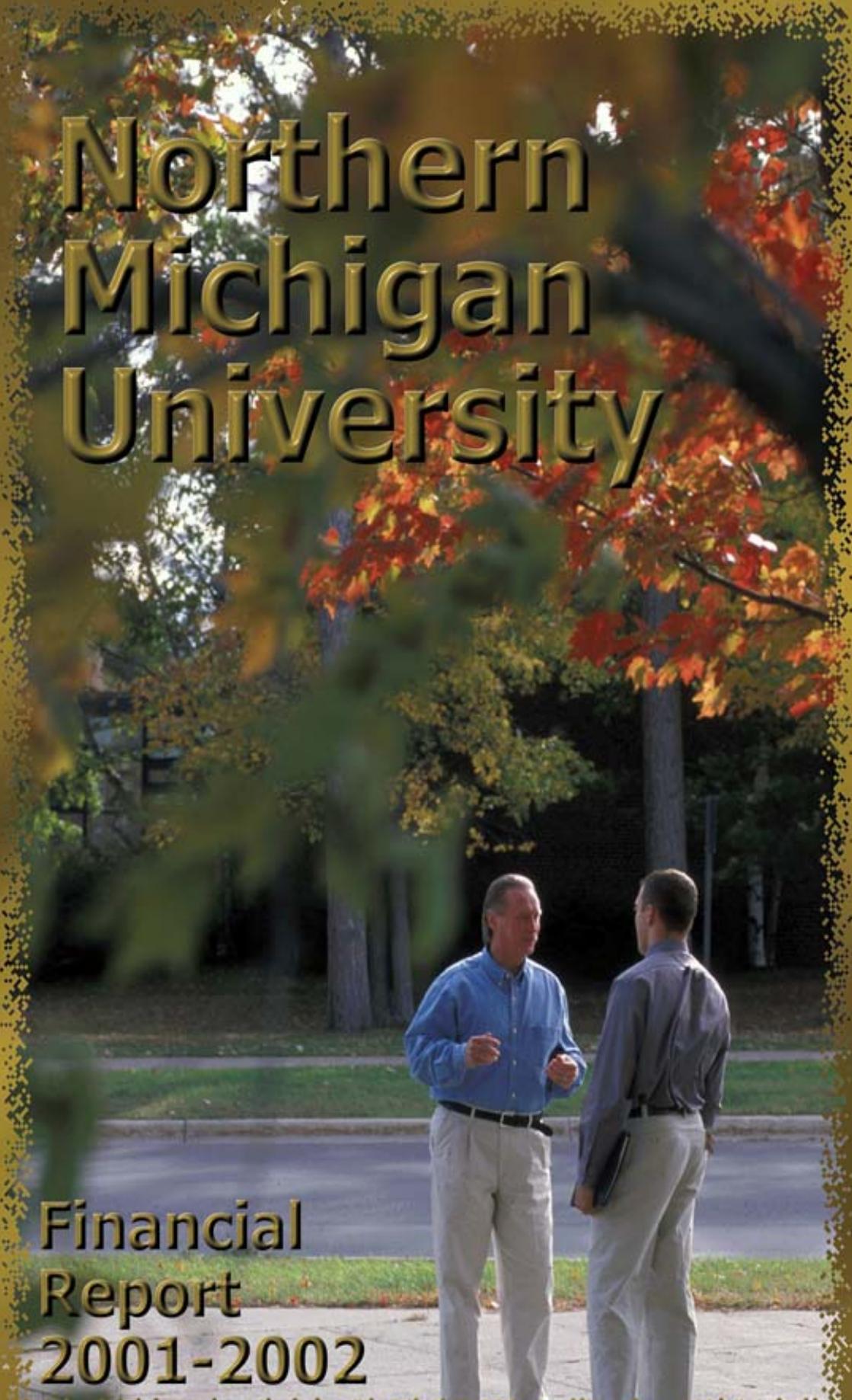
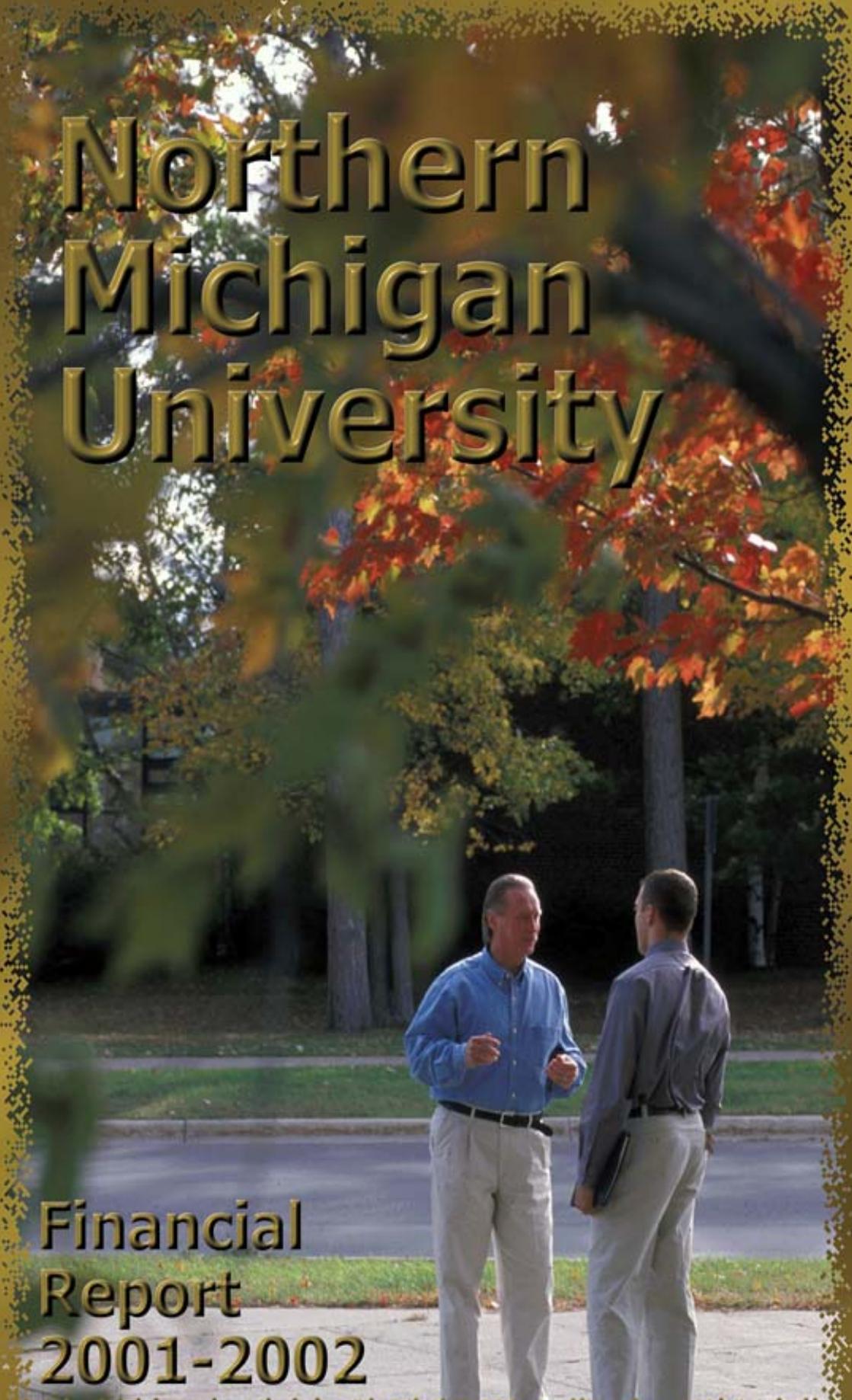


Northern Michigan University



Financial
Report
2001-2002

Northern Michigan University



Financial
Report
2001-2002

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Board of Trustees

Terms ending December 31 in year shown

Daniel G. DeVos
Chair
Grand Rapids
2002

Mary L. Campbell
Vice Chair

Ann Arbor
2004

Samuel S. Benedict
Rapid River
Term expired 2000

Scott L. Holman
Bay City
2004

Barbara B. Labadie
Detroit
2002

Mary C. Lukens
Ann Arbor
2008

Ellwood A. Mattson
Marquette
Term expired 1998

Karl A. Weber
Marquette
2006

Judith I. Bailey
President of the University
Ex Officio

Executive Officers

Judith I. Bailey
President

Fred Joyal
Vice President for Academic Affairs

Michael J. Roy
Vice President for Finance and Administration and Treasurer
of the Board of Trustees

Finance and Administration Staff

Felecia J. Flack
Director of Support/Consulting Services

Kenneth G. Godfrey
Associate Vice President for Recreation and Athletics

Sandra S. Haavisto
Controller

R. Gavin Leach
Associate Vice President for Finance and Planning

David W. Maki
Director of Technical Services

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

Arthur D. Pickering Jr.
Director of Human Resources

Matthew W. Riipi
Internal Auditor

Andrew V. Wasilewski
Associate Vice President for Auxiliary Services

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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 year ended June 30, 2002. This discussion 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.

In December 1998, GASB released Statement No. 33 "Accounting and Financial Reporting for Non-exchange Transactions". In June 1999, GASB released Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments". Changes in Statement No. 34 require a comprehensive look at the entity as a whole. In November 1999, GASB issued Statement No. 35 "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities" which applies these standards to public colleges and universities. The University, as a component unit of the State of Michigan, was required to adopt the Statement for the year ended June 30, 2001.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Under the new reporting model, State appropriations and gifts are reported as non-operating revenues and results in the University showing an operating loss of \$49,470,000 for the year ended June 30, 2002, and \$55,860,000 for the year ended June 30, 2001. 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.

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

Financial Highlights

Net operating and non-operating revenues and expenses showed an increase in net assets of \$1.6 million for the year ended June 30, 2002. Current operating and non-operating revenues of \$119.9 million in net assets increased by \$9.3 million over the prior year. Student related revenues showed consistent increases. Student tuition and fees increased by \$3.5 million, federal and state revenues for scholarships increased by \$3.2 million, and auxiliary activities increased by \$1.5 million.

Operating and non-operating expenses of \$118.4 million increased by \$7.3 million after reducing prior year expenses for a one-time severance benefit of \$3.8 million. Compensation increases and staffing changes resulted in a \$2.8 million increase, student aid increased \$1.3 million, depreciation increased \$1.1 million, interest expense increased by \$1 million, laptop leases and technology fees increased by \$1 million, and other areas decreased by \$.4 million.

The Statement of Net Assets for the current year continued to reflect construction on campus with net capital assets increasing by \$10.2 million. On September 7, 2001, the University issued \$30 million variable rate bonds to fund various capital projects on campus and had unexpended bond funds of \$18.8 million at June 30, 2002.

At June 30, 2001, the University's net assets increased by \$17.4 million to \$157.4 million primarily due to the State of Michigan capital appropriations totaling \$19.3 million for completion of the Glenn T. Seaborg Science Complex buildings. Excluding the capital appropriations, net assets decreased by \$1.9 million which included expense for the new severance incentive program of \$3.8 million.

A \$1.5 million increase to beginning fund balance at June 30, 2001, was the cumulative effect of changes in accounting principles. Under the full accrual basis of accounting, summer school revenue, scholarship expenses, and faculty salaries were recognized on a prorated basis using the number of days in class to June 30. Other changes included recognition of campus roads, deferred grant revenues, and additional expenses for health care.

Condensed Financial Information

Condensed Statement of Net Assets

	June 30	
	2002	2001
ASSETS		
Current Assets	\$ 53,116,579	\$ 33,417,438
Noncurrent Assets:		
Capital	176,269,502	166,047,127
Other	27,842,844	24,935,813
Total Noncurrent Assets	<u>204,112,346</u>	<u>190,982,940</u>
Total Assets	<u>257,228,925</u>	<u>224,400,378</u>
LIABILITIES		
Current Liabilities	19,112,137	18,931,283
Noncurrent Liabilities	74,989,690	48,062,210
Total Liabilities	<u>94,101,827</u>	<u>66,993,493</u>
NET ASSETS		
Invested in Capital Assets Net of Related Debt	123,522,313	122,822,127
Restricted		
Nonexpendable	739,189	1,003,986
Expendable	9,759,356	9,606,000
Unrestricted	29,106,240	23,974,772
Total Net Assets	<u>\$163,127,098</u>	<u>\$157,406,885</u>

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

Total current assets of \$53.1 million at June 30, 2002, included \$18.8 million in unspent bond proceeds that will be used for construction projects. At June 30, 2001, total current assets of \$33.4 million included \$6.1 million in unspent bond proceeds.

The University's largest non-current asset is its investment in physical plant of \$176.3 million at June 30, 2002. Net capital assets increased \$10.2 million over the prior year after recognition of \$7.1 million in depreciation expense.

The state appropriations receivable totaled \$9.8 million at June 30, 2002 and included \$0.3 million in construction receivables. The state appropriation receivable at June 30, 2001, totaled \$12.6 million and included \$3.3 million in construction receivables.

University liabilities totaled \$94.1 million at June 30, 2002 and \$67.0 million at June 30, 2001. Long-term debt of \$71.4 million at June 30, 2002 and \$43.2 million at June 30, 2001, consisted of notes and bonds payable the largest liability.

The University's current assets of \$53.1 million less \$18.8 million in unspent bond proceeds totaled \$34.3 million and were sufficient to cover current liabilities of \$19.1 million.

After adjusting for unspent bond proceeds, the current ratio of current assets to current liabilities is 1.80 for the year ended June 30, 2002, and 1.44 for the year ended June 30, 2001.

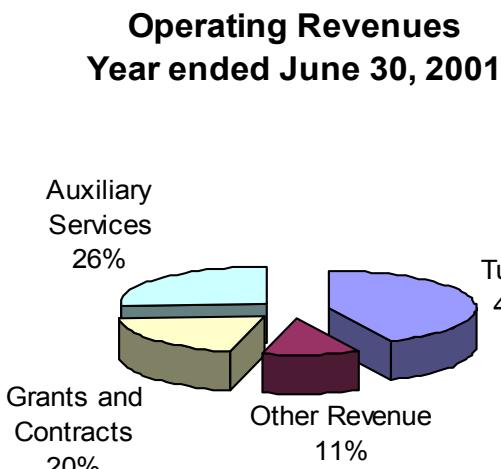
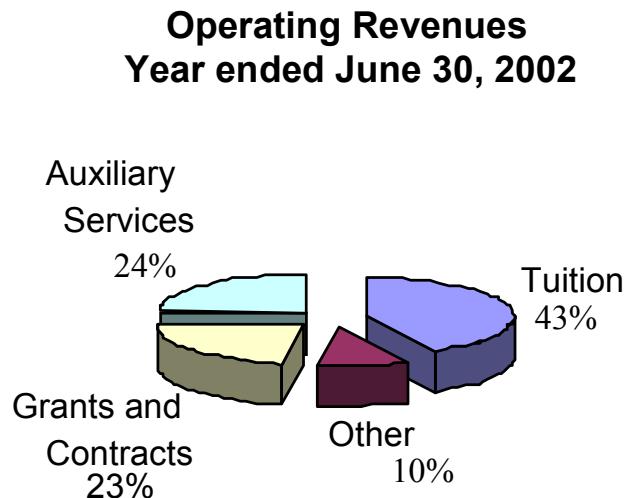
Total net assets increased by \$5.7 million during fiscal 2002 to \$163.1 million. Expendable net assets at June 30, 2002, totaled \$38.9 million or 33.6 percent of total operating expenses as compared to 33.6 million at June 30, 2001, or 29.5 percent of total operating expenditures during 2001.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	June 30	
	2002	2001
Operating Revenues		
Tuition and Fees	\$ 28,169,400	\$ 24,697,752
Grants and Contracts	14,986,690	11,751,130
Auxiliary Enterprises	16,233,258	14,761,357
Other Operating Revenues	6,857,403	6,168,656
Total Operating Revenues	66,246,751	57,378,895
Operating Expenses	115,716,752	113,238,523
Operating Income/(Loss)	(49,470,001)	(55,859,628)
 Non-operating Revenues (Expenses)		
State Appropriations	52,012,900	51,259,361
Other Non-operating Income and Expenses	(980,401)	390,196
Net Non-operating Revenues and Expenses	51,032,499	51,649,557
Income Before Other Revenues	1,562,498	(4,210,071)
Capital Appropriations	3,431,328	19,317,916
Capital Grants and Gifts	726,388	2,263,180
Total Other Revenues	4,157,715	21,581,096
Total Increase in Net Assets	5,720,213	17,371,025
 Net Assets		
Net Assets – Beginning of Year	157,406,885	138,512,595
Cumulative Effect of Change in Accounting Principle	1,523,265	
Net Assets – Beginning of Year, as Restated	140,035,860	
Net Assets – End of Year	\$163,127,098	\$157,406,885

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

Total operating revenues were \$66.2 million for fiscal 2002 and \$57.4 million for fiscal 2001. 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 fourth 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 laptop 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 fees for full-time on-campus students, plus the registration fees for the academic year indicated.

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

Average Annual Full-Time Student Tuition and Fees

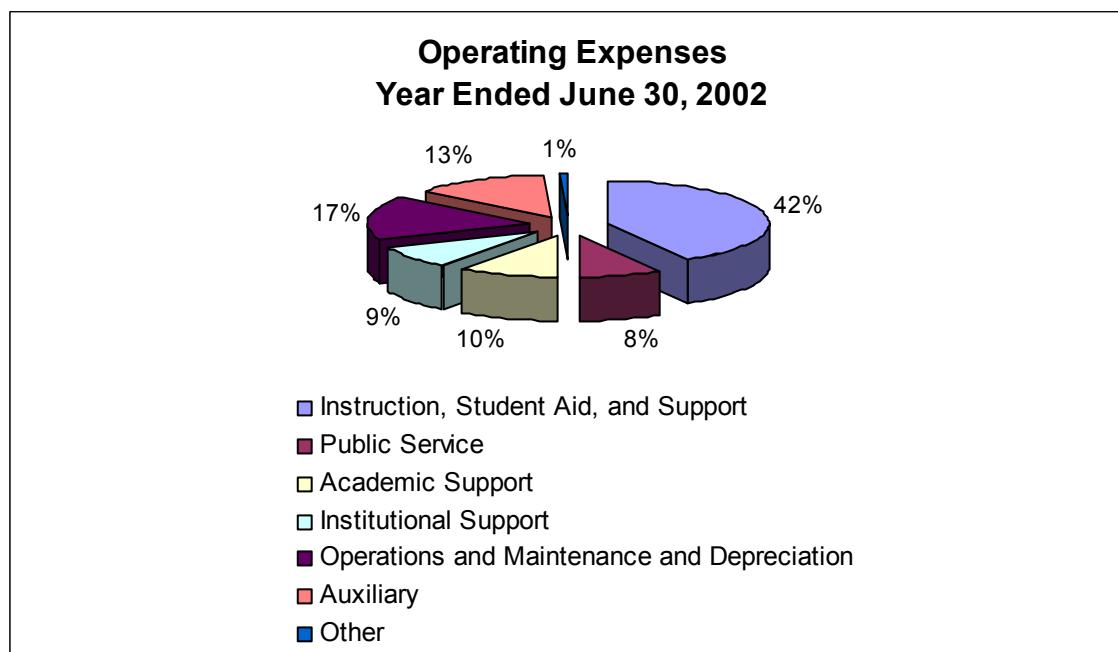
	2001-2002	2000-2001
Undergraduate, resident	\$4,357	\$4,004
Undergraduate, nonresident	7,141	6,530
Graduate, resident	4,187	3,840
Graduate, nonresident	6,635	5,976

Room and Board

The annual cost of room and board, which includes laundry and other miscellaneous residence fees were \$5,275 for 2001-2002 and \$4,976 for 2000-2001. The University provides on-campus residence hall and apartment facilities for students. Most students who are not living at home with their parents must live on campus through their first four semesters. Nine residence halls currently have a mean occupancy of 2123 and are at a 92 percent capacity. Campus apartments total 271 units with occupancy varying depending on the ratio of single students to student families and the size of the household. Approximately 90 percent of apartments are rented during the academic year. A constant pass meal plan is available which can be used at two on-campus dining facilities.

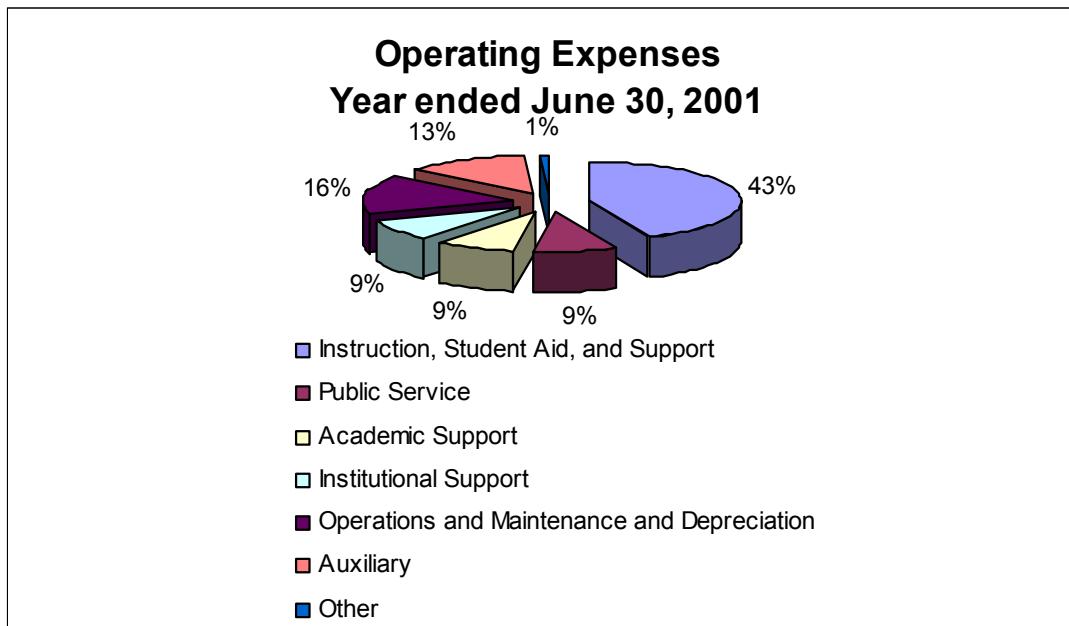
Operating Expenses

Operating expenses for June 30, 2002, including depreciation of \$7.1 million, totaled \$115.7 million. Of this total, \$48.1 million, or 41.6 percent, was used for instruction, student aid, and student support, and \$15.5 million, or 13.4 percent, was used for auxiliary services. The breakout by functional expense is highlighted below:



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

Operating expenses for June 30, 2001, including depreciation of \$5.9 million, totaled \$113.2 million. Of this total, \$49.9 million, or 43.8 percent, was used for instruction, student aid, and student support, and \$15.0 million, or 13.3 percent, was used for auxiliary services. The breakout by functional expense is highlighted below:



Other

The State appropriation of \$52.0 million for June 30, 2002 and \$51.3 million for June 30, 2001, is the largest source of non-operating revenues. The appropriation is recognized in the period for which it is appropriated.

Interest expense on outstanding debt was \$2.6 million for June 30, 2002 and \$1.6 million for June 30, 2001.

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

The Statement of Cash Flows

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the University during the period.

Condensed Statement of Cash Flows

	June 30	
	2002	2001
Cash Provided (Used) By:		
Operating Activities	\$(45,442,493)	\$(47,167,708)
Non-capital Financing Activities	53,388,883	50,662,970
Capital and Related Financing Activities	15,490,196	(13,679,408)
Investing Activities	<u>(1,026,568)</u>	<u>8,456,388</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,410,018	(1,727,758)
Cash and Cash Equivalents – Beginning of Year	<u>10,973,421</u>	<u>12,701,179</u>
Cash and Cash Equivalents – End of Year	<u><u>\$ 33,383,439</u></u>	<u><u>\$ 10,973,421</u></u>

Major sources of funds included in operating activities are student tuition and fees of \$27.7 million and auxiliary sales of \$16.5 million for June 30, 2002, and student tuition and fees of \$25 million and auxiliary sales of \$15.1 million for June 30, 2001. The major source of funds included in non-capital financing activities is state appropriations of \$51.9 million for June 30, 2002, and \$50.8 million for June 30, 2001.

Factors Impacting Future Periods

Enrollment

The University projects that total enrollment will continue to grow as we move toward our goal of 10,400 students by 2005. 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		
1997	7,144	896	8,040	6,622	196,130
1998	6,983	843	7,826	6,799	201,138
1999	7,070	797	7,867	6,999	206,881
2000	7,257	887	8,144	7,134	211,060
2001	7,575	853	8,428	7,396	219,017
2002	7,724	853	8,577	7,718	228,551

The major portion (61%) of the University's students represents Upper Peninsula Michigan residents. Twenty-four percent (24%) of the University's students come from Michigan's Lower Peninsula, and the remaining fifteen percent (15%) comes from other states and foreign countries.

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

Admissions

Given the projected decline in Upper Peninsula high school enrollments, NMU is expanding its recruiting in the Lower Peninsula of Michigan, as well as in targeted regions of Illinois and Wisconsin, which have relatively large population densities. While the potential for more student enrollments is high, we convert a lower percentage of admitted students to enrolled students the farther away we recruit from Marquette. Thus, we are likely to see an increase in enrollment despite a drop in the admitted to enrolled conversion rate.

The tables below set forth the total number of first year (including associate degree and 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>
1997	3,210	2,920	91.0	1,472	50.4
1998	3,192	2,828	88.5	1,417	50.1
1999	3,619	3,098	85.6	1,593	51.4
2000	4,179	3,543	84.8	1,771	50.0
2001	4,473	3,776	84.4	1,818	48.1

Transfer Student Admissions

<u>Fall Semester</u>	<u>Applications Received</u>	<u>Applications Accepted</u>	<u>Percent Accepted</u>	<u>Students Enrolled</u>	<u>Percent Enrolled</u>
1997	1,036	922	89.0	470	51.0
1998	1,051	868	82.6	469	54.0
1999	1,118	874	78.1	493	56.4
2000	1,243	948	76.3	512	54.0
2001	1,186	878	74.0	494	56.3

By June 21, 2002, the University had received 4,268 freshman applications (as compared to 4,319 as of June 22, 2001) and had granted 3,583 acceptances (as compared to 3,588 as of June 22, 2001).

By June 21, 2002, the University had received 925 transfer applications (as compared to 1,000 as of June 22, 2001) and had granted 618 acceptances (as compared to 655 as of June 22, 2001).

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

Capital Plan

Faculty are integrating technology into the delivery of their courses; students are changing the way they learn in and out of the classroom; the campus community is continually expanding its use of our technology resources, and learning new and faster ways to communicate and perform research. This type of connected learning community requires that we continue to transform our support systems, technology infrastructure, and facilities to ensure that they are capable of supporting an on-going learning environment. In addition, the University has put into place a plan to grow our enrollment to 10,400 by 2005. A five year strategic plan focusing on our capital outlay needs with the emphasis on renovation and transformation of existing facilities to meet the changing classroom environment is in place. Specific areas studied include classroom capacity, on-campus housing, dining services, and parking.

The University issued \$30 million in bonds during the fiscal year ended June 30, 2002, and began construction on projects identified in the strategic plan that will ensure University facilities can accommodate enrollment growth. One of the larger projects to begin in the next fiscal year includes the renovation of Whitman School, purchased by the University in May of 2001, for faculty offices and classrooms.

Teaching, Learning, and Communication (TLC) Initiative

A core component of NMU's vision of education in the 21st century revolves around our Teaching, Learning, and Communication Initiative. Virtually every sector of the global economy relies on computer technology. In building for the 21st century, Northern Michigan University's current five-year plan focuses on the development of a learning environment that embraces technology to enhance student access, promote the development of independent learners, and encourages greater student-faculty communication and collaboration.

As part of NMU's vision, the University has a laptop computer requirement for all full-time students. To ensure equal access to a standard set of tools (hardware and software) that will meet a majority of their computing and telecommunication needs, students are provided with the use of leased IBM ThinkPad® notebook computers that are replaced on a two-year cycle.

Subsequent to June 30, 2002, the University anticipated signing a \$5,973,000 lease with IBM for laptop computers.

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Report of Independent Auditors

Board of Trustees
Northern Michigan University
Marquette, Michigan

We have audited the accompanying basic financial statements of Northern Michigan University, a component unit of the State of Michigan, as of and for the years ended June 30, 2002 and 2001. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Northern Michigan University as of June 30, 2002 and 2001, and the results of its operations and the cash flows for the year 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 dated August 6, 2002 on our consideration of Northern Michigan University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 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 this supplemental information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
August 6, 2002, except for Note P,
as to which the date is September 17, 2002

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NORTHERN MICHIGAN UNIVERSITY
Statements of Net Assets

	June 30	
	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 33,383,439	\$ 10,973,421
Short-term investments	89,757	743,728
State appropriation receivable	9,771,963	12,598,658
Accounts receivable (less allowance 2002--\$715,042; 2001--\$512,869)	6,659,209	5,514,852
Student notes receivable (less allowance 2002--\$195,398; 2001--\$245,578)	1,497,206	1,435,000
Investment receivable	120,401	198,165
Inventories	1,157,738	1,368,024
Other assets	436,866	585,590
Total current assets	<u>53,116,579</u>	<u>33,417,438</u>
Noncurrent Assets:		
Long-term investments	19,546,090	17,301,149
Student notes receivable (less allowance 2002--\$939,974; 2001--\$873,595)	7,201,792	6,539,702
Other long-term investments	1,094,962	1,094,962
Capital assets, net	176,269,502	166,047,127
Total noncurrent assets	<u>204,112,346</u>	<u>190,982,940</u>
Total assets	<u>257,228,925</u>	<u>224,400,378</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	6,914,788	7,062,578
Accrued payroll and benefits	6,167,299	6,175,671
Deferred revenue (unearned student fees and deposits)	3,040,750	3,198,170
Long-term liabilities-current portion	2,989,300	2,494,864
Total current liabilities	<u>19,112,137</u>	<u>18,931,283</u>
Noncurrent Liabilities:		
Long-term liabilities	74,989,690	48,062,210
Total noncurrent liabilities	<u>74,989,690</u>	<u>48,062,210</u>
Total liabilities	<u>94,101,827</u>	<u>66,993,493</u>
NET ASSETS		
Invested in capital assets, net of related debt	123,522,313	122,822,127
Restricted for		
Nonexpendable		
Scholarships and fellowships	119,519	142,939
Loans	39,671	49,122
Instruction	579,999	811,925
Expendable		
Instruction	462,389	636,467
Scholarships and fellowships	244,413	309,720
Loans	9,017,867	8,611,843
Research	34,687	47,970
Unrestricted	<u>29,106,240</u>	<u>23,974,772</u>
Total net assets	<u>\$163,127,098</u>	<u>\$157,406,885</u>

See notes to financial statements.

NORTHERN MICHIGAN UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Assets

	June 30	
	2002	2001
REVENUES		
Operating Revenues		
Student tuition and fees (less allowance 2002--\$7,921,017; 2001--\$6,278,672)	\$ 28,169,400	\$ 24,697,752
Federal grants and contracts	9,299,708	7,212,626
State and local grants and contracts	4,732,335	3,448,948
Nongovernmental grants and contracts	954,647	1,089,556
Sales and services of educational activities	6,572,371	5,729,460
Auxiliary enterprise:		
Residential life (less allowance 2002--\$2,828,635; 2001--\$2,253,417)	10,855,265	9,578,462
Other auxiliary	5,377,993	5,182,895
Other operating revenues	285,032	439,196
Total operating revenues	<u>66,246,751</u>	<u>57,378,895</u>
EXPENSES		
Operating Expenses		
Educational and general:		
Instruction	31,915,203	34,394,068
Research	923,593	934,744
Public Service	9,661,268	9,966,683
Academic support	11,519,651	9,692,375
Student services	10,993,707	10,794,813
Institutional support	10,064,701	10,240,045
Operations and maintenance of plant	12,368,684	11,695,137
Depreciation	7,068,180	5,932,316
Student Aid	5,574,868	4,294,997
Auxiliary enterprise:		
Residential life	9,335,603	9,228,585
Other	6,157,642	5,817,938
Other expenses	<u>133,652</u>	<u>246,822</u>
Total operating expenses	<u>115,716,752</u>	<u>113,238,523</u>
Operating income (loss)	<u>(49,470,001)</u>	<u>(55,859,628)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	52,012,900	51,259,361
Gifts	1,174,711	1,490,676
Investment income (net of investment expense 2002--\$70,000; 2001--\$83,118)	487,710	495,808
Interest on capital asset-related debt	(2,642,822)	(1,596,288)
Net non-operating revenues and expenses	<u>51,032,499</u>	<u>51,649,557</u>
Income (loss) before other revenues	1,562,498	(4,210,071)
Capital appropriations	3,431,328	19,317,916
Capital grants and gifts	726,387	2,263,180
Total other revenues	4,157,715	21,581,096
Increase in net assets	<u>5,720,213</u>	<u>17,371,025</u>
NET ASSETS		
Net assets--beginning of year	157,406,885	138,512,595
Cumulative effect of change in accounting principle	1,523,265	
Net assets--balance at beginning of year, as restated	<u>157,406,885</u>	<u>140,035,860</u>
Net assets--end of year	<u>\$163,127,098</u>	<u>\$157,406,885</u>

See notes to financial statements.

NORTHERN MICHIGAN UNIVERSITY
Statements of Cash Flows

	June 30	
	2002	2001
Cash Flows from Operating Activities		
Tuition and fees	\$ 27,714,177	\$ 24,987,796
Grants and contracts	14,557,327	11,499,584
Payments to suppliers	(36,712,204)	(33,410,434)
Payments to employees	(67,471,162)	(66,705,879)
Payments for scholarships and fellowships	(5,574,868)	(4,294,997)
Loans issued to students and employees	(2,217,959)	(1,586,842)
Collection of loans to students and employees	1,470,950	1,288,551
Auxiliary enterprise:		
Residential Life	10,818,100	9,629,592
Other	5,650,704	5,504,201
Other receipts	6,322,442	5,920,720
Net cash used by operating activities	<u>(45,442,493)</u>	<u>(47,167,708)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	51,875,893	50,815,557
William D. Ford direct lending receipts	18,214,473	15,716,046
William D. Ford direct lending disbursements	(18,209,153)	(15,721,024)
Gifts and grants received for other than capital purpose	1,022,387	
Other	485,283	(147,609)
Net cash provided by noncapital financing activities	<u>53,388,883</u>	<u>50,662,970</u>
Cash Flows from Capital and Related Financing Activities		
Bonds issued	30,000,000	
Capital appropriations	6,395,030	18,920,110
Capital grants and gifts received	611,387	253,992
Purchases of capital assets	(17,196,510)	(28,462,222)
Principal paid on capital debt	(1,845,000)	(2,795,000)
Interest paid on capital debt	(2,474,711)	(1,596,288)
Net cash provided (used) by capital and related financing activities	<u>15,490,196</u>	<u>(13,679,408)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	12,155,342	8,670,493
Interest on investments	1,862,980	2,281,330
Purchase of investments	(15,044,890)	(2,495,435)
Net cash provided (used) by investing activities	<u>(1,026,568)</u>	<u>8,456,388</u>
Net increase (decrease) in cash and cash equivalents	22,410,018	(1,727,758)
Cash and cash equivalents - beginning of the year	10,973,421	12,701,179
Cash and cash equivalents - end of year	<u>\$ 33,383,439</u>	<u>\$ 10,973,421</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$(49,470,001)	\$(55,859,628)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Gifts of capital assets	115,000	
Depreciation expense	7,068,180	5,932,316
Loss on equipment disposal	58,279	
Change in assets and liabilities:		
Receivables, net	(2,443,361)	(297,334)
Inventories	210,286	69,840
Other assets	148,724	322,402
Accounts payable	(1,060,239)	(807,936)
Deferred revenue	(130,383)	365,699
Compensated absences/Accrued payroll	61,022	3,106,933
Net cash used by operating activities	<u>\$(45,442,493)</u>	<u>\$(47,167,708)</u>

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NOTES TO FINANCIAL STATEMENTS

Northern Michigan University

June 30, 2002

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

BASIS OF PRESENTATION

The financial statements 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 GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - For Public Colleges and Universities. This Statement was effective for the University's year ended June 30, 2001 since the University, as a component unit of the State of Michigan, is required to adopt the Statement in the year the State of Michigan is adopting it. 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 of the financial statements:

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

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

In December 1998, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. This Statement was also effective for the fiscal year ended June 30, 2001. This Statement establishes accounting and financial reporting standards for nonexchange transactions such as gifts and grants. This statement generally requires that the gifts and grants be recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

CHANGES IN ACCOUNTING PRINCIPLES

In adopting GASB Statement No. 34, as amended by GASB Statement No. 35, and GASB Statement No. 33, the University changed to a full accrual basis of accounting. The cumulative effect of this change was a \$1,523,000 increase to beginning net assets for the year ended June 30, 2001. Under a full accrual basis of accounting, summer school revenue, scholarship expenses, and faculty salaries were recognized on prorated basis using the number of days in class to June 30 (\$775,000 increase to beginning net assets). Other changes included recognition of campus roads (\$2,180,000 increase to beginning net assets), deferred grant revenues (\$978,000 decrease to beginning net assets), and additional expenses for health care (\$454,000 decrease to beginning net assets).

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.

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

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

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

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

Cash Equivalents

Cash equivalents are all investments with original maturity dates of 90 days or less.

Investments

Investments are stated at fair market value.

Institutional Physical Properties

Institutional physical properties are stated at cost when purchased and at appraised value for other acquisitions.

Depreciation is provided for physical properties on a straight line basis over the estimated useful lives, 50 years for buildings and 5 to 20 years for equipment.

Depreciation expense for 2002 and 2001 is approximately \$7,068,000 and \$5,932,000 respectively. The University capitalizes assets with a cost of \$5,000 and greater.

Inventories

Inventories are stated at the lower of cost or market value as follows: office supplies, first-in, first-out method; and bookstore books and supplies, retail method.

State Appropriations

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

Reclassifications

Certain 2001 balances have been reclassified to conform to the 2002 presentation.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B--CASH AND INVESTMENTS

General Policies

University cash and investments are managed in accordance with the Michigan Compiled Laws.

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

Short Fixed Income funds are defined as investments with maturities of one year 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.

The yields on the cash and investments were as follows:

	<u>2002</u>	<u>2001</u>
Bank One - Short Term	2.65%	5.94%
Bank One - Short Fixed Income	6.65%	8.97%
Bank One - Intermediate Fixed Income	9.13%	11.38%
Endowment Funds	1.30%	1.00%

Investments and Deposits

GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

Deposits:

In accord with the GASB Statement No. 3, deposits are classified into three categories of custodial credit risk, as follows:

Category 1: Insured or collateralized with securities held by the University or by its agent in the University's

name

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name

Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the University's name.)

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE B--CASH AND INVESTMENTS (Continued)

Investments:

In accord with GASB Statement No. 3, investments are classified into three categories of custodial credit risk, as follows:

- Category 1: Insured or registered, or securities held by the University or its agent in the University's name
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the University's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.)

Certain types of investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Deposits classified as investments on the balance sheet are included in the investment table following and are categorized using the deposit risk category definitions.

The following table shows the market values of investments, including deposits classified as investments on the Statement of Net Assets, by investment type and in total.

	GASB Category #3	Not Categorized	Market Value
Investments:			
Money market funds	\$33,972,046		\$ 33,972,046
Government agencies	141,728		141,728
Corporate bonds and notes	316,996		316,996
Preferred stock	20,076	\$ 900,000	920,076
Mutual funds		19,159,204	19,159,204
Real estate		194,962	194,962
Total Investments	<u>\$34,450,846</u>	<u>\$20,254,166</u>	<u>54,705,012</u>
Less Investments Reported as "Cash Equivalents" on Statement of Net Assets			<u>(33,974,203)</u>
Total Investment per Statement of Net Assets			<u>\$ 20,730,809</u>

At June 30, 2002, the carrying amount of deposits, excluding those classified as investments above, was (\$590,764). The deposits were reflected in the accounts of the banks at \$353,450. For the deposits at the bank, \$90,343 was Category 1 custodial credit risk and \$263,107 was Category 3 custodial credit risk.

NOTES TO FINANCIAL STATEMENTS

Northern Michigan University

(continued)

NOTE B--CASH AND INVESTMENTS (Continued)

Endowment Funds

According to the law of the State of Michigan, the governing board may appropriate for expenditure for the uses and purposes for which an endowment is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

Investments in the Endowment Fund and their related beneficiary accounts are managed by trustees. Policies regarding investments and marketable securities, which are set forth by the Board of Trustees, authorize the trustee to invest in bonds rated A or better, common stock rated B or better, and cash equivalents. The bond and common stock components of investments are each to be kept between 20 and 60 percent of Endowment Fund assets.

The Board has established a Spending Policy for endowed funds to provide for stability in income growth together with preservation of purchasing power. Current operations for which the endowment was established shall have funds made available for spending using a payout factor of 5 percent applied to the weighted average market value for the last twelve quarters as of June 30 each year. The earliest four quarters market value is given a 25 percent weighting, the middle four quarters market value a 35 percent weighting and the latest four quarters a 40 percent weighting. Any gifts or additional deposits received during the last valuation period will be added to the prior quarter's market values in order to be given full weight in the payout calculation. Payments will be made from income to the extent available and capital appreciation to make up any shortfall. Due to the inevitability of short-term market fluctuations, it is intended that the performance objectives will be achieved by the investment manager(s) over a five-year moving period, net of investment management fees. At June 30, 2001, net appreciation of \$38,864 was available to be spent and was restricted to specific purposes. Net depreciation in fair market value of \$264,837 for the year ended June 30, 2002 resulted in no additional funds available for restricted purposes at June 30, 2002.

NOTE C--INVESTMENT IN COMMUNITY DEVELOPMENT

The other investments in the Endowment Fund include \$900,000, 5% Cumulative Convertible Non-Voting Preferred Stock in the Shorebank Corporation (Shorebank). The proceeds of the Units were used by Shorebank, among other purposes, to capitalize and incorporate North Coast BIDCO, Inc. ("North Coast"), a rural business and industrial development corporation ("BIDCO") in the Upper Peninsula, and to develop a loan production office ("LPO") of South Shore Bank of Chicago ("South Shore"), Shorebank's wholly-owned banking subsidiary in the Upper Peninsula. All dividends have been paid to date.

NOTE D--RECEIVABLES

Receivables at June 30 were as follows:

	2002	2001
State appropriations	\$ 9,456,890	\$ 9,319,883
State capital appropriations	315,073	3,278,775
Student loans – net	8,698,998	7,974,702
Charter schools	2,440,072	1,551,339
Other state		41,413
NMU Development Fund	146,927	1,579,604
State and federal grants	1,985,902	1,427,314
Students, employees, and vendors	2,086,308	915,182
Investment receivable	120,401	198,165
Total	<u>\$25,250,571</u>	<u>\$26,286,377</u>

During the fiscal year, the University recorded revenue of \$13,515,437 (\$8,174,980 in 2001) for charter schools which was forwarded, net an administration fee, to six (five in 2001) charter schools.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2002:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Land	\$ 3,761,805	\$ 773,835		\$ 4,535,640
Land improvements	6,636,255	945,675		7,581,930
Buildings and improvements	164,633,365	20,921,093		185,554,458
Infrastructure	14,223,916	466,496		14,690,412
Equipment	21,804,984	3,085,401	\$250,613	24,639,772
Books	11,171,896	1,261,655	6,968	12,426,583
Construction in progress	<u>20,588,638</u>	<u>(10,105,321)</u>		<u>10,483,317</u>
Totals at historical cost	242,820,859	17,348,834	257,581	259,912,112
Less accumulated depreciation for:				
Land improvements	1,415,675	413,049		1,828,724
Buildings and improvements	49,026,288	3,709,451		52,735,739
Infrastructure	4,444,917	530,350	225	4,975,042
Equipment	12,974,795	1,764,902	192,806	14,546,891
Books	<u>8,912,057</u>	<u>650,428</u>	<u>6,271</u>	<u>9,556,214</u>
Total accumulated depreciation	<u>76,773,732</u>	<u>7,068,180</u>	<u>99,302</u>	<u>83,642,610</u>
Capital assets, net	<u>\$166,047,127</u>	<u>\$ 10,280,654</u>	<u>\$ 58,279</u>	<u>\$176,269,502</u>

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2001:

	Beginning Balance as Restated	Additions and Reclassifications	Retirements	Ending Balance
Land	\$ 3,509,608	\$ 252,197		\$ 3,761,805
Land improvements	3,982,452	2,668,051	\$ 14,248	6,636,255
Buildings and improvements	134,667,964	29,986,587	21,186	164,633,365
Infrastructure	13,563,117	678,095	17,296	14,223,916
Equipment	24,543,220	3,825,090	6,563,326	21,804,984
Books	10,532,223	639,673		11,171,896
Construction in progress	<u>26,458,729</u>	<u>(5,870,091)</u>		<u>20,588,638</u>
Totals at historical cost	217,257,313	32,179,602	6,616,056	242,820,859
Less accumulated depreciation for:				
Land improvements	1,223,133	206,790	14,248	1,415,675
Buildings and improvements	45,853,814	3,193,553	21,079	49,026,288
Infrastructure	4,009,870	443,175	8,128	4,444,917
Equipment	15,572,144	1,567,380	4,164,729	12,974,795
Books	<u>8,390,638</u>	<u>521,419</u>		<u>8,912,057</u>
Total accumulated depreciation	<u>75,049,599</u>	<u>5,932,317</u>	<u>4,208,184</u>	<u>76,773,732</u>
Capital assets, net	<u>\$142,207,714</u>	<u>\$26,247,285</u>	<u>\$2,407,872</u>	<u>\$166,047,127</u>

Fixed 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 changed its capitalization policy for fixed assets from \$2,000 to \$5,000 on July 1, 2000. This change resulted in a write off of capital assets totaling \$6,475,000 with accumulated depreciation of \$4,083,000.

NOTES TO FINANCIAL STATEMENTS

Northern Michigan University (continued)

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 at June 30 were as follows:

	2002	2001
Accrued payroll and benefits	\$ 6,167,299	\$ 6,175,671
Construction contractors	2,460,441	3,475,958
Charter Schools	2,440,072	1,551,339
Vendors	1,846,164	2,035,281
Interest payable	168,111	
Total	<u>\$13,082,087</u>	<u>\$13,238,249</u>

NOTE H--NONCANCELABLE LEASES

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

Year ended June 30	Operating Leases
2003	\$1,664,820
2004	104,550
Total	<u>\$1,769,370</u>

NOTE I--BONDS AND NOTES PAYABLE

In 2001, the University sold a \$30,000,000 General Revenue Bond issue for various renovations and construction needs on campus. The principal and interest on the 2001 Revenue Bonds are primarily payable from general University revenues, bear interest based on a daily rate, and mature in varying amounts through 2031. The interest rate at June 30, 2002 was 1.9%.

In conjunction with the 2001 General Revenue Bond issue, the university entered into an interest rate swap agreement for \$20,000,000 of the 2001 General Revenue Bonds. In accordance with the swap agreement, the University pays a fixed rate of 4.015% and receives 67% of the one month LIBOR rate, adjusted weekly.

In 1998, the University sold a \$17,600,000 General Revenue 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. The outstanding balance for these defeased bonds as of June 30, 2002, was \$8,020,000. The principal and interest on the 1998 Revenue Bonds are primarily payable from general University revenues, bear interest at rates from 4.2% to 5.0%, and mature in varying amounts through 2026. Also in 1998, the University sold a \$24,560,000 General Revenue 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. There were no outstanding balance for these defeased bonds as of June 30, 2002 and an outstanding balance of \$6,175,000 at June 30, 2001. The principal and interest on the 1997 Revenue Bonds are primarily payable from general University revenues, bear interest at rates from 4.25% to 5.13%, and mature in varying amounts through 2021.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I--BONDS AND NOTES PAYABLE (Continued)

In 1997, the University issued a \$1,000,000 term note payable to construct a cable system for residence halls on campus. The note payable bears interest of 5.34% computed on a 360-day year with twelve 30-day months. Principal and interest payments are due annually through fiscal year 2003.

In 1993, the University sold a \$12,000,000 General Revenue Bond Issue for the renovation of various campus buildings. The principal and interest on revenue bonds are primarily payable from general University revenues. The bonds bear interest at 2.85% to 5.60% and mature at various dates through 2014.

In 1992, the University sold an \$8,500,000 General Revenue Bond Issue for the renovation of the Don H. Bottum University Center and residence halls and to defease in substance \$1,860,000 of outstanding bonds by depositing funds in an irrevocable trust with an escrow agent of which there were no defeased bonds outstanding at June 30, 2002. The principal and interest on revenue bonds are primarily payable from general University revenues, bear interest at rates ranging from 3.25% to 6.55%, and mature in varying amounts through 2015.

The following table summarizes debt service requirements:

Fiscal Year	Principal	Interest	Total
2002-2003	\$ 1,750,000	\$ 2,537,234	\$ 4,287,234
2003-2004	1,730,000	2,520,575	4,250,575
2004-2005	1,810,000	2,458,003	4,268,003
2005-2006	1,890,000	2,391,955	4,281,955
2006-2007	1,955,000	2,322,285	4,277,285
Total five years	9,135,000	12,230,052	21,365,052
Thereafter			
2007-2012	11,225,000	10,421,005	21,646,005
2012-2017	13,970,000	7,963,879	21,933,879
2017-2022	16,970,000	4,773,006	21,743,006
2022-2027	13,605,000	1,613,608	15,218,608
2027-2031	6,475,000	316,628	6,791,628
Total	\$71,380,000	\$37,318,178	\$108,698,178

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE I--BONDS AND NOTES PAYABLE (Continued)

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Note payable	\$ 325,000		\$ 155,000	\$ 170,000	\$ 170,000
Bonds payable	42,900,000	\$30,000,000	1,690,000	71,210,000	1,580,000
Total notes and bonds payable	43,225,000	30,000,000	1,845,000	71,380,000	1,750,000
Other liabilities:					
Severance benefits	5,382,195		881,914	4,500,281	980,670
Compensated absences	1,949,879	488,455	339,625	2,098,709	258,630
Total other liabilities	7,332,074	488,455	1,221,539	6,598,990	1,239,300
Total long-term liabilities	\$50,557,074	\$30,488,455	\$3,066,539	\$77,978,990	\$2,989,300

Long-term liability activity for the year ended June 30, 2001, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Note payable	\$ 1,875,000		\$1,550,000	\$ 325,000	\$ 155,000
Bonds payable	44,145,000		1,245,000	42,900,000	1,305,000
Total notes and bonds payable	46,020,000		2,795,000	43,225,000	1,460,000
Other liabilities:					
Severance benefits	2,080,973	\$3,845,129	543,907	5,382,195	931,060
Compensated absences	1,949,142	85,528	84,791	1,949,879	103,804
Total other liabilities	4,030,115	3,930,657	628,698	7,332,074	1,034,864
Total long-term liabilities	\$50,050,115	\$3,930,657	\$3,423,698	\$50,557,074	\$2,494,864

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE J--OPERATING EXPENSES

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

	2002	2001
Salaries, wages and benefits	\$ 67,727,538	\$ 69,482,875
Supplies and support services	31,036,800	29,375,000
Utilities	4,309,366	4,194,755
Depreciation expense	7,068,180	5,932,316
Scholarships	5,574,868	4,253,577
Total	\$115,716,752	\$113,238,523

NOTE K--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).

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 2002, this rate is 6.46%, and is applied to payrolls occurring on or after October 1, 2001. For the State's fiscal year 2001, this rate was 6.85%, and was applied to payrolls occurring on or after October 1, 2000.
- 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 2002, this rate is 0.0%, and is applied to payrolls occurring on or after October 1, 2001. For the State's fiscal year 2001, this rate was 1.36%, and was applied to payrolls occurring on or after October 1, 2000.
- Retiree Health Insurance: This payment is computed annually, and each university is charged a portion of the total requirement due based on the number of retirees each university has, compared to the total number of all university retirees. For the State's fiscal year 2002, the total amount due for the University's retiree's health insurance is \$1,872,369. For the State's fiscal year 2001, the total amount due for the University's retiree's health insurance was \$1,707,846.

The TIAA-CREF plan is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract, and has no liability beyond its own contribution.

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(continued)

NOTE K--RETIREMENT PLANS (Continued)

The University contributed to the plans as follows for the year ended June 30, 2002:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$ 4,350,537	\$ 2,861,055	\$ 7,211,592
Employee Contributions		334,057	334,057
Covered Payroll	28,665,516	14,616,701	43,282,217

The University contributed to the plans as follows for the year ended June 30, 2001:

	TIAA-CREF	MPSERS	University Total
University Contributions	\$ 4,236,960	\$ 2,949,804	\$ 7,186,764
Employee Contributions		362,931	362,931
Covered Payroll	26,916,928	15,720,523	42,637,451

NOTE L--EARLY RETIREMENT INCENTIVES

The University has in place a Severance Incentive Program (SIP) available to all active full-time salaried employees who have completed ten years of service. The enrollment period for the first SIP was December 15, 1995 through August 30, 1996. Approved employees were eligible for post-separation benefits consisting of health insurance benefits, if needed, and/or cash severance benefits in varying amounts based on years of service and separation date, but not to exceed 100 percent of annual salary. The remaining SIP liability as of June 30, 2002, is \$1,380,000. The SIP liability as of June 30, 2001, was \$1,779,000.

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 remaining SIP liability as of June 30, 2002, is \$3,120,000. The SIP liability as of June 30, 2001, was \$3,603,000. The SIP is expected to be paid over a ten-year period beginning in fiscal year 2000-01.

NOTE M--NORTHERN MICHIGAN UNIVERSITY DEVELOPMENT FUND

Northern Michigan University Development Fund (not included in the University financial statements) is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. Unaudited financial information of the Northern Michigan University Development Fund at June 30, 2002, includes net assets of approximately \$16,534,000 (2001--\$16,858,000) and revenues for the year ended June 30, 2002, of approximately \$2,702,000 (2001--\$2,503,000). Accounts receivable from the Northern Michigan University Development Fund at June 30, 2002, was \$147,000 (2001--\$1,580,000).

NOTES TO FINANCIAL STATEMENTS
Northern Michigan University
(concluded)

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, and errors and omissions losses commonly covered by insurance and provides risk management and loss control services and programs. M.U.S.I.C. provides coverage for claims in excess of agreed upon deductibles.

Loss coverages are structured on a three layer basis with each member retaining a portion of its losses, M.U.S.I.C. covering the second layer and commercial carriers covering the third layer. Comprehensive general liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims made basis.

M.U.S.I.C. was established on May 28, 1987, pursuant to the State of Michigan Constitution of 1963, Article 8, Sections 5 and 6. 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 \$9,263,000 at June 30, 2001, based on the last published financial statements.

NOTE O--CONTINGENCIES

The University is in the process of renovating various campus buildings. Contractual commitments relating to renovations were approximately \$2,660,000 at June 30, 2002.

University facilities including the Heating Plant, the Service Building, the Art Annex, and the Seaborg Center Complex, have been or are scheduled to be financed in whole or in part by State Building Authority 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 Statement of Net Assets.

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--SUBSEQUENT EVENTS

Subsequent to year end, the University anticipated signing a \$5,973,000 lease commitment with IBM for laptop computers.

Additionally, in September 2002, the National Association of College and University Business Officers (NACUBO) issued new guidance in regards to the classification of the fund balances of the Federal Perkins Loan program. Initially, guidance issued by NACUBO recommended that the fund balance of Perkins Loans be reported as restricted net assets. NACUBO has now changed this guidance to recommend that the Federal Capital Contribution be classified as a liability. The University expects to adopt the NACUBO guidance in 2003 as a change in accounting principle. The effect of this change will be to increase long-term liabilities and decrease restricted net assets.