

State of Michigan Financial Schedules  
State Universities Component Units

Central Michigan University

*June 30, 2005*

State of Michigan Financial Schedules  
State Universities Component Units

Central Michigan University

*June 30, 2005*

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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors on  
Supplementary Information

Board of Trustees  
Central Michigan University  
Mt. Pleasant, Michigan

We have audited, 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, the basic financial statements of Central Michigan University (University), a component unit of the State of Michigan, as of and for the year ended June 30, 2005, and have issued our unqualified opinion thereon dated August 22, 2005.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Central Michigan University taken as a whole. The accompanying Exhibits I and II are presented for purposes of additional analysis and to assist in conforming the University's financial statements with the State of Michigan Comprehensive Annual Financial Report format. They are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2005 on our consideration of Central 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.

This report is intended solely for the information and use of the University, the State of Michigan Department of Management and Budget, and the Auditor General - State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
August 22, 2005

STATE OF MICHIGAN  
STATEMENT OF NET ASSETS  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
June 30, 2005

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 26,463,277		\$ 26,463,277	1
Accounts receivable, net	17,488,112		17,488,112	2
State appropriations receivable, operations	13,897,752		13,897,752	2
State appropriations receivable, Charter Schools	32,558,269		32,558,269	2
Inventories	3,407,794		3,407,794	1
Other assets	1,322,153		1,322,153	2
Total current assets	95,137,357			
<b>CURRENT ASSETS</b>				
Cash		\$ 26,463,277		\$ 26,463,277
Amounts due from primary government		48,080,147		48,080,147
Amounts due from federal government		1,031,119		1,031,119
Inventories		3,407,794		3,407,794
Other current assets		16,155,020		16,155,020
Total Current Assets	95,137,357	95,137,357	95,137,357	95,137,357
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	30,657,063		30,657,063	3
Endowment investments	59,297,272		59,297,272	3
Loans receivable, net	7,275,136		7,275,136	1
Other long-term investments	94,294,910		94,294,910	3
Capital assets, net	318,299,999		318,299,999	4
<b>RESTRICTED ASSETS</b>				
Cash and cash equivalents		30,657,063		30,657,063
Mortgages and loan receivable		7,275,136		7,275,136
Investments		34,187,657		34,187,657
<b>INVESTMENTS</b>				
		119,404,525		119,404,525
<b>CAPITAL ASSETS</b>				
Land and other non depreciable assets		9,924,920		9,924,920
Buildings, equipment and other depreciable assets		517,048,873		517,048,873
Less accumulated depreciation			222,588,031	(222,588,031)
Constructions in progress		13,914,237		13,914,237
Net capital assets				318,299,999
Total Noncurrent Assets	509,824,380	732,412,411	732,412,411	509,824,380
<b>TOTAL ASSETS</b>	<b>604,961,737</b>	<b>827,549,768</b>	<b>827,549,768</b>	<b>604,961,737</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	50,550,658	50,550,658		5
Deferred revenue	9,389,345	9,389,345		1
Deposits	472,865	472,865		5
Current portion of long-term debt and other obligations	4,055,000	4,055,000		6
Total Current Liabilities	64,467,868			
<b>CURRENT LIABILITIES</b>				
Accounts payable and other liabilities			49,086,815	5
Amounts due to primary government			577,055	5
Bonds and notes payable			4,055,000	6
Interest payable			1,359,653	5
Deferred revenue			9,389,345	1
Total Current Liabilities	64,467,868	64,467,868	64,467,868	64,467,868
<b>NONCURRENT LIABILITIES</b>				
Long-term debt and other obligations	168,027,645	168,027,645		7
Bonds and notes payable			153,145,274	7
Noncurrent portion of other long-term obligations			14,882,371	7
<b>TOTAL LIABILITIES</b>	<b>232,495,513</b>	<b>232,495,513</b>	<b>232,495,513</b>	<b>232,495,513</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	190,363,125	190,363,125		1
Restricted for:				
Nonexpendable				
Scholarships, fellowships, and research	20,467,287	20,467,287		8
Expendable				
Scholarships, fellowships, research	16,734,693	16,734,693		8
Instructional department uses	4,608,744	4,608,744		8
Loans	1,222,278	1,222,278		8
Capital projects and debt service	3,698,067	3,698,067		1
Unrestricted	135,372,030	135,372,030		1
Total Net Assets	372,466,224	372,466,224		
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt			190,363,125	1
Restricted for:				
Education			43,033,002	8
Construction and debt service			3,698,067	1
Unrestricted Net Assets			135,372,030	1
<b>TOTAL NET ASSETS</b>	<b>\$ 372,466,224</b>	<b>\$ 372,466,224</b>	<b>\$ 372,466,224</b>	<b>\$ 372,466,224</b>

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF NET ASSETS  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2005

1) Reclassify University financial data into the specified format to be used in the State's CAFR Statement.

2) Reclassify current receivables

	Other Receivables	Due from Primary Government	Due from Federal Government
Accounts receivable, net	\$ 17,488,112		
State appropriations receivable, operations	13,897,752		
State appropriations receivable, Charter Schools	32,558,269		
State Appropriations	(13,897,752)	\$ 13,897,752	
State Appropriations - Charter Schools	(32,558,269)	32,558,269	
State Plant Projects	(1,251,206)	1,251,206	
State Grants	(372,920)	372,920	
Federal Agencies	(1,031,119)		\$ 1,031,119
	<u>\$ 14,832,867</u>	<u>\$ 48,080,147</u>	<u>\$ 1,031,119</u>

Other current assets

Other receivables

\$ 1,322,153
14,832,867
<u>\$ 16,155,020</u>

3) Reclassify investments

Cash and cash equivalents

Endowment investments

Other long-term investments

	Investments	Restricted	Other Expendable
Cash and cash equivalents	\$ 30,657,063	\$ 30,657,063	
Endowment investments	59,297,272	34,187,657	\$ 25,109,615
Other long-term investments	94,294,910		94,294,910
	<u>\$ 184,249,245</u>	<u>\$ 64,844,720</u>	<u>\$ 119,404,525</u>

4) Reclassify capital assets

Land and other nondepreciable assets

Buildings, equipment, and other depreciable assets

Construction in progress

Total

Less accumulated depreciation

	Capital Assets
\$ 9,924,920	
517,048,873	
13,914,237	
540,888,030	
222,588,031	
<u>\$ 318,299,999</u>	

5) Reclassify current liabilities

Accounts payable and accrued liabilities

Deposits

MPSERS & MPSERS - MIP

Mich sales tax

Interest

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 50,550,658		
Deposits	472,865		
MPSERS & MPSERS - MIP	(558,074)	\$ 558,074	
Mich sales tax	(18,981)	18,981	
Interest	(1,359,653)		\$ 1,359,653
	<u>\$ 49,086,815</u>	<u>\$ 577,055</u>	<u>\$ 1,359,653</u>

6) Reclassify current portion of debt obligation

	Current Portion of Debt Obligation	Bonds and Notes Payable
\$ 4,055,000		
<u>\$ 4,055,000</u>	<u>\$ 4,055,000</u>	

7) Reclassify noncurrent liabilities

Long-term debt and other obligations

Bonds and notes payable

	Other Long-Term Liabilities	Bonds & Notes Payable
\$ 168,027,645		
(153,145,274)	\$ 153,145,274	
<u>\$ 14,882,371</u>	<u>\$ 153,145,274</u>	

8) Combine restricted net assets

Restricted for:

Nonexpendable-scholarships, fellowships and research

Expendable-scholarships, fellowships and research and departmental uses

Expendable-loans

	Restricted for Education
\$ 20,467,287	
21,343,437	
1,222,278	
<u>\$ 43,033,002</u>	

STATE OF MICHIGAN  
STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
FISCAL YEAR ENDED JUNE 30, 2005

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 126,484,792	\$ 126,484,792	1	
Federal grants and contracts	19,606,261	19,606,261	2	
State and local grants and contracts	2,224,573	2,224,573	2	
Private grants and contracts	3,000,560	3,000,560	2	
Sales and services of educational activities	12,959,774	12,959,774	1	
Auxiliary enterprises	55,944,088	55,944,088	1	
Total operating revenues	220,220,048	220,220,048		
<b>OPERATING EXPENSES</b>	291,271,490			\$ 291,271,490 3
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	81,725,700	81,725,700	4	
Gifts and pledges net of allowance	5,183,616	5,183,616	2	
Investment income net of expense	12,531,839	12,531,839	5	
Interest on capital assets related debt	(7,767,021)			7,767,021 3
Other nonoperating revenues	193,862	193,862	6	
Net nonoperating revenues	91,867,996	99,635,017		7,767,021
<b>OTHER REVENUES</b>				
Capital appropriations	3,225,756	3,225,756	4	
Capital grants and gifts	1,766,979	1,766,979	7	
Additions to permanent endowments	1,384,391	1,384,391	2	
Total other revenues	6,377,126	6,377,126		
Increase in net assets	27,193,680	326,232,191		299,038,511
<b>EXPENSES</b>		299,038,511	3	\$ 299,038,511
<b>PROGRAM REVENUES</b>				
Charges for service				195,388,654 1
Operating grants/contributions				31,399,401 2
Capital grants/contributions				1,766,979 7
<b>NET (EXPENSE) REVENUE</b>				228,555,034
<b>GENERAL REVENUES</b>				
Interest and investment earnings				12,531,839 5
Payments from State of Michigan				84,951,456 4
Other				193,862 6
Total general revenues				97,677,157
Change in net assets	27,193,680			27,193,680
Net assets -- beginning	345,272,544			345,272,544
Net assets -- ending	\$ 372,466,224	\$ 625,270,702		\$ 625,270,702 \$ 372,466,224

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2005

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 126,484,792
	Sales and services of educational activities	12,959,774
	Auxiliary enterprises	55,944,088
		<u>\$ 195,388,654</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 19,606,261
	State and local grants and contracts	2,224,573
	Private grants and contracts	3,000,560
	Gifts and pledges net of allowance	5,183,616
	Additions to permanent endowments	1,384,391
		<u>\$ 31,399,401</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses	\$ 291,271,490
	Interest on capital assets, net of related debt	7,767,021
		<u>\$ 299,038,511</u>
4)	Payments from State of Michigan	<u>Payments from State of Michigan</u>
	State appropriations	\$ 81,725,700
	Capital appropriations	3,225,756
		<u>\$ 84,951,456</u>

5,6,7) Reclassify University financial data into the specified format to be used in the State's CAFR Statement.

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared to incorporate all fund groups utilized internally by Central Michigan University (University). These 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).

NOTE B--CASH, POOLED INVESTMENTS, AND INVESTMENTS

**Policy**

The University uses the "pooled cash" method of accounting, and has retained independent investment managers to handle all of its cash and short-term investments.

Investment policies for cash and cash equivalents, as set forth by the Board of Trustees, authorize the investment managers to invest in commercial paper of companies rated within the highest classification established by not less than two national rating services. Bank certificates of deposit and bankers' acceptances are to be rated within the top two rating classifications by any one national rating service. Foreign bank issues are capped at 10% of the total investment in this category. Investments may also be made in securities of the U.S. Treasury and Federal Agencies, common stock, convertible bonds, convertible preferred stock, time savings accounts and other fixed income securities deemed prudent by the investment managers. The weighted average credit quality is to be no less than A for the short-term investment pool accounts, A for the intermediate-term investment pool accounts and A for the long-term investment pool accounts. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be A for the short-term investment pool accounts and BBB for the intermediate-term and long-term investment pool accounts.

Policies regarding marketable securities in the Endowment Investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds or other marketable securities. The endowment income spending policy is 5.0% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce original gift principal. The spending policy is reviewed periodically by the investment committee, which recommends changes to the Board of Trustees. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$20,324,000. The net appreciation is a component of restricted, expendable net assets. The yields of the Endowment Investments were as follows:

Interest and Dividends	2.2 %
Net Realized and Unrealized Gains	8.9 %
Total Return	<u>11.1 %</u>

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.

**Credit Risk**

The University's investment policy requires that all bond investments have a Standard and Poor's rating of "A" or better or a Moody's Investors Service rating of "A" or better. Debt investments held by the University as of June 30, 2005, that mature June 30, 2006, or later were rated by Moody's with a rating of "Aaa." The following table lists the University's investments by category showing the investment's rating and scheduled maturity.



**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE B--CASH, POOLED INVESTMENTS, AND INVESTMENT--continued

Investment Type	Rating	Fair Market Value	Investment Maturities (In Years)			
			Less Than 1	1-5	6-10	More Than 10
<b>Deposits:</b>						
Time deposits	N/A	\$ 2,000,080	\$ 2,000,080			
<b>Investments:</b>						
Commercial paper	Moody's P-1	6,677,140	6,667,140			
Government Securities-US Backed	Moody's Aaa	21,805,636	15,253,468	\$ 3,291,975	\$ 1,265,424	\$ 1,994,769
Government Securities-US Sponsored	Moody's Aaa	41,861,035	24,501,497	9,336,919	856,870	7,165,749
Corporate bonds and notes	Moody's Aaa	5,633,595			2,611,571	3,022,024
Mutual bond funds	Moody's Aaa	65,285,579	65,285,579			
Other investments	Moody's Aaa	412,061				412,061
		143,675,126	\$ 113,717,764	\$ 12,628,894	\$ 4,733,865	\$ 12,594,603
Preferred Stock	N/A	190,939				
Equities	N/A	7,555,476				
Equities - Foreign	N/A	12,404,268				
Equity Mutual Funds	N/A	51,061,924				
Life Insurance Policies	N/A	587,375				
Cash Equivalents	N/A	516,987				
Investments Reported as "Cash" on Statement of Net Assets		(5,279,573)				
<b>Total investments</b>		<u>\$210,712,522</u>				
<b>As Reported on the Statement of Net Assets</b>						
Current investments		\$ 26,463,277				
Noncurrent restricted investments		64,844,720				
Noncurrent investments		119,404,525				
<b>Total investments</b>		<u>\$210,712,522</u>				

**Interest Rate Risk**

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk**

Deliberate management of the asset mix among classes of investments is a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a highly desirable objective. The University's general policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. Accordingly, the University does not have investments in any one issuer that represents 5% or more of total investments.

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE B--CASH, POOLED INVESTMENTS, AND INVESTMENT--continued

**Foreign Currency Risk**

The University's holding in foreign investments were made in mutual funds and approximated \$18.5 million dollars.

**Custodial Credit Risk**

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name. The carrying amount of deposits, excluding those classified as investments, was \$(5,279,573). The deposits were reflected in the accounts of the banks at \$966,841. Of the bank balance, \$705,123 was uninsured and uncollateralized and \$261,718 was covered by federal depository insurance or by collateral held by the university's agent in the university's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investments pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University had custodial credit risk of \$187.9 million in its investment portfolios.

NOTE C--NOTES AND BONDS PAYABLE

Long-term debt and other obligations consist of the following as of June 30, 2005:

	Interest Rate	Fiscal Year Maturity		Additions	Reductions	Ending Balance June 30, 2005	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 4,709,572	\$ 350,702		\$ 5,060,274	
General Revenue Bonds, Series 1997	4.85-4.90%	2006-2007	2,525,000		\$ 800,000	1,725,000	\$ 840,000
General Revenue Bonds, Series 1998							
Series Bonds	4.15-4.85%	2006-2014	10,040,000		210,000	9,830,000	220,000
Term Bonds	4.80-5.00%	2015-2028	29,010,000			29,010,000	
General Revenue Bonds, Series 2002A	Various	2017-2033	22,000,000			22,000,000	
General Revenue Bonds, Series 2002B	Various	2006-2016	30,450,000		4,250,000	26,200,000	1,600,000
General Revenue Bonds, Series 2002A-Fixed Rate							
Series Bonds	2.00-2.75%	2007-2009	1,500,000			1,500,000	
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	2.50-5.00%	2006-2011	10,505,000		1,350,000	9,155,000	1,395,000
General Revenue Bonds, Series 2005							
Series Bonds	3.00-5.00%	2008-2020		10,145,000		10,145,000	
Term Bonds	4.375-5.00%	2021-2035		21,675,000		21,675,000	
		Total	131,639,572	32,170,702	6,610,000	157,200,274	4,055,000
Compensated Absences			3,514,957	17,648		3,532,605	
Federal portion of Perkins Loan Program			6,903,967	272,296	509,943	6,666,320	
Retirement Service Award Program			4,059,221	196,810	493,606	3,762,425	
Other Liabilities			535,518	385,503		921,021	
Total long-term debt and other obligations			\$146,653,235	\$33,042,959	\$7,613,549	\$172,082,645	\$4,055,000

## CENTRAL MICHIGAN UNIVERSITY NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

### NOTE C--NOTES AND BONDS PAYABLE--continued

On January 1, 2005 the University issued \$31,820,000 in General Revenue Bonds Series 2005. Proceeds from this issuance were \$33,182,498 consisting of principal amount of the bonds (\$31,820,000), net original issue premium of \$391,927 and investment earnings of \$970,571. The proceeds from the sale of the bonds will be used to fund the acquisition, construction, furnishing and equipping of two new residence hall facilities, a hall kitchen and the installation of a fire suppression sprinkler system. The bonds mature in the year 2008 through 2035.

On February 1, 2003, the University issued \$11,815,000 in General Revenue Bonds Series 2003A. Proceeds from this issuance were \$12,263,206 consisting of principal amount of the bonds (\$11,815,000), plus original issue premium of \$448,206. The proceeds from the sale of the bonds will refund the portion of the Board's General Revenue and Refunding Bonds, Series 1993 maturing on October 1 in the years 2003 to 2010, inclusive. \$12,095,894 was deposited with an escrow agent and was used for the bond redemption on March 14, 2003.

In March 2002, the University issued \$44,400,000 in General Revenue Bonds, Series A, Select Auction Variable Rate Securities (SAVRS). During the SAVRS rate period, interest on the SAVRS will accrue at the SAVRS rate for each auction rate period and is payable in arrears. These bonds will be used to fund new capital projects. On February 11, 2003 the University converted \$22,400,000 of the \$44,400,000 to fixed rate bonds.

Also in March 2002, as a means to fix the variable-rate bonds, and minimize long-term interest rate risk, the University entered into a rate swap in connection with \$22,000,000 of the \$44,400,000 issuance. Under the swap, the University pays the counterparty a fixed payment of 4.44% and receives a variable payment of 67% of the London Interbank Offered Rate (LIBOR) (2.2378% at June 30, 2005). The bonds and the related swap agreement mature on October 1, 2032. No amounts were paid or received when the swap was initiated. The synthetic fixed rate on the bonds was 4.70% at June 30, 2005 and 4.82% at June 30, 2004.

In October 2000, the University entered into a forward starting interest rate swap related to \$26,180,000 of the \$37,350,000 series 1992 General Revenue Bonds. The swap was entered into as a means to fix the variable-rate bonds, and minimize long-term interest rate risk. Under the swap, the University pays the counterparty a fixed payment of 5.49% and receives a variable payment of the lesser of the BMA Index or 65% of LIBOR (2.1710% at June 30, 2005). The bonds and the related swap agreement mature on October 1, 2015. The University received \$756,000 from the counterparty at the execution of the swap agreement. The synthetic fixed rate on the bonds was 5.68% at June 30, 2005 and 6.35% at June 30, 2004.

On December 19, 2002 the University refinanced \$30,450,000 of the General Revenue and Refunding Bonds, Series 1992 (now 2002 Series B), maturing in the years 2003 thru 2015.

As of June 30, 2005 the swap agreements related to the 2002 Series A and Series B bonds were in a negative position of \$4,353,808 and \$3,715,719, respectively. As long as the variable rate portion of the swap being received by the University is less than the fixed rate being paid, the University will continue to be in a negative position on the swap. That is, the University will be paying more in interest expense than had it not entered into the swap agreements. However, the University believes that the variable rate it receives on the swap agreements will eventually exceed the 4.44% and 5.49% fixed rates the University pays and the swap will reduce its overall interest expense in the future.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations, whenever the swap has a positive fair value. As of June 30, 2005, the University was not exposed to credit risk because the swap agreements had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. However, as of June 30, 2005, Standard & Poor's and Fitch Ratings both rated one of the counterparties to the swap agreements AAA.

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE C--NOTES AND BONDS PAYABLE--continued

The swaps expose the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. As these rates change, the overall synthetic rate on the bonds will change.

The swap agreements use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Master Agreement includes additional termination events. If the swaps are terminated, the variable rate bonds would no longer carry a synthetic interest rate and the University may be required to pay an amount equal to the swaps fair value, if it is negative.

General Revenue Bond Series 1990 are capital appreciation bonds recorded in the preceding table at their accreted year-end book value. The table, which follows, summarizes capital appreciation bonds at June 30, 2005.

<u>Maturity Date</u>	<u>Accreted Value</u>	<u>Ultimate Maturity Value</u>
10-1-2011	\$1,167,528	\$1,820,000
10-1-2012	1,083,542	1,820,000
10-1-2013	1,004,627	1,820,000
10-1-2014	934,785	1,820,000
10-1-2015	869,792	1,820,000
Total	<u>\$5,060,274</u>	<u>\$9,100,000</u>

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 2005 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
2006	\$ 4,055,000	\$ 5,911,407	\$ 1,310,265	\$ 11,276,672
2007	4,910,000	5,759,279	1,251,196	11,920,475
2008	5,785,000	5,587,581	1,186,342	12,558,923
2009	6,055,000	5,413,830	1,116,530	12,585,360
2010	5,745,000	5,216,832	1,044,237	12,006,069
Total five years	<u>26,550,000</u>	<u>27,888,929</u>	<u>5,908,570</u>	<u>60,347,499</u>
2011-2015	30,120,482	26,490,086	3,969,104	60,579,672
2016-2020	21,409,792	20,090,189	2,358,750	43,858,731
2021-2025	23,370,000	14,460,232	2,049,747	39,879,979
2026-2030	29,945,000	8,532,363	1,488,669	39,966,032
2031-2035	25,805,000	2,081,075	238,076	28,124,151
Total five year periods	<u>130,650,274</u>	<u>71,653,945</u>	<u>10,104,346</u>	<u>212,408,565</u>
Total	<u>\$157,200,274</u>	<u>\$99,542,874</u>	<u>\$16,012,916</u>	<u>\$272,756,064</u>

In October 1998, the University issued \$40,000,000 in General Revenue Bonds with an average yield of 5.07%. A portion of the proceeds was used to refund and defease the portion of the Board's General Revenue Bonds, Series 1997 maturing on October 1, 2007 through October 1, 2027. The principal amount of the refunded bonds is \$32,610,000. The University purchased U.S. Treasury securities that were deposited in an irrevocable escrow fund with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds are considered to be defeased and the liability relating to those bonds has been removed from the financial statements. The remaining proceeds will be used to finance various capital projects. The outstanding balance for these defeased bonds as of June 30, 2005 and 2004 was \$32,610,000.

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE C--NOTES AND BONDS PAYABLE--continued

The Retirement Service Award program, Federal Perkins loans to students, compensated absences, and other liabilities have been determined to be primarily long-term liabilities.

NOTE D--LEASES

The University has entered into various operating leases, primarily for extended degree program facilities. The following is a schedule of the University's aggregate minimum rental commitment for operating leases of real and personal property for each of the succeeding five years ending June 30 and thereafter:

<u>Total Operating Lease Commitments</u>	
2006	\$ 2,487,004
2007	1,999,376
2008	1,485,360
2009	1,216,814
2010	762,836
2011-2015	2,376,666
2016-2020	318,350
2021-2023	15,450
Total	<u>\$10,661,856</u>

No assets were acquired under capital leases.

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2005:

	Beginning Balance <u>July 1, 2004</u>	Additions	Reductions	Ending Balance <u>June 30, 2005</u>
Land	\$ 9,921,920	\$ 178,945	\$ 175,945	\$ 9,924,920
Land Improvements	13,865,607	799,987	42,478	14,623,116
Infrastructure	10,895,703	187,027	4,298	11,078,432
Buildings	371,222,706	7,571,738	149,208	378,645,236
Furniture and equipment	64,401,788	6,065,890	4,894,068	65,573,610
Library materials	43,431,741	3,262,119		46,693,860
Capitalized collections	129,636	371	1,000	129,007
Intangible assets	305,612			305,612
Construction in progress	11,878,354	4,123,259	2,087,376	13,914,237
TOTAL	<u>\$526,053,067</u>	<u>22,189,336</u>	<u>7,354,373</u>	<u>540,888,030</u>
Less accumulated depreciation:				
Land Improvements	6,556,175	1,638,664	39,151	8,155,688
Infrastructure	2,181,251	513,851	305	2,694,797
Buildings	122,041,467	9,161,228	5,284	131,197,411
Furniture and equipment	46,382,214	4,055,788	4,559,197	45,878,805
Library materials	31,819,492	2,754,550		34,574,042
Intangible assets	79,508	7,780		87,288
TOTAL	<u>209,060,107</u>	<u>18,131,861</u>	<u>4,603,937</u>	<u>222,588,031</u>
CAPITAL ASSETS, NET	<u>\$316,992,960</u>	<u>\$ 4,057,475</u>	<u>\$2,750,436</u>	<u>\$318,299,999</u>

## **CENTRAL MICHIGAN UNIVERSITY**

### **NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

#### **NOTE F--AFFILIATED ORGANIZATIONS**

The Central Michigan University Research Corporation (CMURC) was formed as an independent 501(c)(3) nonprofit corporation on February 15, 2002. The corporation's sole member is Central Michigan University. The purpose for which the corporation was formed is to solicit, collect, receive and administer funds exclusively for the support of the scientific, literary and educational programs of the University as permitted to be carried on by an organization exempt from federal income taxation. The University has contributed \$1,200,000 and has a remaining commitment of \$1,875,000 in support of this endeavor. Fiscal year 2005 is the fourth year of the commitment. At June 30, 2005 and 2004, the net assets of CMURC were \$81,662 and \$(2,708), respectively.

The Charter Schools Development & Performance Institute, a Michigan nonprofit corporation was formed on November 29, 2001. The institute incorporated as a private tax-exempt corporation with the primary goal to facilitate the development and performance of Charter Schools in Michigan and throughout the nation, and to pursue multiple related objectives in support of Charter Schools. There are two classes of members of the corporation, Category A and Category B. The Category A members consist of persons who are the president or members of the Board of Trustees of Central Michigan University. Category B members of the corporation consist of individuals serving as members of the Board of Trustees of the corporation. The University transferred \$500,000 to the Charter Schools Development and Performance Institute for the years ended June 30, 2005 and 2004, respectively.

Although both entities meet the GASB 14 requirements as component units, the University has excluded the amounts from the financial statements due to immateriality. Should the operations of either of these entities become material, the University will discretely present the entity in the financial statements in the applicable year.

#### **NOTE G--RETIREMENT PLANS**

The University has established retirement plans for all qualified employees. Full-time faculty and professional administrators have the option to participate in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF) and/or Fidelity Investment Tax Exempt Services Company. The University contributes 12% of each qualified employee's pay to these defined contribution plans. For new hires on or after January 1, 1996, the University contributes 10% for all salaried employees and 4-6% for hourly staff. University contributions begin immediately for all employees.

Hourly employees hired prior to January 1, 1996, and other eligible employees choosing this option participate in the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit plan through the State of Michigan. The University contribution rate was 6.52% of employees' pay at June 30, 2005 and 6.47% at June 30, 2004, which was actuarially determined by the plan's actuaries. Employees starting between January 1, 1990 and December 31, 1995 are required to contribute between 3.0% and 4.3% of their annual pay. The University is required to pay a monthly supplemental contribution for retiree health care benefits, which aggregated to \$4,515,274 during the 2004-2005 University fiscal year (\$4,406,312 during the 2003-2004 University fiscal year). Employees hired on or after January 1, 1996 cannot participate in MPERS unless they previously were enrolled in the plan at Central Michigan University, or one of the other six universities that are part of MPERS. MPERS issues an annual financial report that includes financial statements and required supplementary information. The report may be obtained at Michigan Public School Employees' Retirement System, P.O. Box 30673, Lansing, Michigan 48909-8103. Separate pension information related to the University's employees included in this plan is not available.

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE G--RETIREMENT PLANS--continued

Contributions and covered payroll under all plans in fiscal year 2005 are summarized as follows:

	TIAA-CREF and Fidelity	MPSERS	University Total
University Contributions	\$ 9,419,398	\$ 2,474,860	\$ 11,894,258
Required Employee Contributions		485,941	485,941
Covered payroll	90,105,181	25,346,801	115,451,982
Total Payroll			137,913,988

The University's contributions, which equaled required contributions, to MPSERS totaled \$1,991,139 in fiscal 2004 and \$1,729,829 in fiscal 2003. Required employee contributions were \$486,063 in fiscal 2004 and \$525,793 in fiscal 2003.

The University also sponsors the Retirement Service Award program covering certain employees hired before a specific date in 1976 and all maintenance and food service employees. The plan provides for distributions to qualifying employees at retirement based principally on length of service and salary at retirement. Assets and liabilities of \$3,762,424 for fiscal year 2004-2005 (\$4,059,221 for fiscal year 2003-2004) related to this program are included in the University statement of net assets. The assets are included with the University's cash and cash equivalents. The corresponding liabilities have been included with long-term debt and other long-term obligations in the statement of net assets. Annual covered payroll for participants of the plan (employees are also included in benefit plans noted above) was \$15,688,991 at June 30, 2000. The University annually contributes to the plan \$54,760 which was based on the 2000 actuarial valuation.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Overfunded	Funded Ratio	Covered Payroll	Ratio Of Overfunded To Covered Payroll
06/30/96	\$6,105,698	\$4,867,489	\$1,238,209	125.44%	\$23,480,491	-5.27%
06/30/98	5,890,439	5,751,008	139,431	102.42%	22,440,114	-0.62%
06/30/00	5,209,217	4,278,279	930,938	121.76%	15,688,991	-5.93%

Schedule of Employer Contributions:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	54,760	100%	-
2004	54,760	100%	-
2005	54,760	100%	-

The information above has been taken from the actuarial valuation reports. The most recent report is for the fiscal year ended June 30, 2000 (7% discount rate) and included disclosure and recognition information under GASB No. 27.

NOTE H--CONTINGENCIES AND COMMITMENTS

In the normal course of its activities, the University is a party in various legal and administrative actions. Although some actions have been brought for large amounts, the University has not experienced significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, the University is of the opinion that the outcome thereof will not have a material effect on the financial statements.

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**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

**NOTE I--LIABILITY AND PROPERTY INSURANCE**

The University participates with other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC). This corporation's purpose is to provide insurance coverage for errors and omissions liability, comprehensive general liability, property loss, and automobile liability. The University has a retention amount from which it would pay losses related to errors and omissions, comprehensive general liability claims, and property claims. The second layer of coverage for losses exceeding the retention level is the responsibility of MUSIC. MUSIC has purchased excess insurance coverage for errors and omissions, comprehensive general liability, property claims, and automobile liability that exceed its level of responsibility. The payments made to MUSIC and premiums to excess carriers reflect the claims experience of each University.