FINANCIAL REPORT

2011 – 2012

NORTHERN MICHIGAN UNIVERSITY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Board of Trustees

Executive Officers

David S. Haynes
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

Ann M. Sherman
Director of Human Resources

Sherri A. Towers
Budget Director

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2012, 2011 and 2010. 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, 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 $48.1 million for the year ended June 30, 2012, and $54.9 million for the year ended June 30, 2011. 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, 2012 of $228.6 million increased by $3.5 million from the prior year and included recognition of $38.4 million in State appropriation revenue.

Operating revenues for the year ended June 30, 2012 of $102.3 million increased by $5.0 million from the prior year. Student tuition and fees totaling $61.1 million is the largest component of operating revenue and increased by $5.1 million over the prior year. Residential life totaling $19.3 million increased by $1.7 million and all other operating revenues of $21.9 million decreased by $1.8 million. Nonoperating revenues totaling $56.2 million decreased by $10.7 million from the prior year. The largest components of this decrease were a $8.1 million decrease in State appropriations and State fiscal stabilization funds and a $1.9 million decrease in investment income.

Financial Highlights (continued)

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 2011 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 $66.9 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.

Operating and nonoperating expenses of $155.2 million for the year ended June 30, 2012 decreased by $1.9 million and includes a $2.8 million decrease in salaries, wages, and benefits, a $2.5 million increase in supplies and support services, a $0.1 million decrease in utilities, a $1.1 million decrease in student aid, a $0.2 million decrease in interest on capital asset-related debt, and a $0.2 million decrease in depreciation. On a functional basis, instructional expenses increased $0.3 million, operations and maintenance of plant decreased $0.3 million, interest on capital asset related debt decreased $0.2 million, student aid decreased $1.1 million, depreciation expense decreased $0.2 million, residential life increased $1.2 million, and other costs decreased $1.6 million.

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 decreased $2.1 million, interest on capital asset related debt decreased $0.2 million, student aid decreased $0.5 million and other costs remained level with the prior year.

Condensed Financial Information

Condensed Statements of Net Assets

	June 30		
	2012	2011	2010
ASSETS			
Current Assets	$47,924,292	$66,898,399	$68,509,560
Noncurrent Assets			
Capital	227,784,807	223,637,005	230,140,131
Other	89,916,136	57,971,656	55,739,100
Total Noncurrent Assets	317,700,943	281,608,661	285,879,231
Total Assets	365,625,235	348,507,060	354,388,791
LIABILITIES			
Current Liabilities	26,470,220	22,717,164	25,577,754
Noncurrent Liabilities	110,521,627	100,654,065	109,533,707
Total Liabilities	136,991,847	123,371,229	135,111,461
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	121,462,163	128,103,561	126,147,763
Restricted			
Nonexpendable	741,644	783,998	674,024
Expendable	17,323,716	4,197,186	3,955,680
Unrestricted	89,105,865	92,051,086	88,499,863
Total Net Assets	$228,633,388	$225,135,831	$219,277,330

Condensed Financial Information (continued)

Current assets totaled $47.9 million at June 30, 2012 and $66.9 million at June 30, 2011. The ratio of current assets to current liabilities was 1.8 for the year ended June 30, 2012, and 2.9 for the year ended June 30, 2011. The current ratio decreased due to the purchase of investments with maturities greater than one year. Cash and investments of $110.8 million increased by $14.5 million over the prior year total of $96.3 million and includes $10.7 million of unspent bond funds that will be used for construction.

Bonds and Note Payable is the largest liability totaling $106.3 million on June 30,2012 and includes $18.2 million of 2012 General Revenue Fixed Rate bonds issued during the current fiscal year, $89.2 million of 2008 General Revenue Fixed Rate Bonds issued during the fiscal year ended June 30, 2008, and remaining unamortized deferred costs and premiums of ($1.1) million. Bonds and notes payable totaled $95.5 million at June 30, 2011 and included $92.2 million of 2008 General Revenue Fixed Rate Bonds, $5.8 million of the 1998 General Revenue Fixed Rate Bonds and remaining unamortized deferred costs and premiums of ($2.5) million. The 1998 Bonds were paid off during the current fiscal year.

The State appropriations receivable totaled $7.0 million at June 30, 2012 and $8.2 million at June 30, 2011.

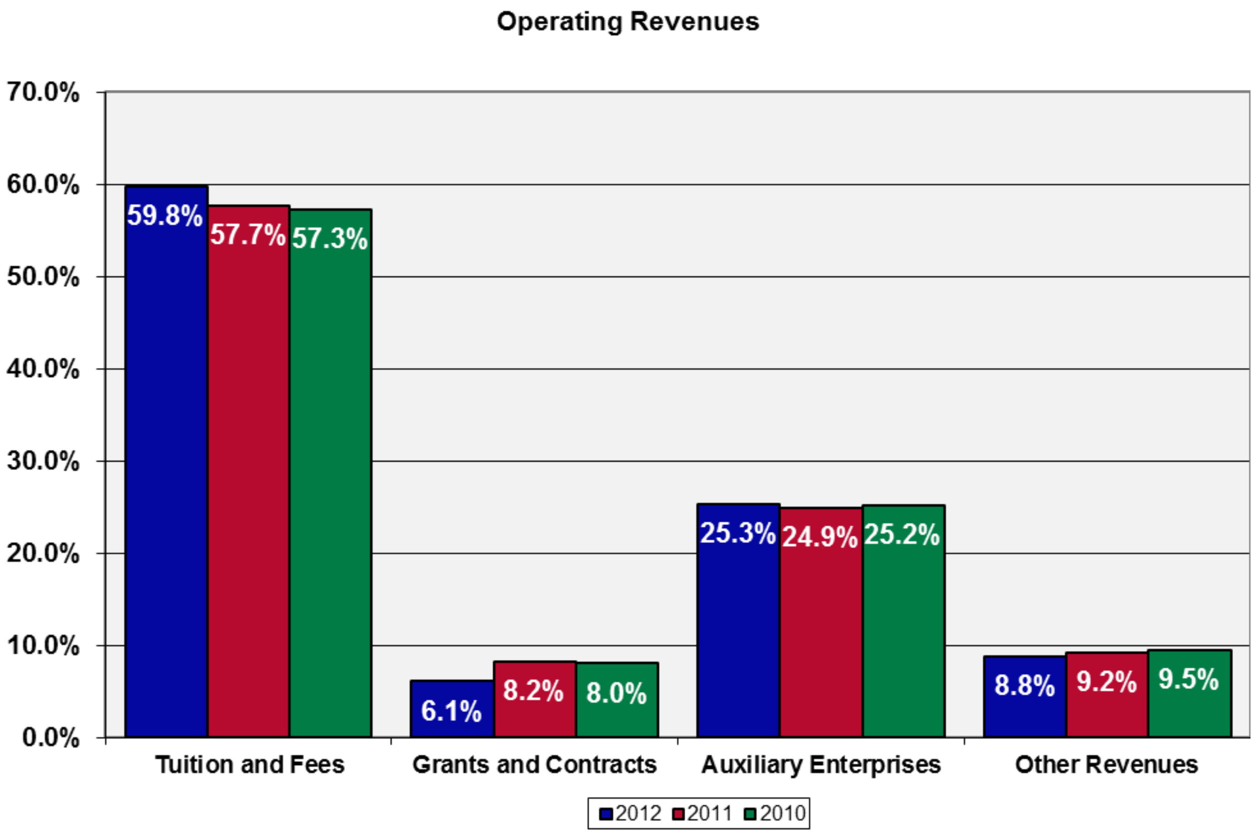
Long-term debt including notes and bonds payable is the largest liability totaling $106.3 million at June 30, 2012, and $95.5 million at June 30, 2011.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	June 30		
	2012	2011	2010
Operating Revenues			
Tuition and Fees, net	$61,114,827	$56,047,514	$55,246,297
Grants and Contracts	6,238,100	7,964,124	7,654,918
Auxiliary Enterprises, net	25,857,193	24,239,679	24,245,045
Other Operating Revenues	9,044,468	8,956,319	9,123,355
Total Operating Revenues	102,254,588	97,207,636	96,269,615
Operating Expenses	(150,391,902)	(152,118,826)	(148,336,311)
Operating Loss	(48,137,314)	(54,911,190)	(52,066,696)
Nonoperating Revenues (Expenses)			
State Appropriations	38,357,900	45,127,868	45,148,900
Pell Grant Revenue	14,202,460	15,126,978	13,874,985
Other Nonoperating Revenues (Expenses) - net	(1,122,950)	1,654,968	(1,203,845)
Net Nonoperating Revenues and Expenses	51,437,410	61,909,814	57,820,040
Income (Loss) before Other Revenues	3,300,096	6,998,624	5,753,344
Capital Grants and Gifts	205,092	299,963	
Loss on Asset Disposal	(7,631)	(1,440,086)	(34,667)
Total Other (Expenses) Revenues	197,461	(1,140,123)	(34,667)
Total Increase (Decrease) in Net Assets	3,497,557	5,858,501	5,718,677
Net Assets			
Net assets—beginning of year	225,135,831	219,277,330	213,558,653
Net assets – end of year	$228,633,388	$225,135,831	$219,277,330

Condensed Financial Information (continued)

Total operating revenues were $102.3 million for fiscal year 2012 and $97.2 million for fiscal year 2011. The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts, as shown below:



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

	2011-2012	2010-2011	2009-2010
Undergraduate, resident	$8,414	$7,864	$7,454
Undergraduate, nonresident	$13,142	$12,280	$11,828
Graduate, resident	$10,130	$9,448	$8,768
Graduate, nonresident	$14,318	$13,366	$12,686

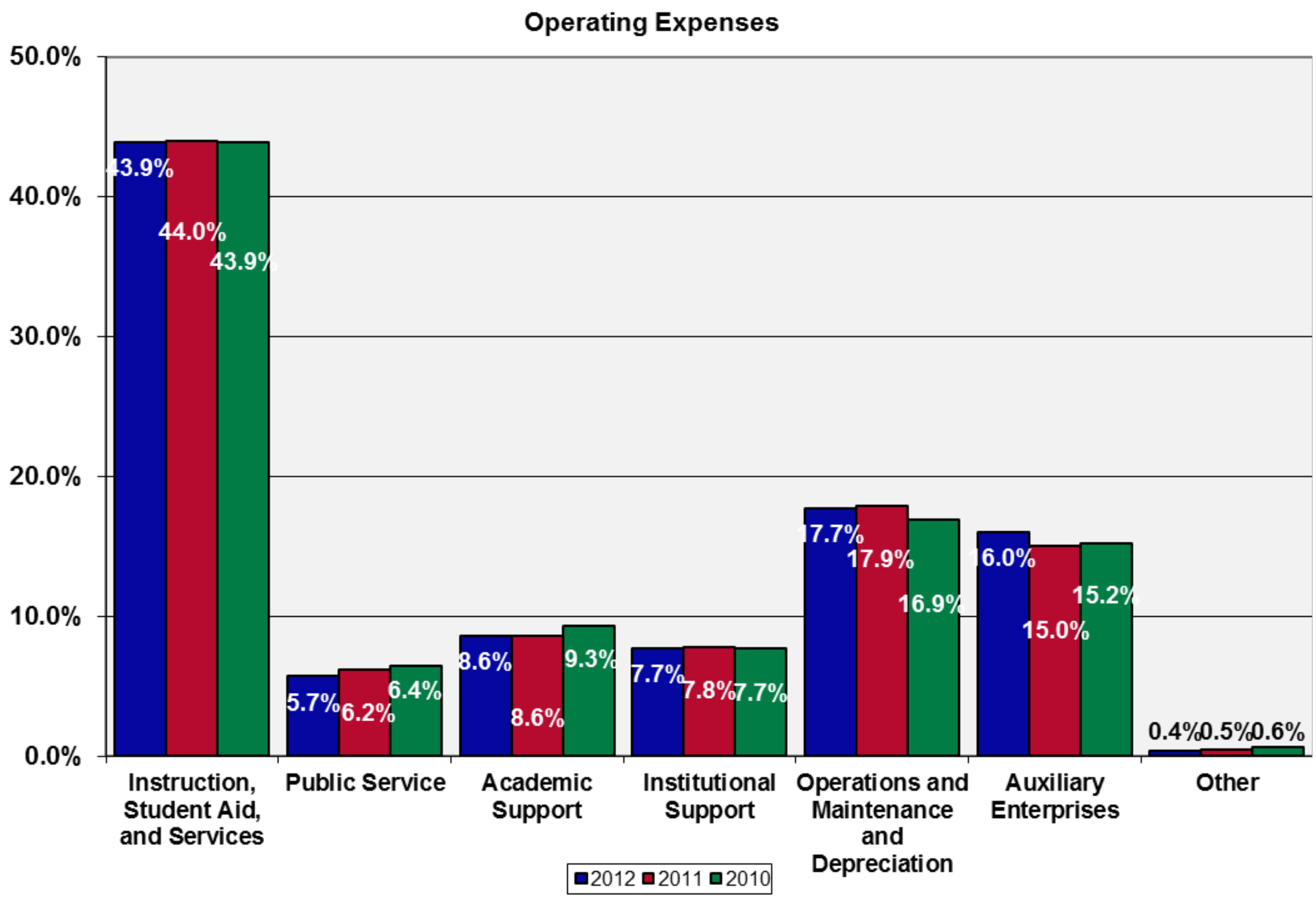
Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees, was $8,174 for 2011-2012, $8,026 for 2010-2011, and $7,846 for 2009-2010. 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 which house 2,611 students currently have a mean occupancy of 2,389 (2011 – 2,319) and are at 91% capacity (2011 – 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, 2012, including depreciation of $9.4 million, totaled $150.4 million. Of this total, $66.0 million, or 43.8%, was used for instruction, student aid, and student services, $26.7 million, or 17.7% was used for operation, maintenance, and depreciation, and $24.0 million, or 16.0%, was used for auxiliary enterprises. Operating expenses for June 30, 2011, including depreciation of $9.6 million, totaled $152.1 million.

The breakout by functional expense is highlighted below:



Other

The State appropriations of $38.4 million for the year ended June 30, 2012, and $45.1 million for the year ended June 30, 2011, 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 $4.7 million for the year ended June 30, 2012, and $4.9 million for the year ended June 30, 2011.

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		
	2012	2011	2010
Cash Provided (Used) By:			
Operating Activities	($36,454,186)	($46,696,250)	($39,939,947)
Noncapital Financing Activities	55,521,979	61,618,376	60,465,911
Capital and Related Financing Activities	(6,514,843)	(18,113,312)	(13,636,112)
Investing Activities	(40,858,108)	1,556,143	(10,367,563)
Net (Decrease) Increase in Cash and Cash Equivalents	(28,305,158)	(1,635,043)	(3,477,711)
Cash and Cash Equivalents – Beginning of Year	46,679,446	48,314,489	51,792,200
Cash and Cash Equivalents – End of Year	$18,374,288	$46,679,446	$48,314,489

Major sources of funds included in operating activities are student tuition and fees of $61.2 million, grants and contracts of $6.4 million and auxiliary sales of $25.7 million for the year ended June 30, 2012; and 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. The major source of funds included in noncapital financing activities are State appropriations of $39.6 million and Pell grant revenue of $14.2 million for the year ended June 30, 2012; and State appropriations of $45.1 million and Pell grant revenue of $15.1 million for the year ended June 30, 2011.

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. Net assets of $28.3 million decreased $0.2 million for the year ended June 30, 2012.

The decrease of $0.2 million for the year ended June 30, 2012 changed by $4.5 million as compared to an increase of $4.3 million recorded in the prior year as restated. The change was primarily the result of a $4.5 million decrease in investment income, a $0.2 million increase in gifts and contributions, a $0.1 million increase in payments to and on behalf of the University, and a $0.1 increase in support services. For the year ended June 30, 2011, the Foundation had a $4.3 million increase in net assets after restatement for write off of a revocable charitable trust receivable. The Foundation continues to engage in activities that increase donor awareness of giving opportunities to support the University by providing scholarships, facilities, and learning opportunities.

Factors Impacting Future Periods

Enrollment

The following table indicates the total fall headcount enrollment of undergraduate and graduate students. Also indicated are the fiscal year equated students and total annual credit hours for all students attending the University.

Fall Headcount Enrollment					Annual Total Credit Hours Taken		
Academic Year	Undergraduate Students	Graduate Students	Total	Fiscal Year Equated Students	Undergraduate Students	Graduate Students	Total
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
2012	8,712	693	9,405	8,569	245,854	8,978	254,832

For the 2011-12 academic year, fifty-one percent (51%) of the University's students represent Upper Peninsula Michigan residents, thirty percent (30%) 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 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

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Total New Freshmen Enrolled	Percent Enrolled
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
2011	6,298	4,546	72.2	1,837	40.4

By August 1, 2012, the University had received 6,964 freshman applications (as compared to 6,430 as of August 3, 2011) and had granted 4,591 acceptances (as compared to 4,517 as of August 3, 2011).

Factors Impacting Future Periods (continued)

Admissions (continued)

Transfer Student Admissions

Fall Semester	Applications Received	Applications Accepted	Percent Accepted	Students Enrolled	Percent Enrolled
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
2011	1,537	899	58.5	577	64.2

By August 1, 2012, the University had received 1,649 transfer applications (as compared to 1,595 as of August 3, 2011) and had granted 834 acceptances (as compared to 849 as of August 3, 2011).

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 second phase of performance contracting to upgrade energy management and control systems totaling $5.2 million for 10 buildings on campus is expected to be completed by the end of August, 2012. The University expects to recover its costs through energy savings over the next twelve years.

In February 2012 the University issued $18,190,000 in tax exempt bonds to construct a $16.4 million solid biomass fuel facility to connect to the current Ripley Heating plant, and to address multiple renovation needs on campus including an energy efficiency steam optimization project that includes replacement of Cohodas steam absorption chiller with related pumps, condensate tanks and HVAC controls at the Ripley Heating plant, steam tunnel improvements, roof replacements, and improvements of campus housing and dining facilities.

With the final approval of the State Department of Technology, Management and Budget, the construction of a $33.4 million new academic facility will begin in fiscal year 2013. The project will be funded with 75% funding from the State Building Authority and will be matched with 25% University funding. The 128,000 square foot facility will have high quality classrooms that support active learning and include faculty office space for four academic departments. This new facility will replace the University's main classroom building and Gries hall resulting in a reduction of approximately 35,000 square feet of building space.

Construction is underway for the door access and security system replacement with project costs projected to be $1.6 million. Five buildings have been completed to date and construction is expected to continue until winter 2012. Design is underway for the replacement of the fire alarm and mass notification portion of the Honeywell system. Construction is expected to start in fiscal year 2012 with an estimated projected project cost of $2.0 million.

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.

Capital Plan (continued)

In addition to the 2012 bond issue totaling $18.2 million, the University had issued $100.9 million in General Revenue Fixed Rate Bonds during the fiscal year ended June 30, 2008 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, 2012 consist of the following:

	Interest Rates		
Maturity Dates	**Coupon**	**Yield**	**Maturity Value**
06/01/2025	3.000%	2.940%	$875,000
06/01/2026	3.000%	3.060%	900,000
12/01/2012	3.250%	2.980%	2,780,000
06/01/2027-06/01/2029	3.250%	3.350%	2,870,000
12/01/2013	3.500%	3.150%	3,155,000
06/01/2030-06/01/2032	3.500%	3.650%	3,165,000
12/01/2014	3.750%	3.320%	3,500,000
06/01/2022	4.000%	2.610%	775,000
06/01/2023	4.000%	2.770%	805,000
06/01/2024	4.000%	2.870%	840,000
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
12/01/2024	4.750%	4.790%	4,260,000
12/01/2025	4.875%	4.850%	3,860,000
06/01/2013	5.000%	0.590%	1,000,000
06/01/2014	5.000%	0.810%	1,000,000
06/01/2015	5.000%	1.130%	1,015,000
06/01/2016	5.000%	1.340%	1,070,000
06/01/2017	5.000%	1.570%	1,120,000
06/01/2018	5.000%	1.820%	640,000
06/01/2019	5.000%	2.030%	670,000
06/01/2020	5.000%	2.220%	705,000
06/01/2021	5.000%	2.410%	740,000
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
12/01/2029	5.000%	5.000%	4,210,000
12/01/2030	5.000%	5.030%	4,385,000
12/01/2031	5.000%	5.060%	2,475,000
12/01/36-12/01/2038	5.000%	5.120%	1,700,000
12/01/2032-12/01/2035	5.125%	5.110%	11,075,000
Total			$107,410,000

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 three-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 ten-city area surrounding NMU. Serving the communities of Marquette, Marquette Township, Harvey, Sawyer, Gwinn, Ishpeming, Negaunee, Big Bay, Houghton and Hancock, 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.

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 35 mile radius of campus. Recently, WiMax was enabled in the Houghton and Hancock area and supports area schools for K12 education.

The completion of WNMU-TV's digital transition has resulted in a new, modern studio facility with high definition production capabilities. WNMU-TV has expanded its programming capability and provides emergency broadcasting and EAS services to the Upper Peninsula region. Students in the Media Productions/New Technologies program have enhanced instructional opportunities through use of the new studio to supplement the experiential learning component of their program.

Public Eye news is a daily student produced news program aired on WNMU-TV. This program provides production and on-air learning opportunities for students enrolled in programs from the Communications and Performance Studies department. Public broadcasting also supports WUPX, a student run radio station, with program content from its Public Eye new program and engineer services for the students' new IBOC digital transmitter. Learning opportunities also include audio production as students record guest performers as part of their academic program and then work with WNMU-FM to produce music CDs that are often broadcast on WNMU-FM and WUPX.

State Appropriations

The State appropriation for the upcoming fiscal year is based solely on formula funding. The University expects to receive $40.3 million before any funds from tuition restraint portion of the formula are distributed. This is an increase of $1.9 million from the 2012 funding level of $38.4 million. The University has increased student tuition by 3.5% for the 2013 fiscal year which is under the formula cap as specified by the State of Michigan, of 4.0% for the year.

THIS PAGE INTENTIONALLY LEFT BLANK

Rehmann

107 S. Cass St., Suite A
Traverse City, MI 49684
Ph: 231.946.3230
Fax: 231.946.3955
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

September 17, 2012

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, 2012 and 2011, 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 report 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, 2012 and 2011, and the respective changes in financial position, and where applicable cash flows 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 17, 2012, 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 audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rehmann Robson

NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	Northern Michigan University June 30 2012	Northern Michigan University June 30 2011	Component Unit: Northern Michigan University Foundation June 30 2012	Component Unit: Northern Michigan University Foundation June 30 2011 as restated
ASSETS				
Current assets				
Cash and cash equivalents	$ 18,374,288	$ 46,679,446	$ 880,501	$ 256,551
Short-term investments	10,680,000			
State appropriation receivable	6,975,892	8,207,328		
Accounts receivable (less allowance 2012--$2,573,437; 2011--$2,317,315)	6,817,957	7,049,921		
Student notes receivable (less allowance 2012--$598,439; 2011--$671,682)	1,619,526	1,298,421		
Investment receivable	13,419	71,255		
Pledges receivable (less allowance 2012--$9,468; 2011--$8,161)			628,275	471,888
Inventories	1,415,242	1,376,543		
Other assets	2,027,968	2,215,485	295,283	257,843
Total current assets	47,924,292	66,898,399	1,804,059	986,282
Noncurrent assets				
Long-term investments	81,545,247	49,409,113	24,619,118	25,065,716
Student notes receivable (less allowance 2012--$2,364,132; 2011--$2,015,047)	6,397,967	6,891,187		
Other long-term investments	194,962	194,962	223,735	239,235
Pledges receivable (less allowance 2012--$4,876; 2011--$4,204)			640,335	916,727
Unamortized bond issue costs	1,777,960	1,476,394		
Capital assets, net	227,784,807	223,637,005	1,587,113	1,543,162
Total noncurrent assets	317,700,943	281,608,661	27,070,301	27,764,840
Total assets	365,625,235	348,507,060	28,874,360	28,751,122
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9,882,715	7,562,476	549,753	166,522
Accrued payroll and benefits	7,965,106	7,680,940		
Unearned revenue (unearned student fees and deposits)	4,440,924	3,727,541		
Long-term liabilities-current portion	4,181,475	3,746,207		
Total current liabilities	26,470,220	22,717,164	549,753	166,522
Noncurrent liabilities				
Annuities payable			31,243	98,991
Long-term liabilities-net of current portion	110,521,627	100,654,065		
Total noncurrent liabilities	110,521,627	100,654,065	31,243	98,991
Total liabilities	136,991,847	123,371,229	580,996	265,513
NET ASSETS				
Invested in capital assets, net of related debt	121,462,163	128,103,562		
Restricted for				
Nonexpendable				
Scholarships and fellowships	55,031	58,248	2,521,761	1,906,873
Loans	47,349	49,274		
Instruction	639,264	676,476		
Expendable				
Instruction	813,910	861,624	6,996,073	6,523,608
Scholarships and fellowships	327,946	344,022	14,984,018	14,597,330
Loans	2,828,622	2,776,294		
Research	85,264	139,130		
Academic, student and public service	71,900	76,116	2,399,396	2,887,960
Capital project	13,196,074			
Unrestricted	89,105,865	92,051,085	1,392,116	2,569,838
Total net assets	$ 228,633,388	$ 225,135,831	$ 28,293,364	$ 28,485,609

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	
REVENUES	**2012**	**2011**	**2012**	**2011 as restated**
Operating				
Student tuition and fees (less allowance 2012--$18,917,000; 2011--$19,520,000)	$ 61,114,827	$ 56,047,514		
Gifts and contributions			$ 3,064,323	$ 2,749,560
Endowment income			58,417	170,372
Federal grants and contracts	4,560,560	6,356,781		
State and local grants and contracts	400,631	350,758		
Nongovernmental grants and contracts	1,276,909	1,256,585		
Sales and services of educational activities	9,044,468	8,956,319		
Auxiliary enterprise				
Residential life (less allowance 2012--$5,383,000; 2011--$5,380,000)	19,250,070	17,502,451		
Other auxiliary	6,607,123	6,737,228		
Other operating revenues			216,047	283,602
Total operating revenues	102,254,588	97,207,636	3,338,787	3,203,534
EXPENSES				
Operating				
Educational and general				
Instruction	43,226,155	42,945,420		
Research	771,558	842,451		
Public service	8,524,806	9,453,545		
Academic support	12,927,217	13,041,575		
Student services	14,259,002	14,359,914		
Institutional support	11,506,184	11,855,944	1,431,820	1,325,964
Operations and maintenance of plant	17,227,420	17,541,339		
Student aid	8,485,388	9,585,453		
Depreciation	9,424,122	9,623,523		
Auxiliary enterprise				
Residential life	16,455,597	15,220,826		
Other	7,584,453	7,648,836		
Total operating expenses	150,391,902	152,118,826	1,431,820	1,325,964
Operating (loss) income	(48,137,314)	(54,911,190)	1,906,967	1,877,570
NONOPERATING REVENUES (EXPENSES)				
State appropriations	38,357,900	45,127,868		
Federal grant - State fiscal stabilization funds		1,289,300		
Pell grant revenue	14,202,460	15,126,978		
Gifts (including 2012--$1,741,000 and 2011--$1,488,000 from the NMU Foundation)	1,740,858	1,488,060		
Payments to and on behalf of the University			(2,168,541)	(2,057,935)
Investment income (net of investment expense for the University 2012--$295,100 and 2011--$252,000; and for the NMU Foundation 2012--$116,800 and 2011--$113,200)	1,900,192	3,824,867	69,329	4,440,459
Interest on capital asset-related debt	(4,764,000)	(4,947,259)		
Net nonoperating revenues (expenses)	51,437,410	61,909,814	(2,099,212)	2,382,524
Income before other revenues (expenses)	3,300,096	6,998,624	(192,245)	4,260,094
Capital grants and gifts (including 2012--$40,000 and 2011--$0 from the NMU Foundation)	205,092	299,963		
Loss on asset disposal	(7,631)	(1,440,086)		
Total other revenues (expenses)	197,461	(1,140,123)		
Increase in net assets	3,497,557	5,858,501	(192,245)	4,260,094
NET ASSETS				
Beginning of year	225,135,831	219,277,330	28,485,609	24,225,515
End of year	$228,633,388	$225,135,831	$28,293,364	$28,485,609

The accompanying notes are an integral part of these financial statements

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
Cash Flows from Operating Activities		
Tuition and fees	$ 61,218,186	$ 54,421,134
Grants and contracts	6,380,544	9,765,324
Payments to suppliers	(44,839,052)	(45,834,005)
Payments to employees	(86,019,890)	(88,823,077)
Payments for scholarships and fellowships	(8,485,387)	(9,585,454)
Loans issued to students and employees	(2,292,955)	(548,928)
Collection of loans to students and employees	2,465,994	590,062
Auxiliary enterprise		
Residential life	19,151,821	17,630,962
Other	6,532,775	6,647,884
Other receipts	9,433,778	9,039,848
Net cash used by operating activities	(36,454,186)	(46,696,250)
Cash Flows from Noncapital Financing Activities		
State appropriations	39,589,336	45,129,435
Federal grant - State fiscal stabilization funds		1,289,300
Pell grant revenue	14,202,460	15,126,978
William D. Ford direct lending receipts	42,538,065	39,669,366
William D. Ford direct lending disbursements	(41,684,027)	(40,490,455)
Gifts and grants received for other than capital purposes	1,740,858	1,522,536
Other	(864,713)	(628,784)
Net cash provided by noncapital financing activities	55,521,979	61,618,376
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	139,703	299,963
Purchases of capital assets	(12,271,948)	(4,975,208)
Principal paid on capital debt	(8,825,000)	(8,590,000)
Interest paid on capital debt	(4,690,862)	(4,848,067)
Net proceeds from sale of revenue bonds	19,133,264	
Net cash used by capital and related financing activities	(6,514,843)	(18,113,312)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	40,283,787	2,907,365
Interest on investments	2,884,749	1,616,818
Purchase of investments	(84,026,644)	(2,968,040)
Net cash (used in) provided by investing activities	(40,858,108)	1,556,143
Net decrease in cash and cash equivalents	(28,305,158)	(1,635,043)
Cash and cash equivalents - beginning of the year	46,679,446	48,314,489
Cash and cash equivalents - end of year	$ 18,374,288	$ 46,679,446
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	($48,137,314)	($54,911,190)
Depreciation expense	9,424,122	9,623,523
Amortization of bond issuance costs	89,883	78,850
Change in assets and liabilities:		
Receivables, net	(100,953)	1,164,430
Inventories	(38,699)	3,645
Other assets	224,045	(330,530)
Accounts payable	1,071,307	(1,759,451)
Unearned revenue	736,449	(826,053)
Accrued payroll and benefits	276,974	260,526
Net cash used by operating activities	($36,454,186)	($46,696,250)

The accompanying notes are an integral part of these financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2012 and 2011, the Foundation made distributions of $2.2 million and $2.1 million, respectively, to or on behalf of, the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from their office at 603 Cohodas Administrative Center, Marquette, MI 49855.

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, 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.

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of less than one year.

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.

Capital Assets

Capital assets 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.

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

Capital Assets (continued)

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 2012 and 2011 was approximately $9,424,000 and $9,620,000, 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. 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 were 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 2011 balances have been reclassified to conform to the 2012 presentation.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY

Investment of Operating Funds

The operating portfolio is invested in accordance with the Statement of Investment Policy for Operating Cash as established by the Board of Trustees. The Finance Committee, acting on behalf of the Board of Trustees, selects investments to provide maximum financial resources while balancing investment risk and investment rate of return.

Short term investment pool accounts will provide funds for current expenditures and have maturities of one year or less. Intermediate term investment pool accounts will include funds with maturities between one to three years. Long term investment pool accounts will include funds with maturities greater than three years. Target asset allocation guidelines include: $10 to $40 million for the short term pool, $10 to $40 million for the intermediate pool, and $10 to $50 million for the long term pool.

Investment of Endowed Funds

The Finance Committee, acting on behalf of the Board of Trustees, oversees the management of endowment investments. The performance objective is long-term growth without undue exposure to risk over a 5-year moving period. Asset allocation guidelines have been established to maintain a diversified portfolio and include equity, emerging markets, fixed income, and public real estate. The University, through this long-term investment strategy, seeks to provide resources to support the University in providing quality service.

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

	2012	2011
Cash and cash equivalents	$18,374,288	$46,679,446
Short-term investments	10,680,000	
Long-term investments	81,545,247	49,409,113
Other long-term investments	194,962	194,962
Total	$110,794,497	$96,283,521

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.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

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. At June 30, 2012 and 2011, the carrying amount of the University's deposits was $11,404,636 and $4,842,798, respectively. The bank balance of the University's deposits at June 30, 2012 and 2011 was $27,475,478 and $8,593,133, respectively. Of that amount, $630,843 and $397,071, respectively, was insured. The remaining $26,844,635 and $8,196,062 at June 30, 2012 and 2011, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits.

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 weighted average credit quality must be AAA and the minimum acceptable credit quality at the time of purchase shall be AA. For intermediate pooled investments, the weighted average credit quality must be AA and the minimum acceptable credit quality at the time of purchase shall be BBB. For long term pooled investments, the weighted average credit quality shall be no less than A and the minimum acceptable credit quality at the time of purchase shall be no less than B. At June 30, 2012 and 2011, the University's bond mutual funds, money market mutual funds, and certificates of deposits are not rated. 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.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. For short term funds, the maximum investment with any one organization is limited to no more than $20 million. For intermediate and long term funds, the maximum investment with any one organization is limited to no more than $15 million. No more than eight percent of the endowment portfolio may be invested in one issuer or company for equities and no more than five percent for fixed income, except investment in U.S. government securities which is not limited.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the investment. The University does not have a policy for foreign currency risk. The University holds investments in various international mutual funds. These funds are invested in various countries and therefore expose the University to foreign currency risk. Investments in these funds were $2,198,818 and $2,429,608 for the years ended June 30, 2012 and 2011 respectively.

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. 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 net increase (decrease) in fair value of investments in the statement of activities. 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.

NOTE B—DEPOSITS AND INVESTMENTS—UNIVERSITY (continued)

At June 30, 2012, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Money Market Mutual Funds	$4,453,577	$4,453,577			
Bond Mutual Funds	72,489,169		$37,999,714	$33,893,970	$595,485
Equity Mutual Funds	8,798,224				8,798,224
Other Mutual Funds	216,815				216,815
Certificates of Deposit	10,680,000	10,680,000			
Equity Stock	41,039		41,039		
Real Estate	194,962				194,962
Total	96,873,786	$15,133,577	$38,040,753	$33,893,970	$9,805,486
Less Investments Reported as "Cash Equivalents" on Statements of Net Assets	(4,453,577)				
Total Investments	$92,420,209				

At June 30, 2011, the University had the following investments and maturities:

		Years			
	Fair Market Value	**Less Than 1**	**1-5**	**6-10**	**More Than 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				

NOTE C—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.

The purpose of this policy is to provide a disciplined approach to moving money from the endowment to fulfill donor intentions on a timely, predictable, and consistent basis while preserving intergenerational equity.

The Foundation is committed to administering and investing endowed funds in compliance with all relevant Foundation bylaws, organizational concerns, industry standards, and federal and state laws and regulations, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation will calculate funds available for spending according to the following:

1. If the fund has existed for at least twelve months and the market value is greater than 95% of the historic gift value, use the prior year award multiplied by the consumer price index (CPI) to come up with a divisor. The divisor is divided by the market value to calculate a percentage. If the calculated percent is within a range of 3.5% to 5% take the calculated percent and multiply by the market value to get the award amount. If the calculated percentage is above 5%, use 5% multiplied by the market value to get the award. If the calculated percentage is below 3.5%, then used 3.5% multiplied by the market value to get the award.
2. If the fund has existed for at least twelve months and the market value is between 85% and 95% of the historic gift value, then use 2.5% multiplied by the market value to get the award amount. If earned income (interest and dividends) is insufficient to meet the spending rate, the amount will be taken from accumulated gains.
3. If the fund has existed for at least twelve months and the market value is less than 85% of the historic gift value, no award will be given that year.

Resources 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 at June 30, 2012 consists of:

	2012	2011
Gain on sale of investments, net	$809,176	$1,746,997
Interest and dividends	616,751	605,217
Distributions to beneficiaries	(4,082)	(66,290)
Management fee	(116,758)	(113,191)
(Decrease) increase in fair value of investments	(1,235,758)	2,267,726
Total	$69,329	$4,440,459

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

NOTE C—INVESTMENTS—FOUNDATION (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 Foundation's investment policy limits the average credit rating of its portfolios, as well as the minimum acceptable credit rating of individual investments. For the investments expected to be expended within one year, the average weighted credit rating must be A+. The Foundation's investment policy allows up to 25% of the portfolio to be invested in debt investments rated between CCC to BB, with at least 80% consisting of B or BB rated securities. The minimum credit rating for international fixed income securities is B at the time of purchase.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Foundation investment policy does not limit exposure to fair value loss by limiting investments by maturity.

Fair Value Hierarchy

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 security 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, except the $223,735 described under annuity obligations.

Fair value measurement for 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 6%. Fair value measurement for life insurance policies is based on current cash surrender value.

NOTE C—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, 2012:

	Level 1	**Level 2**	**Level 3**	**Total**
Mutual Funds				
Money market	$848,404			$848,404
Index funds	7,438,397			7,438,397
Balanced funds	3,551,865			3,551,865
Growth funds	2,882,236			2,882,236
Fixed income funds	9,454,754			9,454,754
Other funds	315,285			315,285
Total mutual funds	24,490,941			24,490,941
US and Municipal Government Securities	5,103			5,103
Common stocks				
Consumer	18,314			18,314
Energy	7,472			7,472
Financials	21,000			21,000
Healthcare	12,271			12,270
Industrials	11,575			11,575
Telecommunications	25,988			25,988
Other	26,454			26,455
Total common stocks	123,074			123,075
Total investments at fair value	$24,619,118			$24,619,118

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

NOTE C—INVESTMENTS—FOUNDATION (continued)

Split-Interest Agreements

Beneficial Interest in Charitable Remainder Trust

The Foundation is a beneficiary of certain irrevocable charitable remainder trusts. Contribution revenue was recognized at the date the trust was established based on the expected present value of the Foundation's interest in the trust assets. Changes in the value of the assets and other changes in the estimates of future receipts are reported in the statement of activities. This asset is classified as Level 3.

Annuity Obligations

The Foundation's annuity and life income agreements require payments during the life of the annuitant at various rates up to 8.3% of the principal amounts. The obligation for annuity obligations payable is reported at the present value of the future payments based on the life expectancy tables and an implied rate of discount of 6%. Changes in the value of annuity obligations payable are reported in the statement of activities. The Foundation's liabilities recorded at fair value on a recurring basis consisted of annuity payment liabilities and split interest agreements which are classified as Level 3.

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.

	2012 Contributions Receivable from Remainder Trusts	**2011** Contributions (as restated) Receivable from Remainder Trusts
Balance, beginning of the year	$200,235	$183,535
Change in value	0	16,700
Balance, end of year	$200,235	$200,235

	2012 Stock Not Publicly Traded	**2011** Stock Not Publicly Traded
Balance, beginning of the year	$39,000	$0
Change in value	(15,500)	39,000
Balance, end of year	$23,500	$39,000

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.

	2012 Annuity Payment Liabilities	**2011** Annuity Payment Liabilities
Balance, beginning of the year	$98,991	$111,550
Contributions		
Annuity payments	(60,879)	(11,118)
Change in value	(6,869)	(1,441)
Balance, end of year	$31,243	$98,991

NOTE C—INVESTMENTS—FOUNDATION (continued)

Concentration of Credit Risk

The Foundation recognizes that, over the long term, equity investments provide the best opportunity to achieve the objectives and goals of the Endowment Fund. However, a degree of diversification in other forms of investments is prudent. To accomplish the endowment investment objectives, investment managers are authorized to utilize portfolios of equity securities, fixed-income securities, alternative investments, and short-term investments (cash and cash equivalents). The total portfolio shall be maintained within the following ranges:

	Minimum	Maximum
Equities	40%	80%
Fixed Income	20%	60%
Alternative Investments	10%	30%
Cash/Short-term Investments	0%	10%

The investments shall be reviewed quarterly to ensure the Endowment assets are within these ranges. To ensure diversification in the investment portfolio, the Foundation's investment policy limits investment in an individual common stock to ten percent of a given investment manager's portfolio based on market value. For the fixed income portfolio, with the exception of securities guaranteed by the U.S. Government, the securities of single issuers should not exceed five percent of the market value of the investment manager's portfolio.

Custodial Credit Risk

The Foundation has engaged Wells Fargo Bank and Trust to serve as custodian of the endowment investments. The custodian maintains physical possession of securities owned by the Foundation, collects dividend and interest payments, redeems maturing securities, and affects receipt and delivery following purchases and sales. The custodian also performs regular accounting of all assets owned, purchased or sold.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation 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.

NOTE D—RECEIVABLES

Receivables of the University include the following at June 30:

	2012	**2011**
State appropriations - net	$6,975,892	$8,207,328
Student notes receivable – net	8,017,493	8,189,608
Charter schools	3,199,340	3,233,393
NMU Foundation	499,195	97,256
State, federal and private grants	339,933	140,232
Students, employees, and vendors - net	2,779,489	3,579,040
Investment receivable	13,419	71,255
Total	$21,824,761	$23,518,112

For the years ended June 30, 2012 and 2011, the University received $17,618,424 and $17,504,422 respectively, for charter schools which was forwarded, net an administrative fee, to five charter schools.

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, 2012:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	$6,101,671	$30,070		$6,131,741
Land improvements	10,681,204			10,681,204
Buildings and improvements	276,293,717	3,690,473		279,984,190
Infrastructure	18,661,280	113,759		18,775,039
Equipment	43,824,583	2,213,417	$76,306	45,961,694
Books	9,185,507	578,350	418,945	9,344,912
Construction in progress	2,487,887	6,953,486		9,441,373
Totals at historical cost	367,235,849	13,579,555	495,251	380,320,153
Less accumulated depreciation for:				
Land improvements	5,437,198	457,314		5,894,512
Buildings and improvements	94,789,810	6,043,486		100,833,296
Infrastructure	10,878,898	598,753		11,477,651
Equipment	24,643,880	2,222,423	68,675	26,797,628
Books	7,849,058	102,146	418,945	7,532,259
Total accumulated depreciation	143,598,844	9,424,122	487,620	152,535,346
Capital assets, net	$223,637,005	$4,155,433	$7,631	$227,784,807

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	372,676,932	4,560,483	10,001,566	367,235,849
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	142,536,801	9,623,523	8,561,480	143,598,844
Capital assets, net	$230,140,131	($5,063,040)	$1,440,086	$223,637,005

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 $11,898,000 and $5,747,000 at June 30, 2012 and 2011, 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 $778,800 through fiscal year 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:

	2012	2011
Accrued payroll and benefits	$7,965,106	$7,680,940
Construction contractors	2,096,722	1,474,316
Charter schools	3,103,360	3,136,391
Vendors	4,276,040	2,574,619
Interest payable	406,593	377,150
Total	$17,847,821	$15,243,416

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:

Year ending June 30	Amount
2013	$1,162,864
2014	875,160
2015	218,790
Total	$2,256,814

Lease expense for 2012 and 2011 was approximately $2,587,000 and $2,902,000 respectively.

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 February 2012, the University issued fixed rate General Revenue Bonds, Series 2012, in the amount of $18,190,000 for construction of a new solid biomass fuel combined heat and power plant as an addition to the existing Ripley Heating Plant to generate steam and electricity for the University's campus, an energy efficiency steam optimization project, steam tunnel improvements, and various building and renovation projects. Bonds issued for the heating plant addition totaled $15,750,000 and mature in varying amounts through 2032. Bonds issued for the remaining projects totaled $2,440,000 and mature in varying amounts through 2017. The University received a reoffering premium of $1.3 million in the issuance of the 2012 Revenue Bonds and coupon rates range from 3.25% to 5.0%.

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. The remaining 1998 General Revenue bonds of $5,390,000 were called and paid in full on March 1, 2012.

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.

NOTE J—BONDS AND NOTES PAYABLE (continued)

As of June 30, 2012, debt service requirements of the long-term debt were as follows:

Fiscal Year	Principal	Interest	Total
2013	$4,030,000	$4,909,006	$8,939,006
2014	4,255,000	4,749,869	9,004,869
2015	4,515,000	4,576,531	9,091,531
2016	4,600,000	4,389,556	8,989,556
2017	4,830,000	4,172,706	9,002,706
Total Five Years	22,230,000	22,797,669	45,027,669
Thereafter			
2018-2022	24,235,000	17,301,569	41,536,569
2023-2027	24,210,000	11,647,169	35,857,169
2028-2032	23,960,000	6,049,156	30,009,156
2033-2037	11,615,000	1,579,359	13,194,359
2038-2039	1,160,000	58,750	1,218,750
Total	107,410,000	$59,433,672	$166,843,672
Less: deferred amount refunding, net	(4,008,997)		
Less: unamortized re-offering premium	2,921,641		
Total	$106,322,644		

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Bonds payable	$98,045,000	$18,190,000	$8,825,000	$107,410,000	$4,030,000
Deferred amount on refunding	(4,249,951)		(240,954)	(4,008,997)	(240,955)
Premium on bond issuance	1,738,394	1,334,712	151,465	2,921,641	220,776
Total notes and bonds payable	95,533,443	19,524,712	8,735,511	106,322,644	4,009,821
Other liabilities:					
Severance benefits	267,219		267,219		
Compensated absences	2,285,970	2,046,012	2,014,119	2,317,863	171,654
Federal capital contribution of Perkins Loan Program	6,313,640		251,045	6,062,595	
Total other liabilities	8,866,829	2,046,012	2,532,383	8,380,458	171,654
Total long-term liabilities	$104,400,272	$21,570,724	$11,267,894	$114,703,102	$4,181,475

NOTE J—BONDS AND NOTES PAYABLE (continued)

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	$2,024,20	1,974,678	2,285,970	175,064
Federal portion of Perkins Loan Program	6,380,327		66,687	6,313,640	
Total other liabilities	9,433,911	2,024,20	2,591,290	8,866,829	442,283
Total long-term liabilities	$113,426,279	$2,024,20	$11,050,215	$104,400,272	$3,746,207

NOTE K—OPERATING EXPENSES

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

	2012	2011
Salaries, wages and benefits	$86,296,864	$89,083,603
Supplies and support services	39,606,191	37,098,407
Utilities	6,579,337	6,727,840
Depreciation expense	9,424,122	9,623,523
Scholarships	8,485,388	9,585,453
Total	$150,391,902	$152,118,826

NOTE L—RETIREMENT PLANS

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

MPSERS is a non-contributory defined benefit cost sharing multiple employer retirement plan offered by the Michigan Public School Employees’ Retirement System Plan (the “Plan”). Benefit provisions and contribution requirements of MPSERS are established and may be amended by state statute. Because of the State of Michigan House Bill HB4047, University employees hired after December 31, 1995 can no longer participate in this retirement plan, unless they were previously enrolled in the plan at the University or one of the other six universities that are part of MPSERS. Pension data for MPSERS is contained in MPSERS’ Comprehensive Annual Financial Report, which may be obtained by writing to the Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909.

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 2012, this rate is 3.21%, and is applied to payrolls occurring on or after October 1, 2011. For the State's fiscal year 2011, this rate was 4.11%, and was 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.

- 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 2012, this rate is 13.41% and is applied to payrolls occurring on or after October 1, 2011. For the State's fiscal year 2011, this rate was 9.73% and was 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

- 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, 2012, which encompasses 9 months of the State's fiscal year 2012 and 3 months of the State's fiscal year 2011, the University's total cost for retiree's health insurance was $2,565,965. 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.

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, 2012:

	TIAA-CREF	MPSERS	University Total
University Contributions	$6,059,656	$4,963,504	$11,023,160
Covered Payroll	$41,542,437	$9,128,655	$50,671,102

NOTE L—RETIREMENT PLANS (continued)

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

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

	TIAA-CREF	MPSERS	University Total
University Contributions	$6,030,972	$4,364,428	$10,396,400
Covered Payroll	$40,262,528	$11,099,217	$51,361,745

The University allows retirees to purchase healthcare benefits at cost and has 12 retirees participating in health coverage at June 30, 2012. 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, a calendar based plan, was paid over a ten-year period beginning in fiscal year ending 2001. The remaining SIP liability as of June 30, 2012 and 2011 was $0 and $30,000, 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, 2012 and 2011 was $0 and $237,000, 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.

NOTE N—LIABILITY INSURANCE (continued)

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 $16,353,314 at June 30, 2011, 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, including prescription drugs, and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to $15.3 million and $14.8 million in aggregate for fiscal year ended June 30, 2012 and 2011, 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, 2012 and 2011, 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.

NOTE P—FOUNDATION PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2011 have been restated to correct an error in the booking of a revocable charitable trust. The effect of the restatement was to decrease other assets by $587,000, decrease investment income by $16,700, and decrease the change in net assets by $16,700. Net assets at the beginning of 2011 have been adjusted for the effects of the restatement on prior years.