

Central Michigan University

Financial Report

As of and for the Years Ended June 30, 2005 and 2004



Central Michigan University

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September 2005

To the People of the State of Michigan:

Central Michigan University's 2004-05 Financial Report is presented on behalf of the university's Board of Trustees. The report, audited by Andrews Hooper & Pavlik P.L.C., displays revenues and expenditures for the various programs maintained by the university. It also shows the net assets of the university.

Despite the challenges presented by a sluggish economy, CMU efficiently contributes to Michigan's economic development as one of Michigan's lowest revenue-per-student universities. Serving more than 28,000 students, CMU is the fourth largest university in the state and is the 52nd largest four-year public higher education institution in the United States. In addition, *Consumers Digest* ranked CMU 43rd on its most recent list of the nation's "Top 50 Best Values for Public Colleges and Universities."

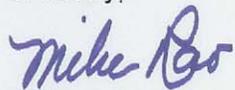
As a major university with more than 170 professionally-focused academic programs, CMU is committed to educating and graduating students who are prepared to make meaningful professional and personal contributions to society and the economy upon the completion of their educational experiences. Student learning continues to be the university's top priority. CMU's traditional strengths in undergraduate learning, teacher preparation, student engagement, and leadership development are complemented by discovery-based education centered on research; creative endeavors; leadership activities; and external involvement such as community service, internships, and study abroad programs.

The university's widely respected faculty continues to build upon its reputation for quality, personalized instruction. Our faculty colleagues are known for their excellent teaching and their dedication to student development through engagement in discovery-based learning. CMU's professors also engage in substantial research, scholarship, and creative work that has national and international significance and provides knowledge and discoveries to be shared in classrooms and laboratories.

CMU's commitment to excellence in undergraduate instruction increasingly attracts Michigan's brightest and best students. Each recent freshman class has carried a strong set of academic credentials. In 2004-2005, we enrolled a record 3,741-member freshman class with an average ACT score of 22 and an average cumulative GPA of 3.3.

CMU retains its quality and accessibility with the assistance and investment of Michigan's citizens and their elected officials. We value this support, and we remain committed to being good stewards of the taxpayer dollars awarded to us by the state. On behalf of the Central Michigan University community, thank you for your confidence in CMU — and all of Michigan's higher education institutions.

Sincerely,



Michael Rao
President



George Ross
Vice President and Chief Financial Officer

Financial Statements
Central Michigan University

June 30, 2005

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CENTRAL MICHIGAN UNIVERSITY

Management's Discussion and Analysis

This section of the Central Michigan University annual financial report presents a discussion and analysis of the financial performance of the university for the fiscal year ended June 30, 2005 with selected comparative information for the years ended June 30, 2004 and 2003. 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 discussion and analysis is designed to focus on current activities, resulting changes and current known facts. The financial statements, footnotes and this discussion are the responsibility of management.

Using the Annual Report

The university's financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*.

STATEMENTS OF NET ASSETS include 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 comparative statements present the financial position of the university at June 30, 2005 and 2004. Net assets, the difference between total assets and total liabilities, are one indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. Investments are stated at fair value and capital assets are stated at historical cost less an allowance for depreciation. A three year summarized comparison of the university's assets, liabilities and net assets (shown in millions) at June 30 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 95.2	\$ 95.0	\$ 80.5
Noncurrent assets			
Capital assets, net	318.3	317.0	317.2
Other	191.5	133.8	129.0
TOTAL ASSETS	<u>605.0</u>	<u>545.8</u>	<u>526.7</u>
Current liabilities	64.5	60.5	62.4
Noncurrent liabilities	168.0	140.0	146.0
TOTAL LIABILITIES	<u>232.5</u>	<u>200.5</u>	<u>208.4</u>
TOTAL NET ASSETS	<u>\$ 372.5</u>	<u>\$ 345.3</u>	<u>\$ 318.3</u>

CENTRAL MICHIGAN UNIVERSITY

CURRENT ASSETS consist of cash and cash equivalents, receivables net of the allowance for doubtful accounts, inventories and prepaid expenses. Current assets totaled \$95.2 million at June 30, 2005, \$95.0 million at June 30, 2004, and \$80.5 million at June 30, 2003.

Fiscal year 2005 compared to 2004

Cash and cash equivalents decreased \$5.1 million primarily due to the use of funds to complete the construction of new campus facilities. The balance of the decrease relates primarily to cash flows associated with the timing of cash payments at year end. Appropriations receivable related to charter schools increased \$3.6 million primarily due to an enrollment increase of approximately 10%.

Fiscal year 2004 compared to 2003

Cash and cash equivalents increased \$19.2 million primarily due to cash flows associated with operating revenue increases and decreases related to the construction of new campus facilities. State appropriations receivables decreased \$3.4 million due to reductions from the State of Michigan and a decrease in per student funding for charter schools.

NONCURRENT ASSETS include restricted cash and cash equivalents, endowment investments at fair value, loans receivable net of the allowance for doubtful accounts, long-term investments and capital assets. Noncurrent assets totaled \$509.8 million at June 30, 2005, \$450.8 million at June 30, 2004, and \$446.2 million at June 30, 2003.

Fiscal year 2005 compared to 2004

Restricted cash and cash equivalents increased \$28.0 million as a result of unspent bond proceeds of \$30.6 million from the January 2005 bond issue. The increase primarily reflects the funds available for the Woldt Residence Hall Complex addition and remodeling.

Endowment investments increased \$6.3 million. Market value within the investment portfolio accounted for \$4.1 million, while gifts to permanent endowments totaled \$2.2.

Fiscal year 2004 compared to 2003

Restricted cash and cash equivalents reflect unspent bond proceeds of \$2.6 million from the March 2002 bond issue. The decrease reflects expenditures on capital projects.

Endowment investments increased \$10.1 million and is primarily attributable to a favorable market fluctuation of \$6.7 million, \$1.9 million of new gifts and \$2.5 million of investment income.

Long-term investments increased \$2.7 million due to market appreciation, primarily in the equities component.

CENTRAL MICHIGAN UNIVERSITY

CURRENT LIABILITIES consist of accounts payable, deferred revenue, deposits and the current portion of the long-term obligations payable within the next fiscal year. Current liabilities totaled \$64.5 million at June 30, 2005, \$60.5 million at June 30, 2004, and \$62.4 million at June 30, 2003.

Fiscal year 2005 compared to 2004

The net increase in current liabilities is due primarily to \$3.6 million and \$3.3 million increases in accounts payable for charter schools and construction projects, respectively. A reduction of \$2.6 million in the current portion of long-term debt offset a portion of these increases.

Fiscal year 2004 compared to 2003

The net decrease in current liabilities of \$1.9 million is due primarily to the completion of construction projects including the Health Professions Building and new residence halls. This was offset somewhat by accrued payroll. Deferred revenue increased \$.3 million primarily due to tuition.

NONCURRENT LIABILITIES consist of long-term debt and other obligations for which the principal is due more than one year from the balance sheet date. Included are the Retirement Service Award program, the Federal portion of the Perkins Loan program for students, accrued compensated absences and bonded debt. Noncurrent liabilities totaled \$168.0 million at June 30, 2005, \$140.0 million at June 30, 2004, and \$146.0 at June 30, 2003. Refer to footnote F to the Financial Statements for the detail regarding the change in long term debt and other obligations. Refer to footnote G to the Financial Statements for the details regarding the Retirement Service Award program.

Fiscal year 2005 compared to 2004

This balance is comprised primarily of outstanding General Revenue Bonds of \$153.1 million and \$125.0 million in 2005 and 2004, respectively. The increase was primarily due to the issuance of \$31.8 million of General Revenue Bonds in January 2005 for new residence halls.

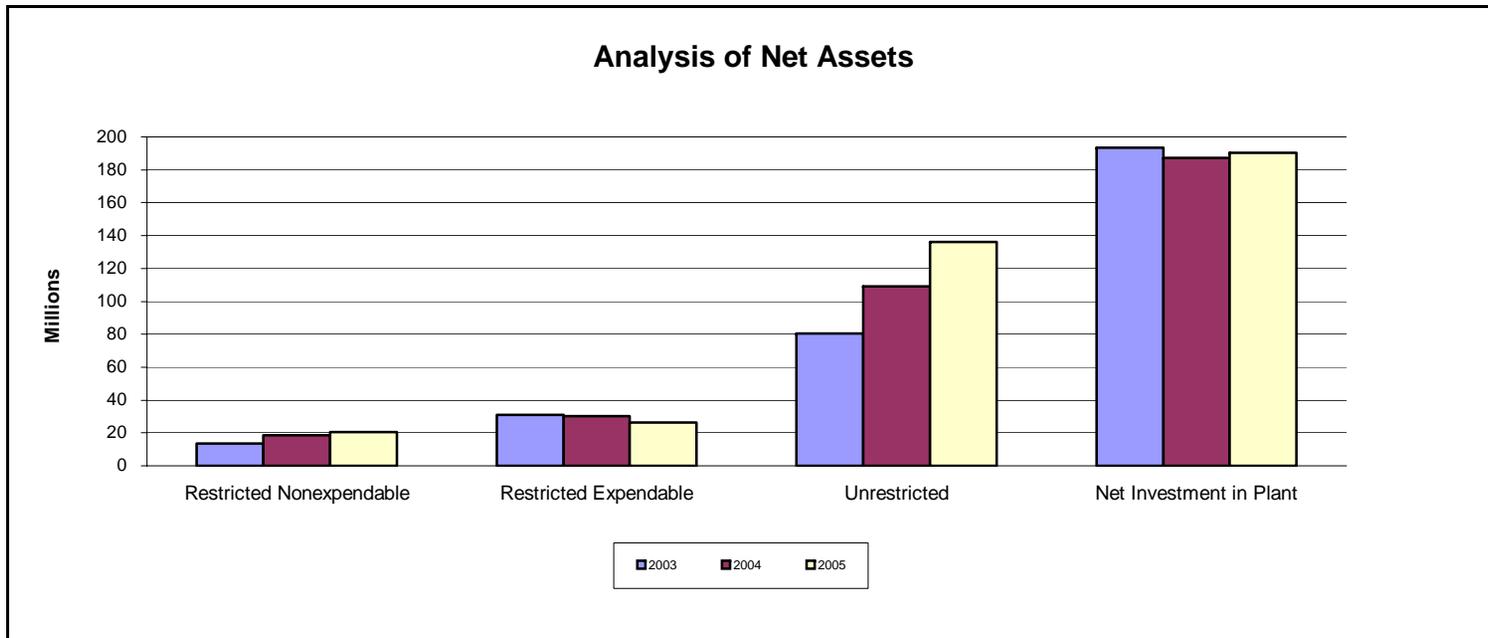
Fiscal year 2004 compared to 2003

The decrease in noncurrent liabilities is primarily the result of debt principal pay down.

NET ASSETS represent the difference between university assets and liabilities. Total net assets are \$372.5 million at June 30, 2005, \$345.3 million at June 30, 2004, and \$318.3 million at June 30, 2003. The university's net assets (shown in millions) at June 30 are summarized as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Restricted			
Nonexpendable	\$ 20.5	\$ 18.6	\$ 13.3
Expendable	26.2	30.3	30.6
Unrestricted	135.4	109.1	80.9
Invested in capital assets, net of related debt	190.4	187.3	193.5
TOTAL NET ASSETS	\$ 372.5	\$ 345.3	\$ 318.3

CENTRAL MICHIGAN UNIVERSITY



Analysis of Net Assets

Restricted nonexpendable net assets consist of endowment funds with specific restrictions on the expenditure of principle.

Restricted expendable net assets consist of income from endowment funds, gifts and pledges with restrictions, grants from third party agencies with expenditure restrictions and certain loan funds. Gifts to university departments are considered expended after all other funds have been depleted.

The following is a breakdown of the restricted net assets (shown in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Nonexpendable endowment funds	\$ 20.5	\$ 18.6	\$ 13.4
Expendable scholarship and research funds	16.7	16.7	16.8
Expendable loan funds	1.2	1.2	1.2
Expendable gifts including pledges	8.3	12.4	12.5
Total restricted net assets	\$ <u>46.7</u>	\$ <u>48.9</u>	\$ <u>43.9</u>

CENTRAL MICHIGAN UNIVERSITY

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the university such as donors or grant agencies. This includes funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received. Approximately \$57.0 million of the unrestricted net assets at June 30, 2005 and \$40.0 million at June 30, 2004 relate to capital projects, which are in various stages of planning and completion. Another \$10.0 million at June 30, 2005 and \$10.4 million at June 30, 2004 relate to debt stabilization and insurance reserves. Also included are contractual commitments and normal working capital balances maintained for departmental and auxiliary enterprise activities.

The following is a breakdown of the unrestricted net assets (shown in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Maintenance, debt stabilization and insurance reserves	\$ 20.5	\$ 16.3	\$ 11.2
Construction projects in process and reserves	36.3	18.3	11.1
Campus improvement and technology fees	4.8	8.5	6.3
Departmental special project reserves	5.5	7.2	5.0
Departmental and auxiliary enterprise working capital and contractual commitments	31.6	26.5	19.5
Quasi endowment funds	24.7	20.0	15.8
Academic support including research	12.0	12.3	12.0
Total unrestricted net assets	<u>\$ 135.4</u>	<u>\$ 109.1</u>	<u>\$ 80.9</u>

Fiscal year 2005 compared to 2004

The increase in construction projects in process and reserves relate primarily to planning for the Ronan Hall renovation, utility system upgrade, CART wet lab construction, and funding for other smaller departmental projects. The increase in quasi endowments was primarily due to a favorable market fluctuation in investment values.

Fiscal year 2004 compared to 2003

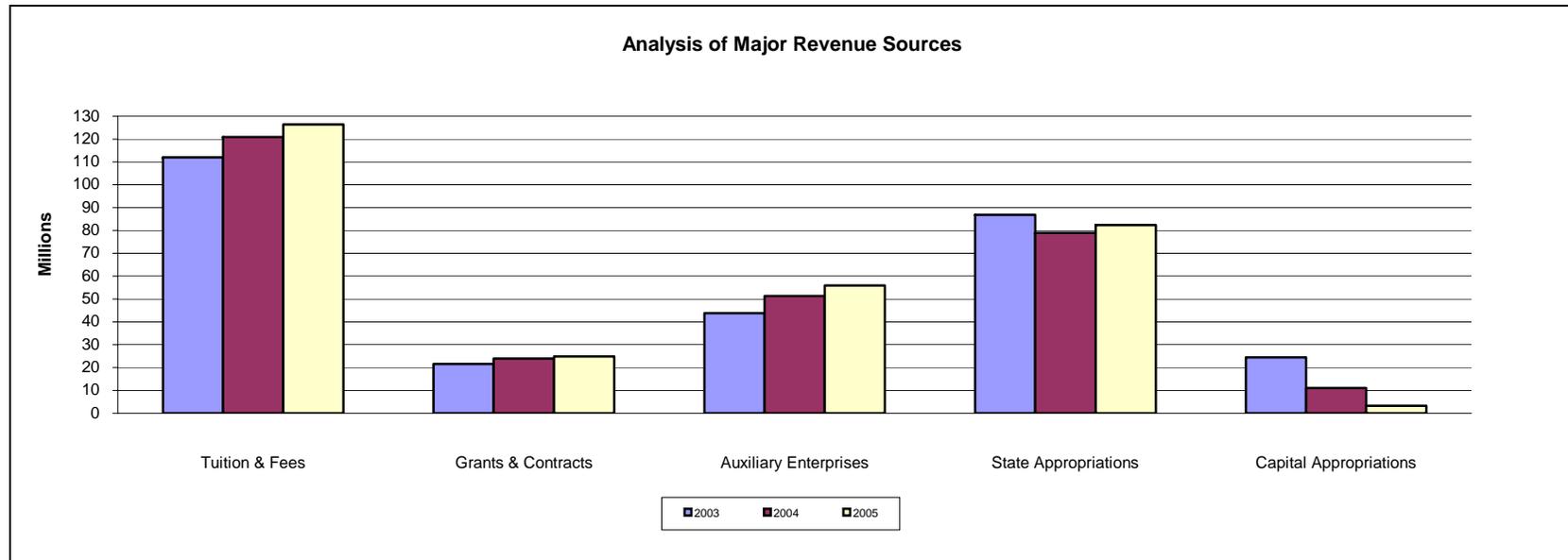
The increase in construction project funds relate to the fact that the major projects in the prior year were funded primarily from the State of Michigan funding and bond funds. The increase in quasi endowments was primarily due to a favorable market fluctuation in investment values.

CENTRAL MICHIGAN UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS present the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies state appropriations and gifts as nonoperating revenues. 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. A summarized comparison of the university's revenues, expenses and changes in net assets (shown in millions) for the years ended June 30 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
OPERATING REVENUES			
Tuition and fees, net	\$ 126.5	\$ 120.9	\$ 112.0
Grants and contracts	24.8	24.0	21.6
Auxiliary enterprises, net	55.9	51.3	43.9
Other operating revenues	<u>13.0</u>	<u>11.8</u>	<u>12.2</u>
TOTAL OPERATING REVENUES	220.2	208.0	189.7
OPERATING EXPENSES	<u>291.3</u>	<u>287.2</u>	<u>283.0</u>
OPERATING LOSS	(71.1)	(79.2)	(93.3)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	81.7	79.0	86.8
Other nonoperating income	18.0	17.9	12.8
Interest on debt	<u>(7.8)</u>	<u>(6.2)</u>	<u>(5.2)</u>
NET NONOPERATING REVENUES	91.9	90.7	94.4
INCOME BEFORE OTHER REVENUES	20.8	11.5	1.1
Capital appropriations	3.2	11.0	24.5
Capital grants and gifts	1.8	2.6	5.8
Additions to permanent endowments	<u>1.4</u>	<u>1.9</u>	<u>1.0</u>
TOTAL OTHER REVENUES	6.4	15.5	31.3
INCREASE IN NET ASSETS	27.2	27.0	32.4
NET ASSETS			
NET ASSETS AT BEGINNING OF YEAR	<u>345.3</u>	<u>318.3</u>	<u>285.9</u>
NET ASSETS AT END OF YEAR	\$ <u><u>372.5</u></u>	\$ <u><u>345.3</u></u>	\$ <u><u>318.3</u></u>

CENTRAL MICHIGAN UNIVERSITY



OPERATING REVENUES for the fiscal years ended June 30, 2005, 2004, and 2003 totaled \$220.2 million, \$208.0 million, and \$189.7 million respectively. Gross tuition and fees for fiscal years ended June 30, 2005, 2004, and 2003 were \$139.4 million, \$135.5 million and \$125.3 million respectively. Scholarship allowances for fiscal years ended June 30, 2005, 2004, and 2003 were \$12.9 million, \$14.6 million, and \$13.3 million respectively.

Fiscal year 2005 compared to 2004

Tuition and fees, before the scholarship allowance, increased by \$3.9 million. The increase was due to a 2.8% rate increase for tuition and mandatory fees and an increase in the number of credit hours taken.

Sales and services of educational activities are up \$1.1 million primarily due to \$.6 million increase in administrative fees for charter schools.

Auxiliary enterprise operating revenues increased \$4.6 million. Auxiliary enterprises include residence halls, apartments, food services, intercollegiate athletics, university bookstore, university press, parking services, energy facility and telecommunications. They are intended to be self supporting.

Residence Life revenue increased \$3.1 million. Athletics revenue decreased \$.1 million. University Center revenue increased \$1.3 million. Energy Facility revenue decreased \$.5 million. Telecommunications revenue decreased \$1.0 million. Parking Services revenue increased \$.1 million. Pooled investment income allocated to Residence Services decreased \$.4 million.

CENTRAL MICHIGAN UNIVERSITY

Fiscal year 2004 compared to 2003

Tuition and fees, before the scholarship allowance, increased by 8.1%. The increase was due to a 9.9% rate increase for tuition and mandatory fees and an increase in the number of credit hours taken.

Sales and services of educational activities were down \$.4 million primarily due to a decrease in Education Materials Center revenues.

Auxiliary enterprise operating revenues increased \$7.4 million. Residence Life revenue increased \$4.4 million. Athletics revenue decreased \$.1 million. University Center revenue increased \$1.4 million. Energy Facility revenue increased \$1.9 million. Telecommunications revenue increased \$1.6 million. Health Services revenue decreased \$.1 million. Parking Services revenue increased \$.8 million. Pooled investment income allocated to Residence Services increased \$.4 million.

Analysis of Grants and Contracts

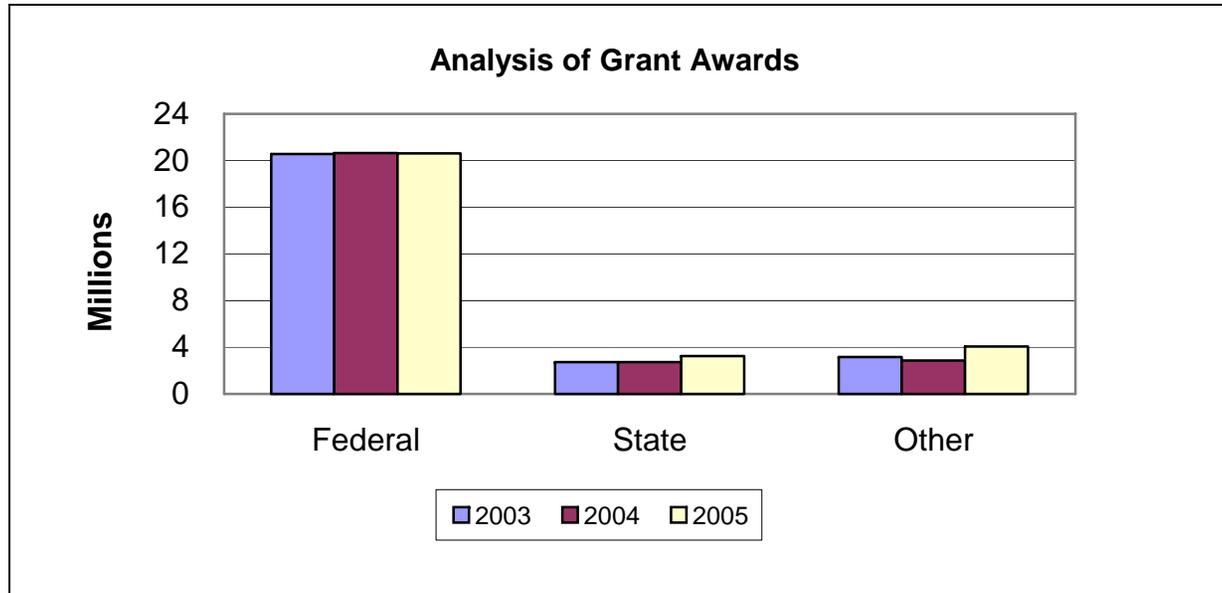
Grants and Contracts include all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received or when eligibility criteria have been met.

The following table details the university's grant and contract awards (shown in millions) for the fiscal years ended June 30:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal Award Sources			
Financial Aid	\$ 13.9	\$ 13.5	\$ 12.9
Department of Education	1.6	1.7	1.4
National Science Foundation	1.5	0.5	0.3
Department of Health & Human Services	0.7	0.4	0.7
Department of Commerce	0.5	0.4	1.8
Army Research Laboratory		2.5	3.0
Economic Development Administration	2.2		
Other Federal Agencies	0.2	1.6	0.5
Total Federal Sources	<u>20.6</u>	<u>20.6</u>	<u>20.6</u>
State Award Sources			
Financial Aid	0.4	0.5	0.6
Department of Education	0.9	0.9	0.7
Appropriations	0.2	0.2	0.7
Michigan Economic Development Corporation	0.8		0.3
Other State Agencies	0.9	1.1	0.4
Total State Sources	<u>3.2</u>	<u>2.7</u>	<u>2.7</u>
Other Sources	4.1	2.9	3.2
Total All Sources	<u>\$ 27.9</u>	<u>\$ 26.2</u>	<u>\$ 26.5</u>

CENTRAL MICHIGAN UNIVERSITY

The following is a graphic illustration of grant awards by source:



Fiscal year 2005 compared to 2004

The increase in state grant and contract awards of \$.5 million in 2005 is attributed to a new award from the Michigan Economic Development Corporation.

Awards from other nongovernmental sources increased \$1.2 million in 2005 due largely to a new grant from the Corporation for Public Broadcasting.

Fiscal year 2004 compared to 2003

There was no increase in federal grant revenues overall. Funding from various agencies fluctuated, as reflected in the table on page 8.

CENTRAL MICHIGAN UNIVERSITY

OPERATING EXPENSES include compensation and benefits, scholarships and fellowships, utilities, supplies and depreciation. Interest expense is classified as a nonoperating expense.

A comparative summary of the university's expenses for the years ended June 30 is as follows (shown in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating			
Compensation and benefits	\$ 179.4	\$ 176.5	\$ 172.1
Supplies and other	79.0	80.0	82.0
Depreciation	18.1	17.2	15.5
Scholarships and fellowships	14.8	13.5	13.4
Total Operating Expenses	<u>291.3</u>	<u>287.2</u>	<u>283.0</u>
Nonoperating			
Interest	7.8	6.2	5.2
Total Expenses	<u>\$ 299.1</u>	<u>\$ 293.4</u>	<u>\$ 288.2</u>

Fiscal year 2005 compared to 2004

Compensation and benefits increased \$2.9 million. Of this increase, compensation increased 1.0% as a result of annual increases reduced by retirements and position eliminations. The related employee benefits increased 3.4% reflecting the continued increase in health care costs.

Supplies and other decreased \$1.0 million primarily due to a reduction in non capitalized plant fund expenditures. During fiscal year 2004 \$4.7 million was expended for the Health Professions Building furnishings and other non capitalized expenses.

Fiscal year 2004 compared to 2003

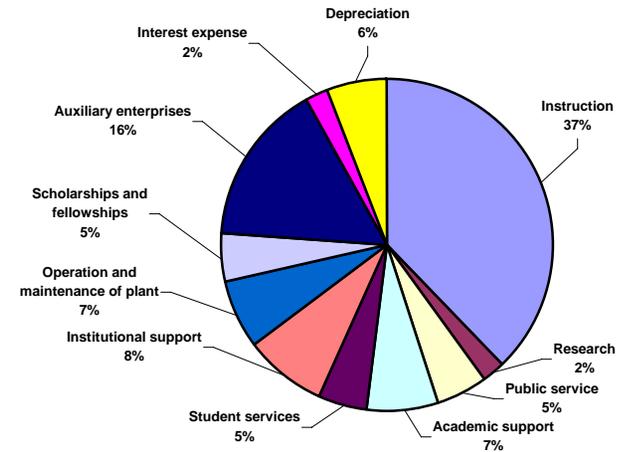
Compensation and benefit expenses increased \$4.4 million. Of this increase, compensation increased 1.3% as a result of annual increases, reduced by retirements and position eliminations. The related employee benefits increased 6.7% reflecting a rise in health care costs.

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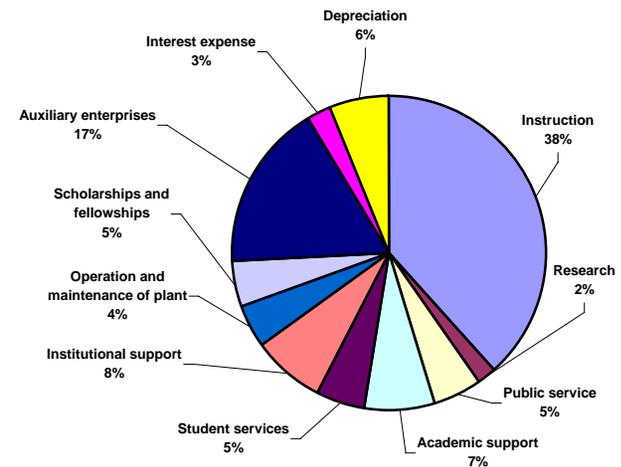
A comparative summary of the university's expenses by functional classification (shown in millions) for the years ended June 30 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Instruction	\$ 114.2	\$ 111.0	\$ 108.5
Research	6.2	6.0	3.2
Public service	14.5	14.9	16.1
Academic support	22.2	20.4	20.5
Student services	14.6	14.1	16.0
Institutional support	22.6	23.6	25.6
Scholarships and fellowships	14.9	13.8	14.1
Operation and maintenance of plant	12.7	19.2	19.9
Auxiliary enterprises	50.9	46.5	43.3
Student loan provision, cancellations	0.1	0.1	0.1
Depreciation	18.1	17.2	15.5
Other	0.3	0.4	0.1
Interest expense	<u>7.8</u>	<u>6.2</u>	<u>5.3</u>
Total expenses by function	<u>\$ 299.1</u>	<u>\$ 293.4</u>	<u>\$ 288.2</u>

FY 2004 EXPENSES BY FUNCTION



FY 2005 EXPENSES BY FUNCTION



CENTRAL MICHIGAN UNIVERSITY

NONOPERATING REVENUES (EXPENSES) consist of State appropriations, gifts and pledges net of allowances, investment income including realized gains and losses, and other nonoperating revenues less interest on debt financed capital assets.

Fiscal year 2005 compared to 2004

Nonoperating revenue increased \$1.2 million. State appropriations increased \$2.7 million primarily due to a 3% rebate resulting from the university's willingness to restrain its tuition increase less Executive Order No. 2005-7 reduction of \$.6 million. The nonoperating revenue increase was offset by an increase of \$1.6 million in interest on debt financed capital assets.

Fiscal year 2004 compared to 2003

State appropriations decreased \$7.8 million. The university received \$79.0 million for fiscal year 2003-2004: \$78.5 million for operations and \$.5 million for research.

Operating gifts and pledges decreased \$1.2 million. Gifts totaled \$5.2 million not including endowment gifts or pledges. The pledges totaled \$1.8 million at June 30, 2004 reflecting a \$.3 million decrease. Pledges are shown net of an allowance and certain pledges have been discounted to present value.

Realized gains and losses and interest and dividend income was \$4.7 million for the year ended June 30, 2004. Unrealized favorable market fluctuation in investment values resulted in an increase of \$8.4 million. These amounts are offset by bank and management fees in the amount of \$.4 million.

OTHER REVENUES consist of capital appropriations received from the State Building Authority of Michigan, capital grants and gifts including pledges and additions to permanent endowments. A gift received by the university where a donor has specified that only the investment earnings from that gift can be expended for the purpose designated by the donor is classified as a permanent endowment. The principal cannot be expended. Endowment gifts do not include pledges.

Fiscal year 2005 compared to 2004

Other revenue decreased \$9.1 million. The completion of the Health Professions Building resulted in a decrease in capital appropriations of \$7.8 million. Capital gifts, grants and pledges were down \$.8 million.

Fiscal year 2004 compared to 2003

Capital appropriations were down \$13.5 million due to the near completion of the Health Professions Building.

Capital gifts and grants were down \$3.2 million. The university received \$.4 million in grant funding for digital television. That amount was down \$1.2 million from the grants received for the year ended June 30, 2003, for digital television. Gifts in-kind decreased \$2.0 million.

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STATEMENTS OF CASH FLOWS present the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the university during the year. A comparative summary of the statements of cash flows (shown in millions) for the years ended June 30 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash received from operations	\$ 220.0	\$ 209.2	\$ 190.9
Cash expended for operations	(272.0)	(277.1)	(263.9)
Net cash used by operating activities	<u>(52.0)</u>	<u>(67.9)</u>	<u>(73.0)</u>
Net cash provided by noncapital financing activities	87.8	88.0	93.5
Net cash provided (used) by capital financing activities	4.2	(8.8)	(49.7)
Net cash provided (used) by investing activities	(17.1)	(0.1)	.5
Net increase (decrease) in cash and cash equivalents	<u>22.9</u>	<u>11.2</u>	<u>(28.7)</u>
Cash and cash equivalents, beginning of the year	<u>34.2</u>	<u>23.0</u>	<u>51.7</u>
Cash and cash equivalents, end of the year	<u>\$ 57.1</u>	<u>\$ 34.2</u>	<u>\$ 23.0</u>

Fiscal year 2005 compared to 2004

Cash received from operations are up \$10.8 million. The increase reflects an increase of \$3.2 million from tuition and fees, \$1.0 million from grants and contracts and \$5.8 million from auxiliary activities.

Cash expended for operations are down \$5.1 million. The decrease reflects a reduction in noncapital operating expenses related to the completion of construction projects in the prior year.

Net cash received for capital financing activities increased by \$13.0 million due to the issuance of debt.

Net cash used by investing activities changed \$17.0 million due to an increase in investment income and market fluctuations, which was reinvested.

Fiscal year 2004 compared to 2003

Cash received from operations were up \$18.3 million. The increase reflects an increase of \$10.5 million from tuition and fees, \$1.8 million from grants and contracts and \$6.1 million from auxiliary activities.

Cash expended for operations were up \$13.2 million. Noncapital operating expenses increased \$9.9 million. Compensation and benefits increased \$5.7 million. Charter Schools liability decreased \$1.7 million.

Net cash provided by noncapital financing activities were down \$5.5 million primarily due to a decrease of \$7.1 million in state appropriations and a \$1.6 million increase in gifts.

Net cash used by capital financing activities decreased \$40.9 million primarily due to 2003 construction costs related to capital assets.

Net cash provided (used) by investing activities changed \$.6 million due primarily to market fluctuations.

CENTRAL MICHIGAN UNIVERSITY

Enrollment

On-Campus: The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2000-01 through 2004-05 academic years. Also indicated are the full-time equivalent students and the total number of on-campus credit hours taken by the students attending the university.

Year Ending June 30	Fall Headcount Enrollment			Year Ending June 30	Annual Full-Time Equivalent-On Campus	
	Undergraduate	Graduate	Total		Annual Full-Time Equivalent	Annual Credit Hours Taken
2005	17,949	1,843	19,792	2005	18,492	541,598
2004	17,509	1,893	19,402	2004	18,268	535,844
2003	17,453	1,927	19,380	2003	18,208	533,998
2002	17,162	2,026	19,188	2002	17,926	525,052
2001	16,374	2,097	18,471	2001	17,264	504,552

Extended Learning Enrollment: The following table indicates the total historical number of credit hours taken by Extended Degree Program and Extended Credit Course students.

Year Ending June 30	Annual Extended Learning Enrollment	
	Number of Extended Degree Program Credit Hours	Number of Extended Credit Course Credit Hours
2005	122,241	3,035
2004	130,456	5,598
2003	130,433	5,092
2002	133,349	3,894
2001	131,636	6,770

CENTRAL MICHIGAN UNIVERSITY

Student Admissions

The table below shows the total number of new freshmen and transfer applications received, the number accepted, and the number who enrolled for the fall semester of fiscal years ending June 30, 2001 through 2005.

Fall Semester First Year Student Admissions

Year Ending June 30	Number of Applicants	Percent Accepted	Number Accepted	Percent Enrolled	Number Enrolled
2005	13,594	74.7%	10,160	39.0%	3,965
2004	13,489	70.4%	9,490	38.2%	3,623
2003	12,717	71.4%	9,076	39.1%	3,553
2002	12,100	77.9%	9,422	38.3%	3,607
2001	10,935	82.5%	9,019	39.2%	3,533

Fall Semester Transfer Student Admissions

Year Ending June 30	Number of Applicants	Percent Accepted	Number Accepted	Percent Enrolled	Number Enrolled
2005	2,055	72.0%	1,479	74.4%	1,101
2004	2,144	71.6%	1,536	69.7%	1,071
2003	2,086	70.9%	1,478	73.1%	1,080
2002	2,386	67.7%	1,615	66.7%	1,076
2001	1,989	78.7%	1,565	72.3%	1,132

CENTRAL MICHIGAN UNIVERSITY

Student Tuition Cost Per Credit Hour

The student tuition costs per credit hour for on-campus students, for the academic years indicated, are as follows:

<u>Student Classification</u>	<u>Student Cost Per Credit Hour</u>				
	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2000-01</u>
Undergraduate, resident	\$ 153.65	\$ 148.75	\$ 133.05	\$ 118.90	\$ 108.15
Undergraduate, nonresident	390.40	379.75	345.45	308.60	280.70
Graduate, resident	205.65	200.05	182.00	162.60	147.90
Graduate, nonresident	408.55	397.40	361.50	323.00	293.80
Doctoral, resident	222.40	216.35	196.80	175.80	159.90
Doctoral, nonresident	441.10	429.10	390.35	348.80	317.30

Students carrying seven credit hours or more were assessed the following annual fees in 2004-05: Enrollment fee \$160, Student Activity Center fee \$100, campus programming fee \$50, technology fee \$220, library fee \$150, campus improvement fee \$75, and student publication fee \$10. Annual full-time tuition is calculated using 30 credit hours for undergraduates and 24 credit hours for graduates.

<u>Student Classification</u>	<u>Annual Full-Time Tuition and Fees</u>				
	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2000-01</u>
Undergraduate, resident	\$ 5,375	\$ 5,228	\$ 4,747	\$ 4,247	\$ 3,775
Undergraduate, nonresident	12,477	12,158	11,119	9,938	8,951
Graduate, resident	5,701	5,566	5,123	4,582	4,080
Graduate, nonresident	10,570	10,303	9,431	8,432	7,581

CENTRAL MICHIGAN UNIVERSITY

Room and Board and Estimated Total Cost

The annual cost of room and board and the estimated total cost of two semesters for a resident undergraduate student for the academic years indicated are set forth below.

Annual Room and Board and Estimated Total Costs

<u>Year Ending June 30</u>	<u>Room and Board</u>	<u>Estimated Tuition, Fees, Books and Miscellaneous</u>	<u>Estimated Total Costs</u>
2005	\$ 5,924	\$ 7,708	\$ 13,632
2004	5,524	7,237	12,761
2003	5,220	6,607	11,827
2002	4,828	6,232	11,060
2001	4,620	5,995	10,615

Extended Learning

The student fees for the University's Extended Credit Courses and Extended Degree Programs for the academic years are set forth below.

Extended Learning Student Tuition Per Credit Hour

<u>Student Classification</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2000-01</u>
Educational Degree Program-Undergraduate	\$ 230	\$ 215	\$ 205	\$ 189	\$ 173
Educational Degree Program-Graduate	300	280	266	245	231
Educational Certification Courses-Undergraduate	230	215	205	189	173
Educational Certification Courses-Graduate	300	280	266	245	215

CENTRAL MICHIGAN UNIVERSITY

Bonds Payable

At June 30, 2005, the university had outstanding general revenue bonds totaling \$157.2 million. This represents 68% of the university's total liabilities.

State Building Authority

The university has lease agreements with the State Building Authority (SBA) and the State of Michigan for the Park Library, Music Building, Dow Science II Building and the Health Professions Building. See Note D to the Financial Statements.

Operating and Capital Budget

The university Board of Trustees approved the Operating and Capital Budgets for fiscal year 2005-2006 totaling \$330.5 million and \$49.3 million respectively. The general fund expense budget increased from \$226.2 million to \$243.5 million.

The \$243.5 million balanced budget assumes appropriations for CMU remains the same as 2004-05 and reflect increased costs for employee salaries, health care insurance, and other necessary costs.

The approved capital budget for fiscal year 2005-2006 is \$23.3 million. The sources of funds available for capital needs are bond funds, parking service revenues, auxiliary service revenues and general operating revenue. During fiscal year 2005, the university expended approximately \$9.2 million on plant related projects. Another \$11.0 million of State Building Authority revenues were expended primarily on the Health Professions Building. Bond funds expended on construction projects during fiscal year 2005 were \$7.8 million.

The university's four-year capital budget includes both new projects as well as major projects in process from 2005 through 2009. The budget covers the Woldt East complex residence hall addition and remodeling and other projects totaling \$49.3 million.

In 1997, the university conducted a detailed audit of each building for deferred maintenance needs. The audit was updated in 2001. Beginning in 1998-99, significant funding has been dedicated to addressing those needs. A fifteen-year plan was approved. Funding will be from a variety of available sources, including the capital budget, general revenues and auxiliary revenues.

Factors Impacting Future Periods

The level of State support, compensation and benefit increases, and student tuition and fee increases, impact the university's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. State appropriation cuts to the university have reached slightly over \$10 million over the past two and one half years. State appropriation contributes approximately thirty three percent of general operations revenue not including grant, contract and auxiliary revenues.

Central Michigan University is introducing a straight forward guaranteed tuition plan called The CMU Promise. This plan provides financial certainty, the assurance of a quality CMU education, and an incentive for a timely graduation.

CENTRAL MICHIGAN UNIVERSITY

This innovative guaranteed tuition program begins in the fall 2005 semester with fixed annual tuition rates for all in-state and out-state undergraduate students. The per-credit hour rates for incoming freshman are guaranteed not to increase for four years, with a one-year grace period. All formerly mandated fees are rolled into these tuition rates. Room and board rates for residence halls will not increase for two years.

The university completes an annual review of the priority needs and requirements for deferred maintenance, technology, renovations and new construction projects. This comprehensive review allows for systematic prioritization on an institutional basis. Priorities are established based on anticipated future funding with maintenance related projects having priority over new initiatives.

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities. The impact of this statement on Central Michigan University will be to record a liability for the retiree health benefits for those employees covered under the Michigan Public Schools Employees Retirement System (MPERS). While the amount of the liability is not known at this time, it is anticipated to be material.

Various committees and individuals continually assess the university's performance toward identified goals, use of energy resources and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future financial challenges.



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

Report of Independent Auditors

Board of Trustees
Central Michigan University
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of Central Michigan University, a component unit of the State of Michigan, as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Michigan University as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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.

The Management's Discussion and Analysis (MD&A) on pages 1 to 19 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 22, 2005

**CENTRAL MICHIGAN UNIVERSITY
STATEMENTS OF NET ASSETS**

	YEAR ENDED JUNE 30	
	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note B)	\$ 26,463,277	\$ 31,593,534
Accounts receivable, net (Note C)	17,488,112	15,860,689
State appropriations receivable, operations (Note C)	13,897,752	13,806,488
State appropriations receivable, charter schools (Note C)	32,558,269	28,983,470
Inventories	3,407,794	3,321,495
Other assets	1,322,153	1,411,063
TOTAL CURRENT ASSETS	<u>95,137,357</u>	<u>94,976,739</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents (Note B)	30,657,063	2,612,273
Endowment investments (Note B)	59,297,272	52,977,222
Loans receivable, net (Note C)	7,275,136	7,252,309
Other long-term investments (Note B)	94,294,910	70,995,611
Capital assets, net (Note D)	318,299,999	316,992,960
TOTAL NONCURRENT ASSETS	<u>509,824,380</u>	<u>450,830,375</u>
TOTAL ASSETS	<u>604,961,737</u>	<u>545,807,114</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities (Note E)	50,550,658	44,066,440
Deferred revenue	9,389,345	9,368,068
Deposits	472,865	446,827
Current portion of debt obligations (Note F)	4,055,000	6,610,000
TOTAL CURRENT LIABILITIES	<u>64,467,868</u>	<u>60,491,335</u>
NONCURRENT LIABILITIES:		
Long-term debt and other obligations (Note F)	168,027,645	140,043,235
TOTAL NONCURRENT LIABILITIES	<u>168,027,645</u>	<u>140,043,235</u>
TOTAL LIABILITIES	<u>232,495,513</u>	<u>200,534,570</u>
NET ASSETS:		
Invested in capital assets, net of related debt	190,363,125	187,253,072
Restricted for:		
Nonexpendable		
Scholarships, fellowships and research	20,467,287	18,646,635
Expendable		
Scholarships, fellowships and research	16,734,693	16,657,132
Instructional department uses	4,608,744	6,378,391
Loans	1,222,278	1,245,996
Capital projects and debt service	3,698,067	5,976,879
Unrestricted	135,372,030	109,114,439
TOTAL NET ASSETS	<u>\$ 372,466,224</u>	<u>\$ 345,272,544</u>

See notes to financial statements.

CENTRAL MICHIGAN UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	YEAR ENDED JUNE 30	
	2005	2004
REVENUES		
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances of \$12,916,390 in 2005 and \$14,633,488 in 2004)	\$ 126,484,792	\$ 120,886,193
Federal grants and contracts	19,606,261	19,095,960
State and local grants and contracts	2,224,573	2,342,362
Nongovernmental grants and contracts	3,000,560	2,571,107
Sales and services of educational activities	12,959,774	11,843,433
Auxiliary enterprises (net of room & board allowances of \$3,289,871 in 2005 and \$3,454,878 in 2004)	55,944,088	51,255,491
TOTAL OPERATING REVENUES	<u>220,220,048</u>	<u>207,994,546</u>
EXPENSES		
OPERATING EXPENSES:		
Compensation:		
Faculty	67,240,299	66,190,581
Staff	58,636,737	58,398,388
Benefits	43,290,252	41,849,256
Student	10,197,065	10,103,848
Scholarships and fellowships	14,773,144	13,450,290
Utilities	6,662,552	6,576,579
Supplies and other	72,339,580	73,447,484
Depreciation	18,131,861	17,233,532
TOTAL OPERATING EXPENSES	<u>291,271,490</u>	<u>287,249,958</u>
OPERATING LOSS	(71,051,442)	(79,255,412)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	81,725,700	78,979,908
Gifts and pledges net of allowance	5,183,616	4,924,005
Investment income (net of investment expense)	12,531,839	12,719,430
Interest on capital assets related debt	(7,767,021)	(6,167,993)
Other nonoperating revenues	193,862	214,978
NET NONOPERATING REVENUES	<u>91,867,996</u>	<u>90,670,328</u>
INCOME BEFORE OTHER REVENUES	20,816,554	11,414,916
Capital appropriations	3,225,756	11,032,987
Capital grants and gifts	1,766,979	2,623,391
Additions to permanent endowments	1,384,391	1,893,746
TOTAL OTHER REVENUES	<u>6,377,126</u>	<u>15,550,124</u>
INCREASE IN NET ASSETS	27,193,680	26,965,040
NET ASSETS		
NET ASSETS AT BEGINNING OF YEAR	<u>345,272,544</u>	<u>318,307,504</u>
NET ASSETS AT END OF YEAR	<u>\$ 372,466,224</u>	<u>\$ 345,272,544</u>

See notes to financial statements.

**CENTRAL MICHIGAN UNIVERSITY
STATEMENTS OF CASH FLOWS-DIRECT METHOD**

	YEAR ENDED JUNE 30	
	<u>2005</u>	<u>2004</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 126,519,095	\$ 123,356,457
Grants and contracts	24,302,554	23,266,904
Payments to suppliers	(65,043,075)	(80,834,748)
Payments for utilities	(6,662,552)	(6,576,579)
Payments to employees	(137,164,985)	(134,658,380)
Payments for benefits	(43,377,102)	(41,122,830)
Payments for scholarships and fellowships	(14,773,144)	(13,450,290)
Loans issued to students	(420,950)	(439,877)
Collection of loans to students	160,476	355,350
Auxiliary activities	55,970,906	50,152,217
Sales and services of educational activities	13,012,930	11,836,796
Other receipts (payments)	<u>(4,585,818)</u>	<u>255,440</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(52,061,665)</u>	<u>(67,859,540)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	81,634,436	80,637,675
William D. Ford direct lending receipts	93,760,867	85,716,694
William D. Ford direct lending disbursements	(93,754,670)	(85,720,881)
PLUS loan receipts	8,424,170	7,398,362
PLUS loan disbursements	(8,428,357)	(7,394,175)
Other nonoperating revenue	191,852	214,978
Gifts for other than capital purposes	4,635,866	5,237,230
Gifts for endowment purposes	<u>1,384,391</u>	<u>1,893,746</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>87,848,555</u>	<u>87,983,629</u>
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	32,170,702	326,397
Capital appropriations	2,176,840	13,377,663
Capital grants and gifts received	3,298,029	3,034,591
Reductions of capital assets	663,060	13,882,498
Purchases of capital assets	(20,101,960)	(30,924,181)
Principal paid on capital debt and leases	(6,610,000)	(2,392,500)
Interest paid on capital debt and leases	(7,767,021)	(6,167,993)
Bond premium amortization	<u>385,503</u>	<u></u>
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>4,215,153</u>	<u>(8,863,525)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	235,942,765	177,072,223
Income on investments, net	12,531,839	12,719,430
Purchase of investments	<u>(265,562,114)</u>	<u>(189,889,935)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(17,087,510)</u>	<u>(98,282)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,914,533	11,162,282
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	<u>34,205,807</u>	<u>23,043,525</u>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 57,120,340</u>	<u>\$ 34,205,807</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (71,051,442)	\$ (79,255,412)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	18,131,861	17,233,532
Change in assets and liabilities:		
Receivables, net	(5,136,606)	580,982
Inventories	(86,299)	(481,441)
Other assets	88,910	(144,797)
Accounts payable, accrued liabilities and deposits	6,510,256	(5,842,394)
Deferred revenue	21,277	343,704
Retirement service award program	(296,796)	(261,872)
Compensated absences	17,648	52,684
Loans to students and employees	<u>(260,474)</u>	<u>(84,526)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (52,061,665)</u>	<u>\$ (67,859,540)</u>

See notes to financial statements.

CENTRAL MICHIGAN UNIVERSITY

NOTES TO 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. 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).

The university follows the "business-type" activities requirements of GASB Statement No. 34. This Statement requires the following components of the university's financial statements:

- Management's Discussion and Analysis
- Basic financial statements including a Statement of Net Assets, Statement of Revenues, Expenditures and Changes in Net Assets and Statement of Cash Flows for the university as a whole
- Notes to the financial statements

This Statement also requires the university to report revenues net of discounts and allowances. Gift and grant revenues are recognized at the later of the date pledged or when the eligibility requirement of the gifts and grants are met. In addition, direct lending is not reported as federal revenue and scholarship expenditures but is instead treated as an agency transaction.

Reporting Entity: Central Michigan University is an institution of higher education and is considered to be a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Trustees. 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, appropriations for Charter Schools, grants from various State agencies, State Building Authority (SBA) revenues and payments to the State retirement program for university employees.

Not reported in the financial statements are two affiliated organizations discussed further in Note L.

Basis of Accounting: The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting with the exception that certain investment income and interest on Federal Perkins student loans is recorded only when received.

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.

CENTRAL MICHIGAN UNIVERSITY

NOTE A--SIGNIFICANT ACCOUNTING POLICIES—continued

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 discretion of the department within the guidelines of donor restrictions.

Investments: Cash and cash equivalents and marketable securities are stated at fair value.

Physical Properties: Institutional physical properties are stated at cost when purchased and at appraised value for other acquisitions. Building additions and improvements with a cost in excess of \$10,000 are capitalized if the life of the building is extended. Equipment with a cost in excess of \$5,000 with a useful life greater than 1 year is capitalized.

Depreciation is provided for physical properties on a straight-line basis over the estimated useful life of the property as follows:

<u>Classification</u>	<u>Life</u>
Buildings	40 years
Infrastructure	20 years
Land Improvements	8 years
Equipment	8 years
Library Books	8 years
Vehicles	4 years

Inventories: Inventories are primarily stated at actual cost, using the first in first out method.

Revenue Recognition: Revenues are recognized when earned and expenditures are recognized when the service is provided. Restricted grant revenue is recognized only to the extent expended.

NOTE B--CASH AND CASH EQUIVALENTS, ENDOWMENTS AND OTHER LONG-TERM 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.

NOTE B--CASH AND CASH EQUIVALENTS, ENDOWMENTS AND OTHER LONG-TERM INVESTMENTS—continued

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	<u>8.9 %</u>
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

NOTE B--CASH AND CASH EQUIVALENTS, ENDOWMENTS AND OTHER LONG-TERM INVESTMENTS—continued

Investment Type	Rating	Fair Market Value	Investment Maturities (in Years)			
			Less Than 1	1 - 5	6 - 10	More Than 10
Deposits:						
Time deposits	N/A	\$ 2,000,080	\$ 2,000,080			
Investments:						
Commercial paper	Moody's P-1	6,677,140	6,677,140			
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 funds	Moody's Aaa	65,285,579	65,285,579			
Other investments	Moody's Aaa	412,061				412,061
		<u>143,675,126</u>	<u>\$ 113,717,764</u>	<u>\$ 12,628,894</u>	<u>\$ 4,733,865</u>	<u>\$ 12,594,603</u>
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 Statements of Net Assets		<u>(5,279,573)</u>				
Total Investments		<u>\$ 210,712,522</u>				
As Reported on the Statement of Net Assets						
Current investments		\$ 26,463,277				
Noncurrent restricted investments		30,657,063				
Noncurrent investments		<u>153,592,182</u>				
Total Investments		<u>\$ 210,712,522</u>				

CENTRAL MICHIGAN UNIVERSITY

NOTE B--CASH AND CASH EQUIVALENTS AND OTHER LONG-TERM INVESTMENTS—continued

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.

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.

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.

CENTRAL MICHIGAN UNIVERSITY

NOTE C--ACCOUNTS RECEIVABLE AND LOANS RECEIVABLE

Accounts receivable relate to several transactions including State appropriations, student tuition and fee billings and auxiliary enterprise sales, such as food service, bookstore and residence halls. In addition, receivables arise from grant awards, financial aid, and SBA revenues. The receivables are shown net of allowance for doubtful accounts.

	June 30	
	2005	2004
Tuition and fees	\$ 1,914,355	\$ 2,201,897
Auxiliary enterprises	1,621,754	1,515,021
Contracts and grants	4,152,890	3,580,659
Sales and services	147,732	103,314
Pledges	5,395,104	6,378,404
State Building Authority	1,251,206	202,290
Agency activities	3,005,071	1,879,104
Total	<u>17,488,112</u>	<u>15,860,689</u>
State appropriations-operations	13,897,752	13,806,488
State appropriations-charter schools	32,558,269	28,983,470
Loans receivable	7,275,136	7,252,309
Total Accounts Receivable	<u>\$ 71,219,269</u>	<u>\$ 65,902,956</u>

Accounts receivable and student loans are recorded net of allowance for uncollectible accounts of \$1,177,154 and \$186,000 at June 30, 2005 and \$909,688 and \$186,000 at June 30, 2004 respectively.

Based on Senate Bill 905, PA 273 of 1998, State appropriations are recorded principally on the accrual basis, when earned. As a result, the university recorded State appropriations receivable of \$13,897,752 at June 30, 2005 and \$13,806,488 at June 30, 2004. Charter schools appropriations receivable was recorded for \$32,558,269 at June 30, 2005 and \$28,983,470 at June 30, 2004.

During the fiscal year the university received \$191,939,000 (\$171,232,000 in fiscal year 2004) of State appropriations, which were forwarded to fifty-seven charter schools.

CENTRAL MICHIGAN UNIVERSITY

NOTE D--CAPITAL ASSETS

	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005
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	<u>11,878,354</u>	<u>4,123,259</u>	<u>2,087,376</u>	<u>13,914,237</u>
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	<u>79,508</u>	<u>7,780</u>		<u>87,288</u>
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>

Construction in progress primarily consists of the construction cost for the Woldt east complex residence hall addition of \$4.4 million and other projects including maintenance and remodeling approximating \$9.5 million.

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Music Building, Dow Science II Building and the Health Professions Building. The projects were financed with SBA Revenue Bonds and State appropriations. The buildings are recorded as assets of the university.

The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to the lease agreement between the SBA, the State of Michigan, and the university. During the lease term, the SBA will hold title to the facilities; the State of Michigan will make all annual lease payments to the SBA from operating appropriations; and the university will pay all operating and maintenance costs of the facilities. At the expiration of the leases, the SBA has agreed to sell each facility to the university for the sum of one dollar.

Funds needed to complete construction projects are reflected internally in unexpended plant funds or will be provided by future State appropriations, gifts, grants, SBA monies or bond funds. Funds required to complete the projects in process approximate \$46,500,000 as of June 30, 2005 (\$17,100,000 as of June 30, 2004).

CENTRAL MICHIGAN UNIVERSITY

NOTE E--ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due at June 30, for goods and services received prior to the end of the fiscal year.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Salaries and wages	\$ 5,541,737	\$ 6,632,621
Benefits	766,952	871,450
Supplies	11,683,700	7,578,899
Charter Schools	32,558,269	28,983,470
Total	<u>\$ 50,550,658</u>	<u>\$ 44,066,440</u>

NOTE F--LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Fiscal Year Maturity	July 1, 2004	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			<u>\$ 146,653,235</u>	<u>\$ 33,042,959</u>	<u>\$ 7,613,549</u>	<u>\$ 172,082,645</u>	<u>\$ 4,055,000</u>

NOTE F--LONG-TERM DEBT AND OTHER OBLIGATIONS—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 thru 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.

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NOTE F--LONG-TERM DEBT AND OTHER OBLIGATIONS—continued

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.

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>

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NOTE F--LONG-TERM DEBT AND OTHER OBLIGATIONS—continued

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:

	Principal	Interest	Interest Rate Swaps, Net	Total
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
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	<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.

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 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.

CENTRAL MICHIGAN UNIVERSITY

NOTE G--RETIREMENT PLANS—continued

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.

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

	TIAA-CREF and Fidelity	MPERS	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 MPERS 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.

CENTRAL MICHIGAN UNIVERSITY

NOTE G--RETIREMENT PLANS—continued

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.

NOTE I--PLEDGES

The university receives pledges of financial support from corporations, foundations and individuals. The change in pledges has been recorded as gifts and certain pledges are recorded at present value using a discount rate of 3%. The present value of pledges outstanding is approximately \$5,395,000 at June 30, 2005 and \$6,378,000 at June 30, 2004.

NOTE J--LEASE COMMITMENTS

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:

2006	\$	2,487,004
2007		1,999,376
2008		1,485,360
2009		1,216,814
2010		762,836
2011-2023		<u>2,710,466</u>
Total	\$	<u>10,661,856</u>

NOTE K--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.

NOTE L--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.

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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.