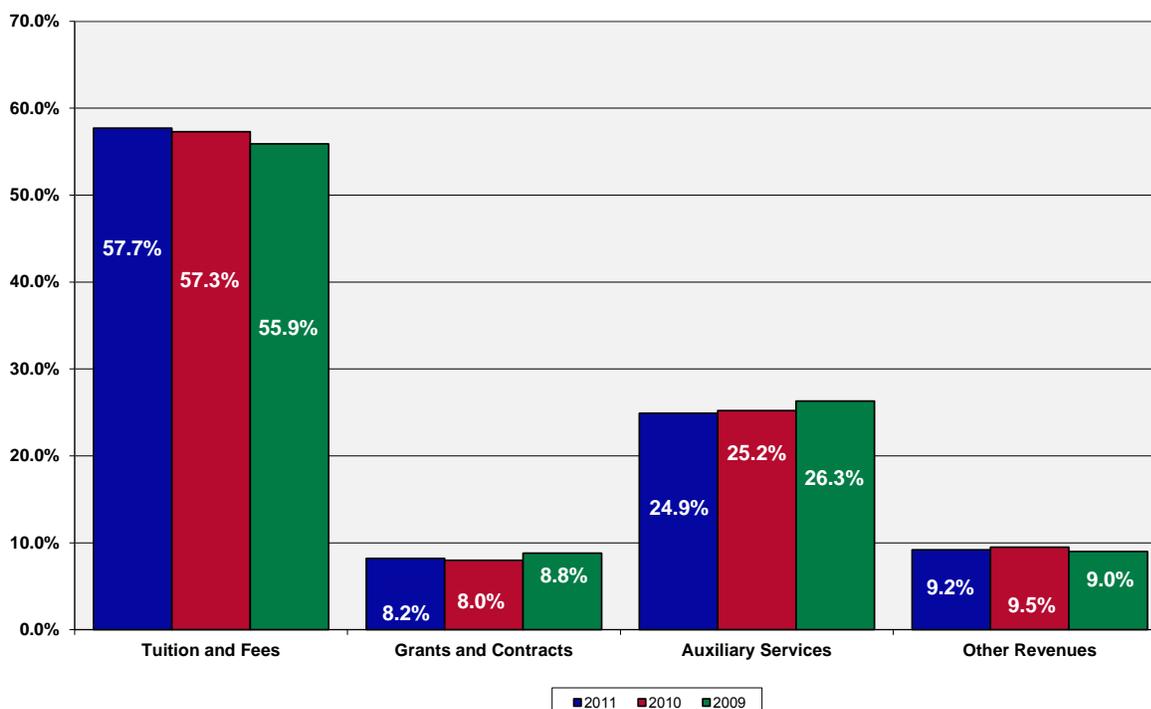
	June 30		
	2011	2010	2009
Operating Revenues			
Tuition and Fees, net	\$56,047,514	\$55,246,297	\$54,050,385
Grants and Contracts	7,964,124	7,654,918	8,520,775
Auxiliary Enterprises, net	24,239,679	24,245,045	25,480,240
Other Operating Revenues	8,956,319	9,123,355	8,712,703
Total Operating Revenues	<u>97,207,636</u>	<u>96,269,615</u>	<u>96,764,103</u>
Operating Expenses	<u>(152,118,826)</u>	<u>(148,336,311)</u>	<u>(150,270,856)</u>
Operating Loss	(54,911,190)	(52,066,696)	(53,506,753)
Nonoperating Revenues (Expenses)			
State Appropriations	45,127,868	45,148,900	46,633,200
Pell Grant Revenue	15,126,978	13,874,985	8,817,707
Other Nonoperating Revenues (Expenses) - net	1,654,968	(1,203,845)	(3,594,243)
Net Nonoperating Revenues and Expenses	<u>61,909,814</u>	<u>57,820,040</u>	<u>51,856,664</u>
Income (Loss) before Other Revenues	<u>6,998,624</u>	<u>5,753,344</u>	<u>(1,650,089)</u>
Capital Grants and Gifts	299,963		621,213
Loss on Asset Disposal	(1,440,086)	(34,667)	(656,599)
Total Other (Expenses) Revenues	<u>(1,140,123)</u>	<u>(34,667)</u>	<u>(35,386)</u>
Total Increase (Decrease) in Net Assets	5,858,501	5,718,677	(1,685,475)
Net Assets			
Net assets—beginning of year	219,277,330	213,558,653	215,244,128
Net assets – end of year	<u>\$225,135,831</u>	<u>\$ 219,277,330</u>	<u>\$213,558,653</u>

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

Condensed Financial Information (continued)

Total operating revenues were \$97.2 million for fiscal year 2011 and \$96.3 million for fiscal year 2010. The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts, as shown below:

Operating Revenues



Tuition and Fees

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

Average Annual Full-Time Student Tuition and Fees

	<u>2010-2011</u>	<u>2009-2010</u>	<u>2008-2009</u>
Undergraduate, resident	\$7,864	\$7,454	\$7,078
Undergraduate, nonresident	\$12,280	\$11,828	\$11,230
Graduate, resident	\$9,448	\$8,768	\$8,332
Graduate, nonresident	\$13,366	\$12,686	\$12,052

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

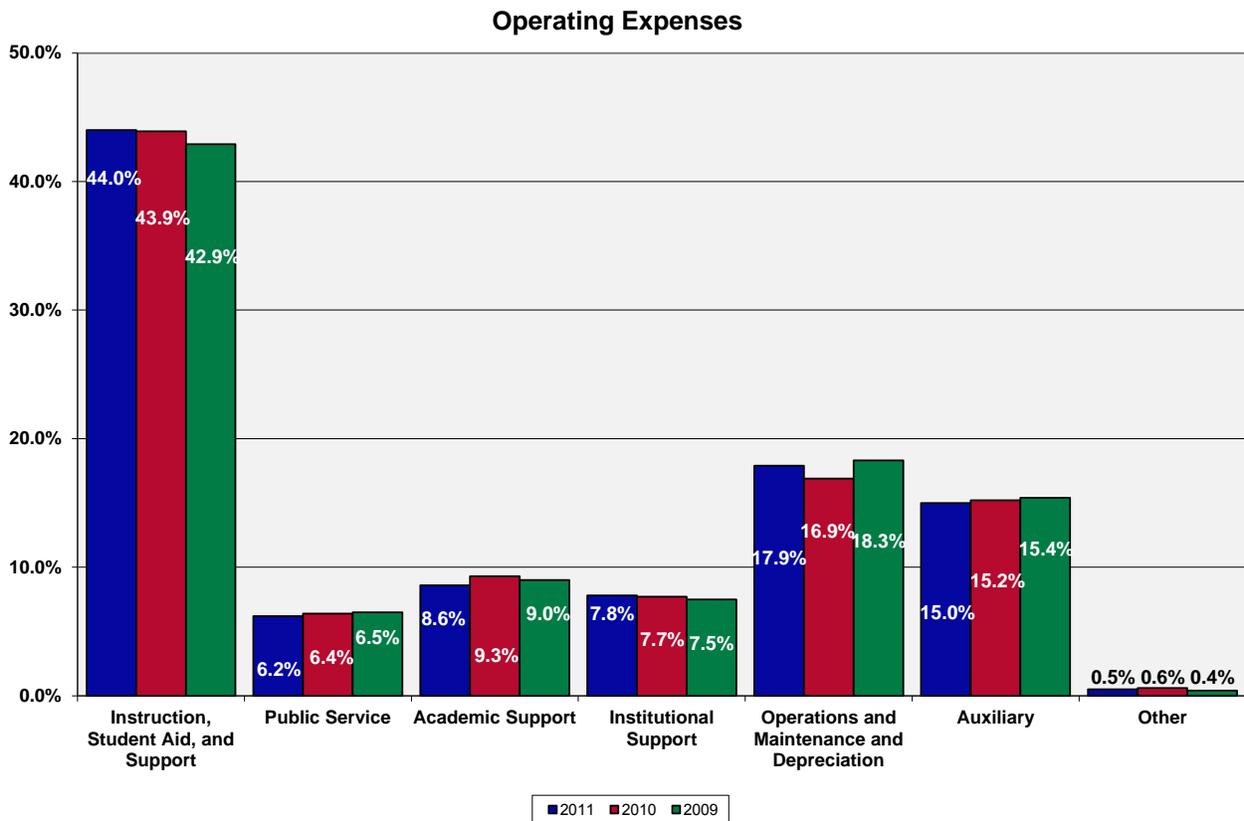
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was \$8,174 for 2010-2011, \$7,846 for 2009-2010, and \$7,636 for 2008-2009. 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 2,319 (2010 – 2,335) and are at 89% capacity (2010 – 89% 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 95% 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, 2011, including depreciation of \$9.6 million, totaled \$152.1 million. Of this total, \$66.9 million, or 44.0%, was used for instruction, student aid, and student support, \$27.2 million, or 17.9%, was used for operation, maintenance, and depreciation, and \$22.9 million, or 15.0%, was used for auxiliary enterprises. Operating expenses for June 30, 2010, including depreciation of \$9.7 million, totaled \$148.3 million.

The breakout by functional expense is highlighted below:



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

Other

The State appropriations of \$45.1 million for the years ended June 30, 2011, and June 30, 2010, is the largest source of nonoperating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was \$4.9 million for the year ended June 30, 2011, and \$5.2 million for the year ended June 30, 2010.

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		
	2011	2010	2009
Cash Provided (Used) By:			
Operating Activities	(\$46,696,250)	(\$39,939,947)	(\$45,097,006)
Noncapital Financing Activities	61,618,376	60,465,911	56,695,437
Capital and Related Financing Activities	(18,113,312)	(13,636,112)	(14,685,557)
Investing Activities	1,556,143	(10,367,563)	(7,381,306)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,635,043)	(3,477,711)	(10,468,432)
Cash and Cash Equivalents – Beginning of Year	48,314,489	51,792,200	62,260,632
Cash and Cash Equivalents – End of Year	<u>\$46,679,446</u>	<u>\$48,314,489</u>	<u>\$51,792,200</u>

Major sources of funds included in operating activities are student tuition and fees of \$54.4 million, grants and contracts of \$9.8 million and auxiliary sales of \$24.3 million for the year ended June 30, 2011; and 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. The major source of funds included in noncapital financing activities are State appropriations of \$45.1 million and Pell grant revenue of \$15.1 million for the year ended June 30, 2011; and State appropriations of \$45.4 million and Pell grant revenue of \$13.9 million for the year ended June 30, 2010.

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 \$4.3 million for the year ended June 30, 2011, was primarily the result of a \$4.6 million increase in investments from earnings and a \$0.5 million decrease in pledges receivable. For the year ended June 30, 2010, the Foundation had a \$3.2 million increase in net assets. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

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

Factors Impacting Future Periods

Enrollment

The 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
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
2011	8,719	698	9,417	8,611	246,682	9,308	255,990

For the 2010-11 academic year, fifty-three percent (53%) of the University's students represent Upper Peninsula Michigan residents, twenty-nine percent (29%) of the University's students came from Michigan's Lower Peninsula, and the remaining eighteen percent (18%) came from other states and foreign countries.

Admissions

Given the projected decline in Upper Peninsula high school enrollments, NMU has expanded its recruiting in the Lower Peninsula of Michigan, as well as in targeted regions of Illinois, Wisconsin and Minnesota which have relatively large population densities. Some testing of markets in Florida, California, Texas and other states is also being considered. 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 stabilize.

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>
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
2010	6,014	4,334	72.1	1,730	39.9

By July 28, 2011, the University had received 6,409 freshman applications (as compared to 6,100 as of July 27, 2010) and had granted 3,580 acceptances (as compared to 3,087 as of July 27, 2010).

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

Factors Impacting Future Periods (continued)

Admissions (continued)

<u>Fall Semester</u>	<u>Transfer Student Admissions</u>				
	<u>Applications Received</u>	<u>Applications Accepted</u>	<u>Percent Accepted</u>	<u>Students Enrolled</u>	<u>Percent Enrolled</u>
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
2010	1,509	878	58.2	570	64.9

By July 28, 2011, the University had received 1,567 transfer applications (as compared to 1,542 as of July 29, 2010) and had granted 787 acceptances (as compared to 744 as of July 29, 2010).

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 has completed a \$2.3 million contract for energy management and control upgrades to several buildings during the current fiscal year. Continuing with its efforts to improve energy efficiencies on campus, the University entered into a second performance contract on April 11, 2011 totaling \$5.2 million for 10 additional buildings. Expected completion of this second contract is expected by the summer of 2012. The University expects to recover its costs through energy savings over the next several years and produce long-term energy savings.

Construction of a solid biomass fuel facility will move forward in the fall of 2011 under a performance contract that will guarantee energy savings. The facility will connect to the current Heating Plant and together the facilities would generate steam and electricity for most of the buildings on campus. It is expected that the estimated annual cost avoidance will be sufficient to fund debt service requirements over a 20 year period. The construction cost is estimated at \$16.4 million and expected to be funded from a combination of funding sources which may include issuance of general revenue bonds.

The University is in the programming phase for renovation of Jamrich Hall with a goal to create a modern, high quality classroom facility that supports active learning with a 30,000 square foot addition to incorporate faculty offices. A programming statement will be submitted to the State Department of Technology, Management, and Budget by November 4, 2011 for construction funding consideration in fiscal year 2013. Project budget is approximately \$33.9 million with 75% funding from the State Building Authority and 25% University match.

During fiscal year 2012, the University plans to replace the energy management system that manages building door access controls, security systems, and fire alarms. Projected project cost for the door access and security system is \$1.6 million. The design for the replacement of the fire alarm and mass notification portion of the system is underway. Renovation projects beyond fiscal year 2012 include modernization 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, 2011 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
12/01/2011	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
12/01/2023	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%	8,645,000
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
Total			<u><u>\$98,045,000</u></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)

NMU has structured cooperative agreements with local communities that allow the University to partner with government and education institutions to develop programs and services that take advantage of the wireless network. 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 within a 30 mile radius of campus. The WiMax network will continue to expand over the next two years.

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 a new 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 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 expects to receive \$38.4 million in State Appropriations for the upcoming fiscal year. This is a decrease of \$6.7 million from the prior year funding level of \$45.1 million. The University has increased student tuition and fees by 7.0% for the 2012 fiscal year and will implement base budget reductions of \$4.9 million.

INDEPENDENT AUDITORS' REPORT

September 9, 2011

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, 2011 and 2010, 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 audits. 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 audits 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, 2011 and 2010, 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 9, 2011, 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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	Northern Michigan University June 30		Component Unit	
			Northern Michigan University Foundation June 30	
	2011	2010	2011	2010
ASSETS				
Current assets				
Cash and cash equivalents	\$ 46,679,446	\$ 48,314,489	\$ 256,551	\$ 110,617
State appropriation receivable	8,207,328	8,208,895		
Accounts receivable (less allowance 2011--\$2,317,315; 2010--\$2,032,240)	7,049,921	7,268,052		
Student notes receivable (less allowance 2011--\$671,682; 2010--\$662,182)	1,298,421	1,384,789		
Investment receivable	71,255	69,901		
Pledges receivable (less allowance 2011--\$4,204; 2010--\$23,020)			472,073	789,515
Inventories	1,376,543	1,380,190		
Other assets	2,215,485	1,883,244	257,658	239,818
Total current assets	66,898,399	68,509,560	986,282	1,139,950
Noncurrent assets				
Long-term investments	49,409,113	47,141,741	25,065,716	20,461,267
Student notes receivable (less allowance 2011--\$2,015,047; 2010--\$1,986,545)	6,891,187	6,847,153		
Other long-term investments	194,962	194,962	826,235	770,535
Pledges receivable (less allowance 2011--\$8,161; 2010--\$195)			916,727	1,136,805
Unamortized bond issue costs	1,476,394	1,555,244		
Capital assets, net	223,637,005	230,140,131	1,543,162	1,574,885
Total noncurrent assets	281,608,661	285,879,231	28,351,840	23,943,492
Total assets	348,507,060	354,388,791	29,338,122	25,083,442
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	7,562,476	9,755,572	166,522	176,077
Accrued payroll and benefits	7,680,940	7,443,580		
Unearned revenue (unearned student fees and deposits)	3,727,541	4,486,030		
Long-term liabilities-current portion	3,746,207	3,892,572		
Total current liabilities	22,717,164	25,577,754	166,522	176,077
Noncurrent liabilities				
Annuities payable			98,991	111,550
Long-term liabilities-net of current portion	100,654,065	109,533,707		
Total noncurrent liabilities	100,654,065	109,533,707	98,991	111,550
Total liabilities	123,371,229	135,111,461	265,513	287,627
NET ASSETS				
Invested in capital assets, net of related debt	128,103,562	126,147,763		
Restricted for				
Nonexpendable				
Scholarships and fellowships	58,248	50,227	2,493,873	2,181,148
Loans	49,274	42,047		
Instruction	676,476	581,750		
Expendable				
Instruction	861,624	742,267	6,523,608	4,527,978
Scholarships and fellowships	344,022	307,397	14,597,330	12,484,955
Loans	2,776,294	2,723,574		
Research	139,130	116,948		
Academic, student and public service	76,116	65,494	2,887,960	3,463,050
Capital project				
Unrestricted	92,051,085	88,499,863	2,569,838	2,138,684
Total net assets	\$ 225,135,831	\$ 219,277,330	\$ 29,072,609	\$ 24,795,815

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 Year Ended June 30		Component Unit Northern Michigan University Foundation	
			Year Ended June 30	
	2011	2010	2011	2010
REVENUES				
Operating				
Student tuition and fees (less allowance 2011--\$19,520,000; 2010--\$16,693,000)	\$ 56,047,514	\$ 55,246,297		
Gifts and contributions			\$ 2,749,560	\$ 4,187,850
Endowment income			170,372	68,412
Federal grants and contracts	6,356,781	5,475,906		
State and local grants and contracts	350,758	852,308		
Nongovernmental grants and contracts	1,256,585	1,326,704		
Sales and services of educational activities	8,956,319	9,123,355		
Auxiliary enterprise				
Residential life (less allowance 2011--\$5,380,000; 2009--\$4,974,000)	17,502,451	17,560,653		
Other auxiliary	6,737,228	6,684,392		
Other operating revenues			283,602	56,196
Total operating revenues	<u>97,207,636</u>	<u>96,269,615</u>	<u>3,203,534</u>	<u>4,312,458</u>
EXPENSES				
Operating				
Educational and general				
Instruction	42,945,420	41,853,316		
Research	842,451	871,832		
Public service	9,453,545	9,522,173		
Academic support	13,041,575	13,752,345		
Student services	14,359,914	14,196,427		
Institutional support	11,855,944	11,448,667	1,325,964	1,461,306
Operations and maintenance of plant	17,541,339	15,449,135		
Student aid	9,585,453	9,043,236		
Depreciation	9,623,523	9,682,295		
Auxiliary enterprise				
Residential life	15,220,826	14,699,753		
Other	7,648,836	7,817,132		
Total operating expenses	<u>152,118,826</u>	<u>148,336,311</u>	<u>1,325,964</u>	<u>1,461,306</u>
Operating (loss) income	<u>(54,911,190)</u>	<u>(52,066,696)</u>	<u>1,877,570</u>	<u>2,851,152</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	45,127,868	45,148,900		
Federal grant - State fiscal stabilization funds	1,289,300			
Pell grant revenue	15,126,978	13,874,985		
Gifts (including 2011--\$1,488,000 and 2010--\$1,685,000 from the NMU Foundation)	1,488,060	1,685,003		
Payments to and on behalf of the University			(2,057,935)	(1,917,517)
Investment income (net of investment expense for the University 2011--\$252,000 and 2010--\$278,900; and for the NMU Foundation 2011--\$113,200 and 2010--\$129,100)	3,824,867	2,295,391	4,457,159	2,302,225
Interest on capital asset-related debt	(4,947,259)	(5,184,239)		
Net nonoperating revenues	<u>61,909,814</u>	<u>57,820,040</u>	<u>2,399,224</u>	<u>384,708</u>
Income before other (expenses) revenues	<u>6,998,624</u>	<u>5,753,344</u>	<u>4,276,794</u>	<u>3,235,860</u>
Capital grants and gifts	299,963			
Loss on asset disposal	(1,440,086)	(34,667)		
Total other (expenses) revenues	<u>(1,140,123)</u>	<u>(34,667)</u>		
Increase in net assets	<u>5,858,501</u>	<u>5,718,677</u>	<u>4,276,794</u>	<u>3,235,860</u>
NET ASSETS				
Beginning of year	219,277,330	213,558,653	24,795,815	21,559,955
End of year	<u>\$225,135,831</u>	<u>\$219,277,330</u>	<u>\$ 29,072,609</u>	<u>\$ 24,795,815</u>

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Tuition and fees	\$ 54,421,134	\$ 54,233,055
Grants and contracts	9,765,324	7,624,171
Payments to suppliers	(45,834,005)	(39,723,418)
Payments to employees	(88,823,077)	(88,230,481)
Payments for scholarships and fellowships	(9,585,454)	(9,043,236)
Loans issued to students and employees	(548,928)	(912,016)
Collection of loans to students and employees	590,062	1,382,452
Auxiliary enterprise		
Residential life	17,630,962	17,597,679
Other	6,647,884	6,732,204
Other receipts	9,039,848	10,399,643
Net cash used by operating activities	(46,696,250)	(39,939,947)
Cash Flows from Noncapital Financing Activities		
State appropriations	45,129,435	45,410,668
Federal grant - State fiscal stabilization funds	1,289,300	
Pell grant revenue	15,126,978	13,874,985
William D. Ford direct lending receipts	39,669,366	39,941,315
William D. Ford direct lending disbursements	(40,490,455)	(39,949,935)
Gifts and grants received for other than capital purposes	1,522,536	1,650,526
Other	(628,784)	(461,648)
Net cash provided by noncapital financing activities	61,618,376	60,465,911
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	299,963	
Purchases of capital assets	(4,975,208)	(5,023,619)
Principal paid on capital debt	(8,590,000)	(3,545,000)
Interest paid on capital debt	(4,848,067)	(5,067,493)
Net cash used by capital and related financing activities	(18,113,312)	(13,636,112)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	2,907,365	16,907,480
Interest on investments	1,616,818	1,367,195
Purchase of investments	(2,968,040)	(28,642,238)
Net cash provided by (used in) investing activities	1,556,143	(10,367,563)
Net decrease in cash and cash equivalents	(1,635,043)	(3,477,711)
Cash and cash equivalents - beginning of the year	48,314,489	51,792,200
Cash and cash equivalents - end of year	\$ 46,679,446	\$ 48,314,489
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	(\$54,911,190)	(\$52,066,696)
Depreciation expense	9,623,523	9,682,295
Amortization of bond issuance costs	78,850	78,850
Change in assets and liabilities:		
Receivables, net	1,164,430	551,953
Inventories	3,645	(62,546)
Other assets	(330,530)	(552,836)
Accounts payable	(1,759,451)	1,637,316
Unearned revenue	(826,053)	235,097
Accrued payroll and benefits	260,526	556,620
Net cash used by operating activities	(\$46,696,250)	(\$39,939,947)

The accompanying notes are an integral part of these financial statements

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NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
June 30, 2011

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

REPORTING ENTITY

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

The Northern Michigan University Foundation (Foundation), is a legally separate, tax-exempt organization supporting Northern Michigan University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The thirty-three member Board of Trustees of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are reported in a separate column to emphasize that a) it is legally separate from the University and b) its assets are not necessarily available to satisfy all liabilities of the University. 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, 2011 and 2010, the Foundation made distributions of \$2.1 million and \$1.9 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.

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. These revenues represent revenue earned from exchange transactions and are reported net of discounts. Transactions related to capital and related financing activities, 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.

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, 10 to 30 years for infrastructure, 5 years for books, and 5 to 20 years for equipment.

Depreciation expense for 2011 and 2010 was approximately \$9,620,000 and \$9,680,000, respectively. The University capitalizes assets with a cost of \$5,000 and greater, and an estimated useful life in excess of one year.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

State Appropriations

State appropriation revenue is recognized in the period for which it is appropriated. For fiscal 2011, the State appropriated \$1,289,300 to the University from their State fiscal stabilization fund. This represents Federal American Recovery and Reinvestment Act funds which are reported as nonoperating revenue.

Non-Exchange Transactions

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

Compensated Absences

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

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 2010 balances have been reclassified to conform to the 2011 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:

	2011	2010
Cash and cash equivalents	\$46,679,446	\$48,314,489
Long-term investments	49,409,113	47,141,741
Other long-term investments	194,962	194,962
Total	\$96,283,521	\$95,651,192

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, 2011 and 2010, the carrying amount of the University's deposits was \$4,842,798 and \$6,582,240, respectively. The bank balance of the University's deposits at June 30, 2011 and 2010 was \$8,593,133 and \$7,505,655, respectively. Of that amount, \$8,196,062 and \$7,005,655, 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, 2011 and 2010.

Investments

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

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

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

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

The 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 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, Limited Liability Corporations, 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, 2011, 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	\$41,836,648	\$41,836,648			
Bond Mutual Funds	38,860,512		\$35,929,710	\$1,393,850	\$1,536,952
Equity Mutual Funds	10,389,424				10,389,424
Mortgage Backed Security Funds	17,516				17,516
Alternative Investments	12,011				12,011
Equity Stock	118,846		118,846		
Fixed Income Mutual Funds	10,804				10,804
Real Estate	194,962				194,962
Total	91,440,723	\$41,836,648	\$36,048,556	\$1,393,850	\$12,161,669
Less Investments Reported as “Cash Equivalents” on Statements of Net Assets	(41,836,648)				
Total Investments	\$49,604,075				

At June 30, 2010, 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	\$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				8,366,001
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	\$35,750,558	\$1,802,704	\$9,783,441
Less Investments Reported as “Cash Equivalents” on Statements of Net Assets	(41,732,249)				
Total Investments	\$47,336,703				

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, 2011 and 2010, 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 investment pools and in open end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. 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, 2011 and 2010.

The Foundation's investments are not managed by the University and are invested under a separate investment policy of the Foundation. The Foundation's investment policy also allows up to ten percent of its portfolio to be invested in foreign-denominated securities; all other investments must be denominated in U.S. dollars.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE C--DEPOSITS AND INVESTMENTS—FOUNDATION

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at quoted fair value. Both realized and unrealized gains and losses are included in investment income in the statement of revenues, expenses and changes in net assets. Investments acquired by gift or bequest are recorded at the market value on the date of donation and thereafter carried in accordance with the above provision.

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.

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 of 1.5% 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 a national financial institution. Investment guidelines are established for each manager, consistent with their investment style, and Foundation return/risk/liquidity objectives. Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. Gains and losses, as well as investment interest, have been allocated to the participating programs based on their net asset balance percentage participation less an operating fee. The net asset balance percentage participation is recalculated on a quarterly basis with investment earnings, gains and losses allocated to the respective funds.

Investment income consists of:

	2011	2010
Gain (loss) on sale of investments	\$1,746,997	\$910,118
Interest and dividends	621,917	554,792
Distributions to beneficiaries	(66,290)	(46,790)
Management fee	(113,191)	(129,107)
Increase in fair value of investments	2,267,726	1,013,212
Total	\$4,457,159	\$2,302,225

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

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

Fair Value Hierarchy

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

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

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Fair value measurement for the Foundation investments is based upon quoted prices. All of the Foundation investments are Level 1.

Fair value measurement for contributions receivable from remainder trusts, annuity payment liabilities and split interest agreements is based upon estimated rate of return, anticipated future payments to be made to donors during the donors' lives, donor's life expectancies and an assumed discount rate of six percent. Fair value measurement for life insurance policies is based on current cash surrender value.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Mutual Funds				
Money market	\$49,017			\$49,017
Index funds	8,716,064			8,716,064
Balanced funds	1,153,299			1,153,299
Growth funds	7,275,588			7,275,588
Fixed income funds	6,668,363			6,668,363
Other funds	489,861			489,861
Total mutual funds	24,352,192			24,352,192
US and Municipal Government Securities	467,000			467,000
Common stocks				
Consumer	35,130			35,130
Energy	63,201			63,201
Financials	43,082			43,082
Healthcare	16,386			16,386
Industrials	24,933			24,933
Telecommunications	30,999			30,999
Other	32,793			32,793
Total common stocks	246,524			246,524
Total investments at fair value	\$25,065,716			\$25,065,716

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Money market	\$36,137			\$36,137
Index funds	7,232,689			7,232,689
Growth funds	5,632,989			5,632,989
Fixed income funds	6,515,217			6,515,217
Other funds	177,930			177,930
Total mutual funds	19,594,963			19,594,963
US and Municipal Government Securities	445,957			445,957
Common stocks				
Consumer	30,021			30,021
Energy	38,402			38,402
Financials	34,599			34,599
Healthcare	13,376			13,376
Industrials	17,258			17,258
Telecommunications	24,570			24,570
Other	262,121			262,121
Total common stocks	420,347			420,347
Total investments at fair value	\$20,461,267			\$20,461,267

The following tables set forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30.

	2011	2010
	Contributions Receivable from Remainder Trusts	Contributions Receivable from Remainder Trusts
Balance, beginning of the year	\$770,535	\$753,935
Change in value	16,700	16,600
Balance, end of year	\$787,235	\$770,535

	2011	2010
	Stock Not Publicly Traded	Stock Not Publicly Traded
Balance, beginning of the year	\$0	\$0
Change in value	39,000	0
Balance, end of year	\$39,000	\$0

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

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

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 liabilities for the year ended June 30.

	2011	2010
	Annuity Payment Liabilities	Annuity Payment Liabilities
Balance, beginning of the year	\$111,550	\$102,740
Contributions		19,032
Annuity payments	(11,118)	(18,197)
Change in value	(1,441)	7,975
Balance, end of year	<u>\$98,991</u>	<u>\$111,550</u>

NOTE D--RECEIVABLES

Receivables of the University include the following at June 30:

	2011	2010
State appropriations - net	\$8,207,328	\$8,208,895
Student notes receivable – net	8,189,608	8,231,942
Charter schools	3,233,393	3,217,928
NMU Foundation	97,256	91,254
State, federal and private grants	140,232	1,069,242
Students, employees, and vendors - net	3,579,040	2,889,628
Investment receivable	71,255	69,901
Total	<u>\$23,518,112</u>	<u>\$23,778,790</u>

For the years ended June 30, 2011 and 2010, the University received \$17,504,422 and \$16,464,033 respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E--CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2011:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$6,060,458	\$41,213		\$6,101,671
Land improvements	10,681,204			10,681,204
Buildings and improvements	276,293,717			276,293,717
Infrastructure	18,650,095	11,185		18,661,280
Equipment	44,430,223	3,587,753	\$4,193,393	43,824,583
Books	14,930,587	63,093	5,808,173	9,185,507
Construction in progress	1,630,648	857,239		2,487,887
Totals at historical cost	<u>372,676,932</u>	<u>4,560,483</u>	<u>10,001,566</u>	<u>367,235,849</u>
Less accumulated depreciation for:				
Land improvements	4,977,648	459,550		5,437,198
Buildings and improvements	88,408,278	6,381,532		94,789,810
Infrastructure	10,254,956	623,942		10,878,898
Equipment	26,337,153	2,075,357	3,768,630	24,643,880
Books	12,558,766	83,142	4,792,850	7,849,058
Total accumulated depreciation	<u>142,536,801</u>	<u>9,623,523</u>	<u>8,561,480</u>	<u>143,598,844</u>
Capital assets, net	<u>\$230,140,131</u>	<u>\$(5,063,040)</u>	<u>\$1,440,086</u>	<u>\$223,637,005</u>

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	<u>368,667,743</u>	<u>4,263,670</u>	<u>254,481</u>	<u>372,676,932</u>
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	<u>133,074,320</u>	<u>9,682,295</u>	<u>219,814</u>	<u>142,536,801</u>
Capital assets, net	<u>\$235,593,423</u>	<u>\$(5,418,625)</u>	<u>\$34,667</u>	<u>\$230,140,131</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E--CAPITAL ASSETS (continued)

Capital assets are capitalized at cost including ancillary charges necessary to place the asset into use. Interest expense on debt incurred for construction is included in the asset cost for the period of construction. The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$5,747,000 and \$1,589,000 at June 30, 2011 and 2010, respectively.

Northern Michigan University received grants from the U.S. Department of Commerce under the Public Telecommunication Facilities Program to assist in the purchase of equipment for WNMU-TV and WNMU-FM. Total acquisition costs under this program consisted of approximately \$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 F--COLLECTIONS

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

NOTE G--PAYABLES

Payables of the University include the following at June 30:

	<u>2011</u>	<u>2010</u>
Accrued payroll and benefits	\$7,680,940	\$7,443,580
Construction contractors	1,474,316	1,652,600
Charter schools	3,136,391	3,121,390
Vendors	2,574,619	4,572,548
Interest payable	377,150	409,034
Total	<u>\$15,243,416</u>	<u>\$17,199,152</u>

NOTE H—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>
2012	\$1,925,685
2013	287,704
Total	<u>\$2,213,389</u>

Lease expense for 2011 and 2010 was approximately \$2,902,000 and \$3,681,000 respectively.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I--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.

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 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 remaining 1997 General Revenue bonds of \$5,057,552 were called and paid in full on February, 15, 2011.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--BONDS AND NOTES PAYABLE (continued)

As of June 30, 2011, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2012	\$3,435,000	\$4,538,338	\$7,973,338
2013	3,495,000	4,412,975	7,907,975
2014	3,745,000	4,281,156	8,026,156
2015	3,500,000	4,146,181	7,646,181
2016	3,530,000	4,009,956	7,539,956
Total Five Years	17,705,000	21,388,606	39,093,606
Thereafter			
2017-2021	20,530,000	17,271,984	37,801,984
2022-2026	24,575,000	11,788,241	36,363,241
2027-2031	19,985,000	6,479,094	26,464,094
2032-2036	13,550,000	2,222,328	15,772,328
2037-2039	1,700,000	130,250	1,830,250
Total	98,045,000	\$59,280,503	\$157,325,503
Less: deferred amount refunding, net	(4,249,951)		
Less: unamortized re-offering premium	1,738,394		
Total	<u>\$95,533,443</u>		

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	\$106,635,000		\$8,590,000	\$98,045,000	\$3,435,000
Deferred amount on refunding	(4,490,905)		(240,954)	(4,249,951)	(240,954)
Premium on bond issuance	1,848,273		109,879	1,738,394	109,878
Total notes and bonds payable	103,992,368		8,458,925	95,533,443	3,303,924
Other liabilities:					
Severance benefits	817,144		549,925	267,219	267,219
Compensated absences	2,236,440	\$2,024,208	1,974,678	2,285,970	175,064
Federal capital contribution of Perkins Loan Program	6,380,327		66,687	6,313,640	
Total other liabilities	9,433,911	2,024,208	2,591,290	8,866,829	442,283
Total long-term liabilities	<u>\$113,426,279</u>	<u>\$2,024,208</u>	<u>\$11,050,215</u>	<u>\$104,400,272</u>	<u>\$3,746,207</u>

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--BONDS AND NOTES PAYABLE (continued)

Long-term liability activity for the year ended June 30, 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

NOTE K--OPERATING EXPENSES

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

	2011	2010
Salaries, wages and benefits	\$89,083,603	\$88,787,100
Supplies and support services	37,098,407	33,809,286
Utilities	6,727,840	7,014,394
Depreciation expense	9,623,523	9,682,295
Scholarships	9,585,453	9,043,236
Total	\$152,118,826	\$148,336,311

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 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.

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 2011, this rate is 4.11%, and is applied to payrolls occurring on or after October 1, 2010. For the State's fiscal year 2010, this rate was 4.58%, and was 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.
- 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 2011, this rate is 9.73% and is applied to payrolls occurring on or after October 1, 2010. For the State's fiscal year 2010, this rate was 7.72% and was 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.
- Retiree Health Insurance: For its fiscal year 2004, the State changed its method for calculating retiree health insurance. The new calculation is based on the University's retirees who are covered on the Retirement System's health plan including specific insurance coverage and corresponding premium subsidy. The University has been asked to pay the lower of the monthly amount of the calculated annual cost or the amount calculated monthly under the new method. The new method is expected to reduce the University's overall payment. For the year ended June 30, 2011, which encompasses 9 months of the State's fiscal year 2011 and 3 months of the State's fiscal year 2010, the University's total cost for retiree's health insurance was \$2,642,390. 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.

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, 2011:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$6,113,223	\$4,653,064	\$10,766,287
Covered Payroll	\$41,386,413	\$9,830,024	\$51,216,437

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, 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 allows retirees to purchase healthcare benefits at cost and has 25 retirees participating in health coverage at June 30, 2011. 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 has not recorded a liability for postemployment health care.

NOTE M--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, 2011 and 2010 was \$30,000 and \$246,000, respectively.

The University has a Reduction in Force (RIF) plan for those full-time employees whose positions were eliminated because of budget cuts from 2003 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, 2011 and 2010 was \$237,000 and \$571,000, 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.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE N--LIABILITY INSURANCE (continued)

M.U.S.I.C. was established on May 28, 1987 pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6, and subsequently they incorporated as a Michigan nonprofit corporation pursuant to the provisions of Act 162 Public Acts of 1982. Eleven Michigan Public universities participate in M.U.S.I.C. All members have signed a participation agreement. Participant contributions are assessed on an annual basis to cover insurance risks retained as a group, costs related to excess coverage, and general and administrative expenses. Members' equity totaled \$15,937,918 at June 30, 2010, 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 \$14.8 million and \$13.5 million in aggregate for fiscal year ended June 30, 2011 and 2010, 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, 2011 and 2010, the aggregate excess insured maximum liability is \$5,000,000.

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 effect on the financial statements.