

Central Michigan University

OMB Circular A-133  
Reporting Package

*Year ended June 30, 2006*

Central Michigan University

OMB Circular A-133  
Reporting Package

Year ended June 30, 2006

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Audited Financial Statements and Other Financial Information

Central Michigan University

*Year ended June 30, 2006  
with Report of Independent Auditors*

Central Michigan University

Audited Financial Statements and Other Financial Information

June 30, 2006

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On the cover: Health Professions Building

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August 2006



To the Residents of the State of Michigan:

For 114 years, Central Michigan University has embraced its responsibility as an institution of higher education to equip and inspire future generations to improve human life. The university maintains many programs to preserve and renew its focus on student-centered learning. Presented on behalf of the Board of Trustees, this report displays revenues and expenditures for these programs, as well as the university's net assets. The 2005-06 report was audited by Andrews Hooper & Pavlik P.L.C.

CMU continues to raise the academic bar as one of Michigan's top universities. Serving more than 28,000 students, CMU has the fourth largest enrollment in the state and is the 58th-largest four-year public higher education institution in the United States. Last year, CMU received a record 16,500 applications for undergraduate enrollment. CMU boasts the fourth highest graduation rate of Michigan's public universities, and 80 percent of students stay in Michigan after graduation, contributing to the economic development of the state.

CMU students are successful because they are engaged learners working with professors and staff who care about their development. Our more than 200 rigorous academic programs are accompanied by a variety of activities and organizations. The CMU volunteer center, study abroad programs, undergraduate and graduate research, internships, Leadership Institute, and NCAA Division I athletics complement students' experiences in the classroom. CMU's professors engage students in discovery-based learning as well as substantial research, scholarship, and creative work with national and international significance.

The university plays an important role in building Michigan's economy by contributing to the state's economic development as one of its lowest revenue-per-student universities; generating well over \$837 million in spending and income last year; directly and indirectly creating more than 12,000 jobs statewide; graduating a high number of students in in-demand fields such as business, technology, and health professions; and enhancing intellectual and economic momentum across the state.

CMU is one of the best higher education values in the state. The CMU Promise, Michigan's first and only guaranteed tuition plan, freezes incoming students' tuition rate for up to five years and eliminates additional fees. The program encourages retention and timely graduation while helping Michigan families plan financially for the future.

Your support allows higher education to become more accessible to Michigan's youth, giving them a greater chance for success. On behalf of the Central Michigan University community, thank you for your confidence in CMU — and all of Michigan's higher education institutions.

Sincerely,

A handwritten signature in blue ink that reads "Michael Rao".

Michael Rao  
President

A handwritten signature in blue ink that reads "George E. Ross".

George Ross  
Vice President and Chief Financial Officer

Mount Pleasant, Michigan 48859

# 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, 2006 with selected comparative information for the years ended June 30, 2005 and 2004. 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. Net assets, the difference between total assets and total liabilities, is 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>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 78.5	\$ 95.2	\$ 95.0
Noncurrent assets			
Capital assets, net	339.2	318.3	317.0
Other	<u>242.7</u>	<u>191.5</u>	<u>133.8</u>
<b>TOTAL ASSETS</b>	660.4	605.0	545.8
Current liabilities	66.8	64.5	60.5
Noncurrent liabilities	<u>192.7</u>	<u>168.0</u>	<u>140.0</u>
<b>TOTAL LIABILITIES</b>	<u>259.5</u>	<u>232.5</u>	<u>200.5</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 400.9</u>	<u>\$ 372.5</u>	<u>\$ 345.3</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 \$78.5 million at June 30, 2006, \$95.2 million at June 30, 2005, and \$95.0 million at June 30, 2004.

## Fiscal year 2006 compared to 2005

Cash and cash equivalents decreased \$18.4 million as the pool cash investment manager moved funds into government agency securities and out of cash equivalents. Appropriations receivable related to charter schools increased \$1.5 million primarily due to an enrollment increase of approximately 2% combined with an increase of \$175 in the per pupil foundation grant.

## 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%.

**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 \$581.9 million at June 30, 2006, \$509.8 million at June 30, 2005, and \$450.8 million at June 30, 2004.

## Fiscal year 2006 compared to 2005

Restricted cash and cash equivalents increased \$6.5 million as a result of unexpended bond proceeds remaining from the January 2005 and the new January 2006 bond issues exceeding amounts spent on capital projects. Bond proceeds from the new issue were \$28.9 million and investment earnings were \$.9 million. Bond proceeds expended on capital projects totaled \$23.5 million.

Endowment investments increased \$9.1 million. Change in market value within the investments portfolio accounted for \$3.0 million, investment income less distributions accounted for \$3.4 million and gifts received for permanent endowments totaled \$1.9 million.

Long term investments increased \$34.5 million due to a change in investment strategy. Government obligations increased \$30.1 million and equities increased \$4.0 million.

Capital assets increased \$20.9 million primarily due to \$23.7 million more in projects under construction, \$14.7 million more in other assets including equipment and library materials, less \$18.5 million in depreciation.

## 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 received for permanent endowments totaled \$2.2 million.



# 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 \$66.8 million at June 30, 2006, \$64.5 million at June 30, 2005, and \$60.5 million at June 30, 2004.

## Fiscal year 2006 compared to 2005

The net increase in current liabilities is due primarily to \$1.0 million increase in deferred revenue related to tuition increases from the CMU Promise guaranteed tuition plan and an increase in graduate tuition.

## 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.

**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 \$192.7 million at June 30, 2006, \$168.0 million at June 30, 2005, and \$140.0 at June 30, 2004. 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 2006 compared to 2005

This balance is comprised primarily of outstanding General Revenue Bonds of \$177.5 million and \$153.1 million in 2006 and 2005, respectively. The increase was primarily due to the issuance of \$28.9 million of General Revenue Bonds in January 2006 for the new Education Building, Satellite Energy Facility and the Beaver Island Research Station less debt principal pay downs.

## 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.

**NET ASSETS** represent the difference between university assets and liabilities. Total net assets are \$400.9 million at June 30, 2006, \$372.5 million at June 30, 2005, and \$345.3 million at June 30, 2004. The university's net assets (shown in millions) at June 30 are summarized as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Restricted			
Nonexpendable	\$ 22.4	\$ 20.5	\$ 18.6
Expendable	30.5	26.2	30.3
Unrestricted	155.7	135.4	109.1
Invested in capital assets, net of related debt	192.3	190.4	187.3
<b>TOTAL NET ASSETS</b>	<b>\$ 400.9</b>	<b>\$ 372.5</b>	<b>\$ 345.3</b>

# CENTRAL MICHIGAN UNIVERSITY

## Analysis of Net Assets

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

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):

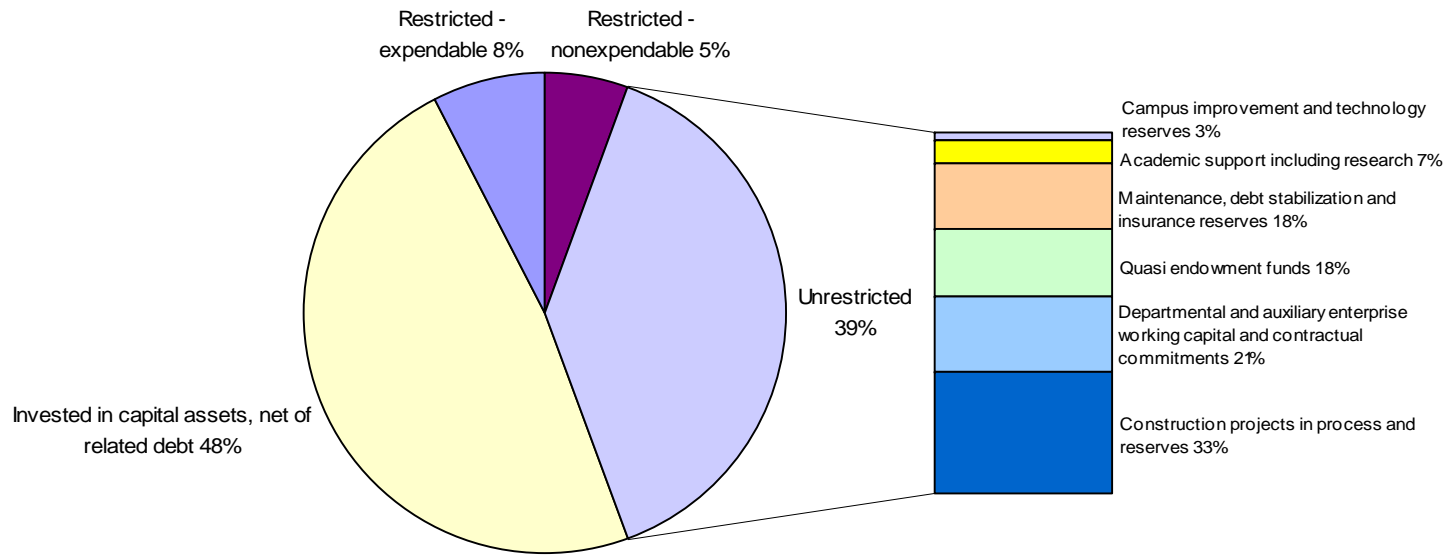
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Nonexpendable endowment funds	\$ 22.3	\$ 20.5	\$ 18.6
Expendable scholarship and research funds	20.9	16.7	16.7
Expendable loan funds	1.4	1.2	1.2
Expendable gifts including pledges	8.3	8.3	12.4
<b>Total restricted net assets</b>	<b>\$ 52.9</b>	<b>\$ 46.7</b>	<b>\$ 48.9</b>

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 \$71.2 million of the unrestricted net assets at June 30, 2006 and \$57.0 million at June 30, 2005 relate to capital projects, which are in various stages of planning and completion. Another \$13.0 million at June 30, 2006 and \$10.0 million at June 30, 2005 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>2006</u>	<u>2005</u>	<u>2004</u>
Maintenance, debt stabilization and insurance reserves	\$ 28.2	\$ 20.5	\$ 16.3
Construction projects in process and reserves	45.6	36.3	18.3
Campus improvement and technology reserves	4.0	4.8	8.5
Departmental special project reserves	6.4	5.5	7.2
Departmental and auxiliary enterprise working capital and contractual commitments	32.6	31.6	26.5
Quasi endowment funds (includes market increases approximating \$3 million from FY05 to FY06)	28.5	24.7	20.0
Academic support, including research	10.4	12.0	12.3
<b>Total unrestricted net assets</b>	<b>\$ 155.7</b>	<b>\$ 135.4</b>	<b>\$ 109.1</b>

FY 2006 Net Assets



Fiscal year 2006 compared to 2005

The increase in construction projects in process and reserves relate primarily to the continued funding for the new Education Building including furnishings and equipment, Satellite Energy Facility, CART wet lab construction, and funding for other smaller departmental projects. The funding of some of the larger projects was spread over multiple years.

The increase in quasi endowments was primarily due to a favorable market fluctuation in investment values and investments income.

# CENTRAL MICHIGAN UNIVERSITY

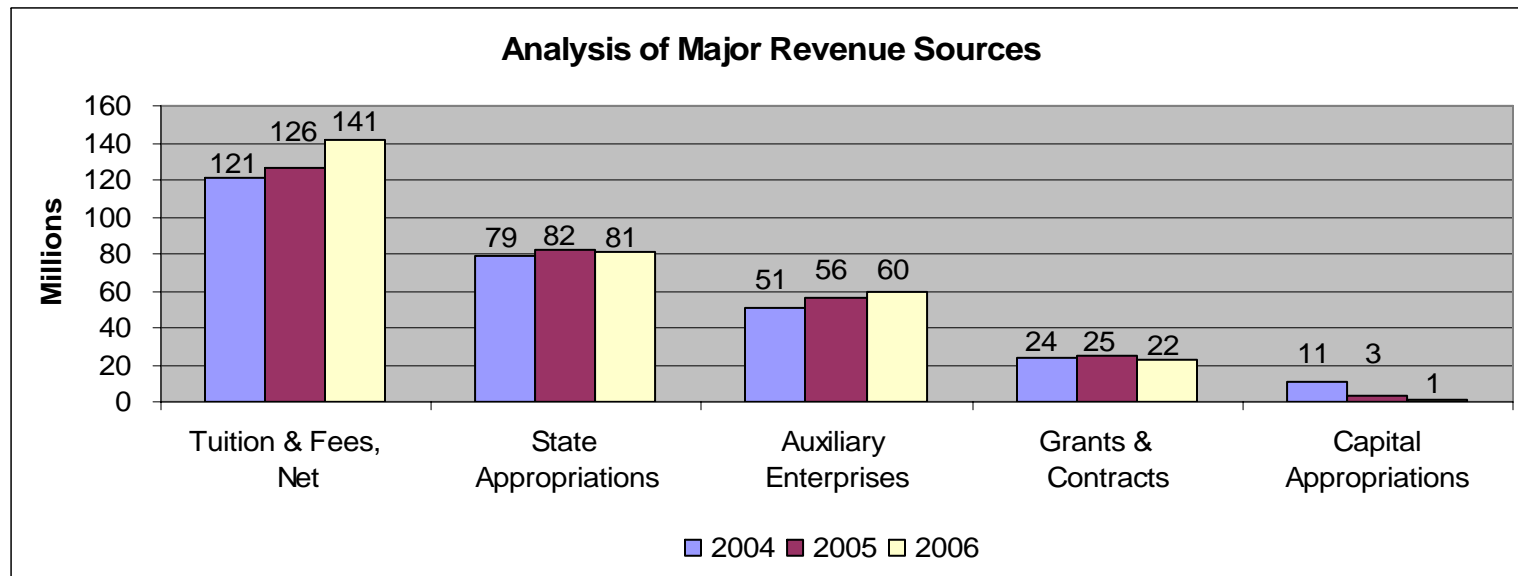
## Fiscal year 2005 compared to 2004

The increase in construction projects in process and reserves relate primarily to planning for the new Education Building, Satellite Energy Facility, 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.

**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>2006</u>	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>			
Tuition and fees, net	\$ 141.5	\$ 126.5	\$ 120.9
Grants and contracts	22.3	24.8	24.0
Auxiliary enterprises, net	59.7	55.9	51.3
Other operating revenues	13.2	13.0	11.8
<b>TOTAL OPERATING REVENUES</b>	<u>236.7</u>	<u>220.2</u>	<u>208.0</u>
<b>OPERATING EXPENSES</b>	<u>308.3</u>	<u>291.3</u>	<u>287.2</u>
<b>OPERATING LOSS</b>	(71.6)	(71.1)	(79.2)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	80.7	81.7	79.0
Other nonoperating income	19.2	18.0	17.9
Interest on debt	(7.0)	(7.8)	(6.2)
<b>NET NONOPERATING REVENUES</b>	<u>92.9</u>	<u>91.9</u>	<u>90.7</u>
<b>INCOME BEFORE OTHER REVENUES</b>	21.3	20.8	11.5
Capital appropriations	1.1	3.2	11.0
Capital grants and gifts	4.1	1.8	2.6
Additions to permanent endowments	1.9	1.4	1.9
<b>TOTAL OTHER REVENUES</b>	<u>7.1</u>	<u>6.4</u>	<u>15.5</u>
<b>INCREASE IN NET ASSETS</b>	28.4	27.2	27.0
<b>NET ASSETS</b>			
NET ASSETS AT BEGINNING OF YEAR	372.5	345.3	318.3
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 400.9</u>	<u>\$ 372.5</u>	<u>\$ 345.3</u>

# CENTRAL MICHIGAN UNIVERSITY



**OPERATING REVENUES** for the fiscal years ended June 30, 2006, 2005, and 2004 totaled \$236.7 million, \$220.2 million, and \$208.0 million respectively. Gross tuition and fees for fiscal years ended June 30, 2006, 2005, and 2004 were \$156.4 million, \$139.4 million and \$135.5 million respectively. Scholarship allowances for fiscal years ended June 30, 2006, 2005, and 2004 were \$14.8 million, \$12.9 million, and \$14.6 million respectively.

## Fiscal year 2006 compared to 2005

Tuition and fees, before the scholarship allowance, increased by \$17.0 million. This increase relates primarily to the CMU Promise guaranteed tuition plan and a mid-year graduate tuition increase. Under the CMU Promise, the annual undergraduate tuition rates for new in-state and out-of-state students are fixed. These per-credit-hour rates are guaranteed not to increase for four years, with a one-year grace period automatically extending the promise period to five years. All former mandatory fees have been eliminated.

Auxiliary enterprise operating revenues, before room and board discount, increased \$4.5 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 \$.5 million. Athletics revenue increased \$.3 million. University Center revenue increased \$2.5 million. Energy Facility revenue increased \$.4 million. Telecommunications revenue increased \$.7 million. Parking Services revenue increased \$.2 million. Pooled investment income allocated to Residence Services increased \$.1 million.

# CENTRAL MICHIGAN UNIVERSITY

## 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.

## 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 data represents grant and contract awards (shown in millions) during the fiscal year indicated.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Federal Award Sources</b>			
Financial Aid	\$ 12.9	\$ 13.9	\$ 13.5
Department of Education	2.2	1.6	1.7
National Science Foundation	0.4	1.5	0.5
Department of Health & Human Services	0.7	0.7	0.4
Department of Commerce	0.7	0.5	0.4
Army Research Laboratory			2.5
Economic Development Administration		2.2	
Other Federal Agencies	0.6	0.2	1.6
<b>Total Federal Award Sources</b>	<u>17.5</u>	<u>20.6</u>	<u>20.6</u>

# CENTRAL MICHIGAN UNIVERSITY

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>State Award Sources</b>			
Financial Aid	\$ 0.4	\$ 0.4	\$ 0.5
Department of Education Appropriations	1.0	0.9	0.9
Michigan Economic Development Corporation	0.2	0.2	0.2
Other State Agencies	1.0	0.8	1.1
<b>Total State Award Sources</b>	<u>2.6</u>	<u>3.2</u>	<u>2.7</u>
<b>Other Sources</b>			
Private Sources	4.4	4.1	2.9
Internal Sources	.8	.8	.6
<b>Total All Sources</b>	<u>\$ 25.3</u>	<u>\$ 28.7</u>	<u>\$ 26.8</u>

## Fiscal year 2006 compared to 2005

The decrease in federal financial aid of \$1.0 million is attributed to fewer PELL grants being awarded.

The remaining decrease in federal grant and contract awards of \$2.1 million is primarily attributed to the 2005 award from the Economic Development Administration that is effective for the period October 19, 2004 through December 18, 2008.

The remaining decrease in state grant and contract awards of \$0.6 million is primarily attributed to the 2005 award from the Michigan Economic Development Corporation that is effective for the period September 1, 2004 through August 31, 2007.

## 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.

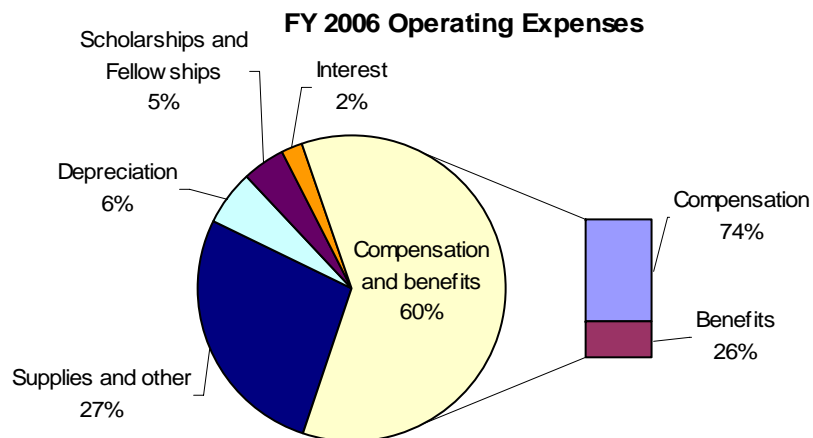
Awards from other nongovernmental sources increased \$1.4 million in 2005 due largely to a new grant from the Corporation for Public Broadcasting.

# 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>2006</u>	<u>2005</u>	<u>2004</u>
Operating			
Compensation and benefits	\$ 189.8	\$ 179.4	\$ 176.5
Supplies and other	85.7	79.0	80.0
Depreciation	18.5	18.1	17.2
Scholarships and fellowships	14.3	14.8	13.5
<b>Total Operating Expenses</b>	<u>308.3</u>	<u>291.3</u>	<u>287.2</u>
Nonoperating			
Interest	7.0	7.8	6.2
<b>Total Expenses</b>	<u>\$ 315.3</u>	<u>\$ 299.1</u>	<u>\$ 293.4</u>



## Fiscal year 2006 compared to 2005

Compensation and benefit expenses increased \$10.4 million. Of this increase, compensation increased 3.8% as a result of annual increases, market adjustments and the filling of vacant positions. The related employee benefits increased 12.3% reflecting a rise in health care and other benefit costs.

Supplies and other increased \$6.7 million. Utilities increased \$1.4 million, implementation costs for the SAP Campus Management system increased \$2.7 million and cost of goods sold in bookstore and university retail units increased \$1.7 million as a result of increased sales.

## 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.



# CENTRAL MICHIGAN UNIVERSITY

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

	2006		2005		2004	
Instruction	\$ 119.1	38%	\$ 114.2	38%	\$ 111.0	37%
Research	4.8	2	6.2	2	6.0	2
Public service	15.7	5	14.5	5	14.9	5
Academic support	23.6	7	22.2	7	20.4	7
Student services	15.6	5	14.6	5	14.1	5
Institutional support	23.7	8	22.6	8	23.6	8
Scholarships and fellowships	14.2	4	14.9	5	13.8	5
Operation and maintenance of plant	16.9	5	12.7	4	19.2	7
Auxiliary enterprises	55.4	18	50.9	17	46.5	16
Student loan provision, cancellations	-	-	0.1	-	0.1	-
Depreciation	18.5	6	18.1	6	17.2	6
Other	0.8	-	0.3	-	0.4	-
Interest expense	7.0	2	7.8	3	6.2	2
<b>Total expenses by function</b>	<b>\$ 315.3</b>	<b>100%</b>	<b>\$ 299.1</b>	<b>100%</b>	<b>\$ 293.4</b>	<b>100%</b>

**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 2006 compared to 2005

Nonoperating revenue increased \$1.0 million. State appropriations decreased \$1.0 million. Investment income, net of expense, increased \$2.7 million.

#### 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.

**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.

# CENTRAL MICHIGAN UNIVERSITY

## Fiscal year 2006 compared to 2005

Other revenue increased \$0.8 million. Capital appropriations decreased \$2.1 million. Capital grants, gifts and pledges increased \$2.4 million. Additions to permanent endowments increased \$0.5 million.

## 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.

**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>2006</u>	<u>2005</u>	<u>2004</u>
Cash received from operations	\$ 236.8	\$ 218.3	\$ 209.2
Cash expended for operations	(291.6)	(270.3)	(277.1)
<b>Net cash used by operating activities</b>	<u>(54.8)</u>	<u>(52.0)</u>	<u>(67.9)</u>
Net cash provided by noncapital financing activities	86.1	87.8	88.0
Net cash provided (used) by capital financing activities	(14.9)	4.2	(8.8)
Net cash used by investing activities	(28.3)	(17.1)	(0.1)
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(11.9)</u>	<u>22.9</u>	<u>11.2</u>
<b>Cash and cash equivalents, beginning of the year</b>	<u>57.1</u>	<u>34.2</u>	<u>23.0</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 45.2</u>	<u>\$ 57.1</u>	<u>\$ 34.2</u>

## Fiscal year 2006 compared to 2005

Cash received from operations is up \$18.5 million. The change reflects an increase of \$19.2 million from tuition and fees, a decrease of \$3.6 million from grants and contracts and \$3.0 million increase from auxiliary activities.

Cash expended for operations is up \$21.3 million. Compensation and benefits increased \$8.6 million. Non capital operating expenses increased \$13.2 million. Utilities increased \$1.4 million.

Net cash used for capital financing activities increased by \$19.1 million due to construction projects offset by issuance of debt.

Net cash used by investing activities changed \$11.2 million due to an increase in investment income and market fluctuations, which was reinvested.

# CENTRAL MICHIGAN UNIVERSITY

## Fiscal year 2005 compared to 2004

Cash received from operations is up \$9.1 million. The increase reflects an increase of \$3.3 million from grants and contracts, \$6.5 million from auxiliary activities and a decrease of \$1.5 million from tuition and fees.

Cash expended for operations is down \$6.8 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.

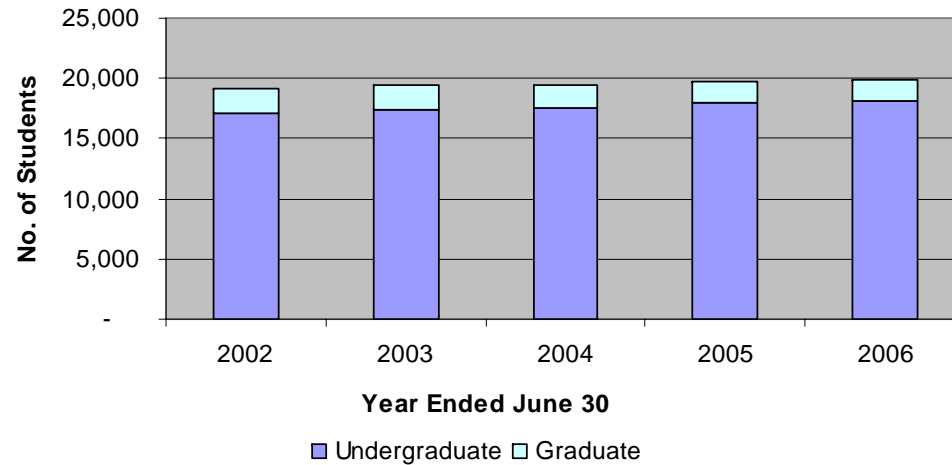
Net cash used by investing activities changed \$17.0 million due to an increase in investment income and market fluctuations, which was reinvested.

## **Enrollment**

On-Campus: The following table indicates the total historical on-campus fall enrollment of undergraduate and graduate students for the 2001-02 through 2005-06 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.

### **Fall Headcount Enrollment**

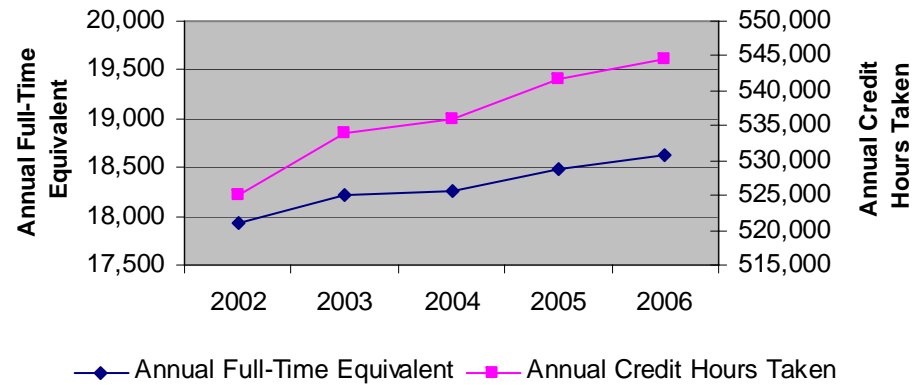
Year Ending June 30	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2006	18,100	1,817	19,917
2005	17,949	1,843	19,792
2004	17,509	1,893	19,402
2003	17,453	1,927	19,380
2002	17,162	2,026	19,188



# CENTRAL MICHIGAN UNIVERSITY

## Annual Full-Time Equivalent-On Campus

Year Ending June 30	Annual Full-Time Equivalent	Annual Credit Hours Taken
2006	18,633	544,483
2005	18,492	541,598
2004	18,268	535,844
2003	18,208	533,998
2002	17,926	525,052



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

Annual Extended Learning Enrollment		
Year Ending June 30	Number of Extended Degree Program Credit Hours	Number of Extended Credit Course Credit Hours
2006	118,734	2,333
2005	122,241	3,035
2004	130,456	5,598
2003	130,433	5,092
2002	133,349	3,894

# CENTRAL MICHIGAN UNIVERSITY

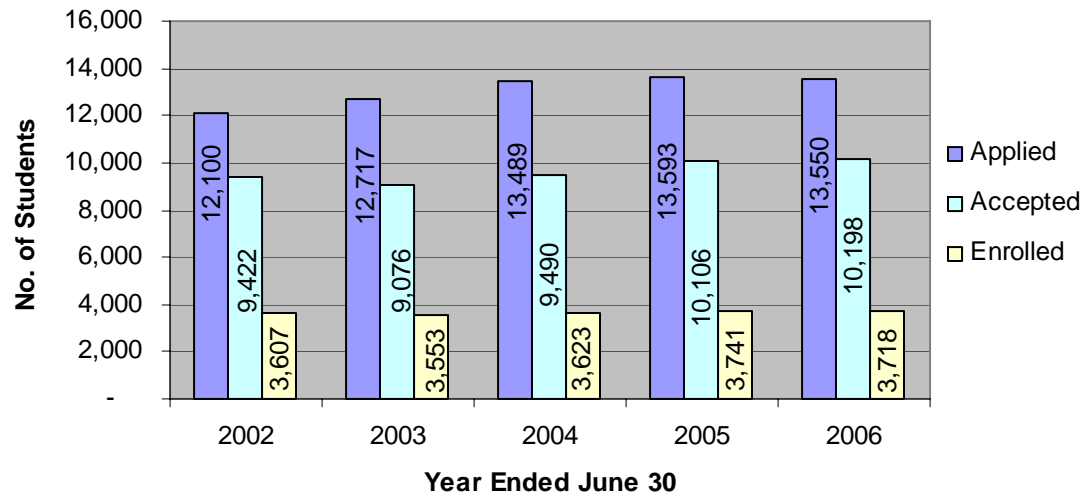
## Student Admissions

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, 2002 through 2006.

### Fall Semester First Year Student Admissions

Year Ending June 30	Number of Applicants	Percent Accepted	Number Accepted	Percent Enrolled	Number Enrolled
2006	13,550	75.3%	10,198	36.5%	3,718
2005	13,593	74.3%	10,106	37.0%	3,741
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

### Fall Semester First Year Student Admissions

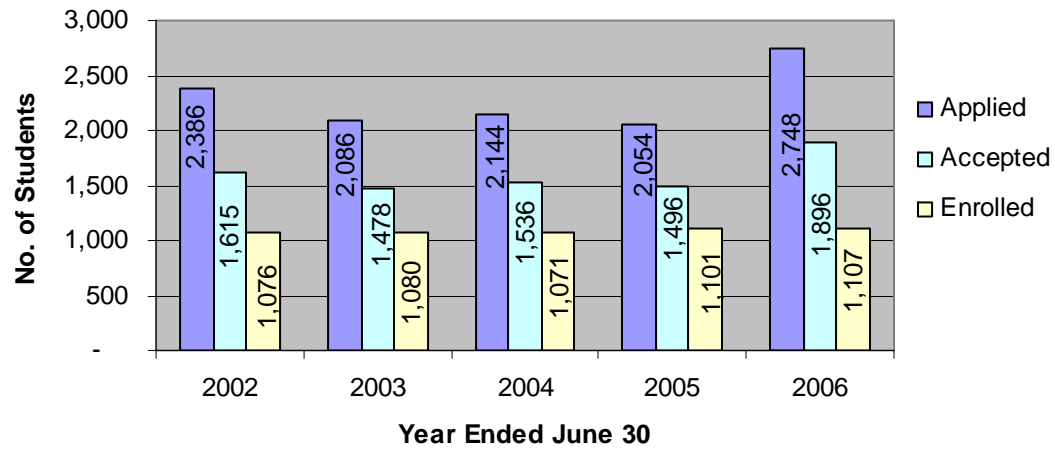


# CENTRAL MICHIGAN UNIVERSITY

## Fall Semester Transfer Student Admissions

Year Ending June 30	Number of Applicants	Percent Accepted	Number Accepted	Percent Enrolled	Number Enrolled
2006	2,748	69.0%	1,896	58.4%	1,107
2005	2,054	72.8%	1,496	73.6%	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	66.6%	1,076

## Fall Semester Transfer Student Admissions



# CENTRAL MICHIGAN UNIVERSITY

## Student Tuition Cost Per Credit Hour

For fall 2005 enrollment, Central Michigan University introduced a guaranteed undergraduate tuition plan called the CMU Promise. This plan provides fixed annual tuition rates for all in-state and out-of-state undergraduate students, based on date of enrollment and class status, as described below. All formerly mandated fees are rolled into these tuition rates, although certain fees or charges related to specific academic programs and to voluntary purchases of privileges and services will be charged. For new students, the CMU Promise offers one unchanging tuition rate based on their fall 2005 date of enrollment for four years, with an additional one year grace period if needed to complete a bachelor's degree. For returning students, a schedule of unchanging prorated tuition rates is used. The schedule is based on the student's number of credit hours completed. In addition, the CMU Promise is not applicable to graduate level courses. However, effective in the fall 2005, all mandatory fees are rolled into the graduate level tuition rates.

The student tuition rate for on-campus students for fall 2005 are set forth below and are in effect for, and only for, the number of years stated below:

<b>In-state tuition:</b>			
<b>Class</b>	<b>Credits Completed</b>	<b>Years Promised</b>	<b>Credit Hour Rate</b>
New Students	N/A	4*	\$213
Freshmen	up to 25	4*	213
Sophomores	26-55	3*	211
Juniors	56-85	2*	210
Seniors	86-100	2	208
Seniors	more than 100	1	179
Seniors (6 yrs.)	more than 100	1	150
Seniors (7 + yrs.)	more than 100	1	149

# CENTRAL MICHIGAN UNIVERSITY

## Out-of-state tuition:

<u>Class</u>	<u>Credits Completed</u>	<u>Years Promised</u>	<u>Credit Hour Rate</u>
New Students	N/A	4*	\$495
Freshmen	up to 25	4*	495
Sophomores	26-55	3*	491
Juniors	56-85	2*	487
Seniors	86-100	2	482
Seniors	more than 100	1	416
Seniors (6 yrs.)	more than 100	1	349
Seniors (7 + yrs.)	more than 100	1	345

\*One additional year at the same tuition rate is available, if needed, to complete a bachelor's degree.

Prior to the fall 2005 enrollment, student tuition was based on the number of credit hours taken. The student tuition rate for on-campus students, for the academic years indicated, are set forth below:

<u>Student Classification</u>	<u>Student Cost Per Credit Hour</u>				
	<u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Undergraduate, resident	\$ *	\$ 153.65	\$ 148.75	\$ 133.05	\$ 118.90
Undergraduate, nonresident	*	390.40	379.75	345.45	308.60
Graduate, resident	283.00**	205.65	200.05	182.00	162.60
Graduate, nonresident	524.00**	408.55	397.40	361.50	323.00
Doctoral, resident	322.00**	222.40	216.35	196.80	175.80
Doctoral, nonresident	582.00**	441.10	429.10	390.35	348.80

\*See preceding table of undergraduate tuition rates provided by the CMU Promise, which became effective for the fall 2005 enrollment.

\*\*In December 2005 the Board approved new graduate tuition rates. The new rates, effective as of the Spring 2006 semester, are as follows: The Graduate resident is \$325 per credit hour, the Graduate nonresident rate is \$603 per credit hour, the Doctoral resident rate is \$370 per credit hour, and the Doctoral nonresident rate is \$669 per credit hour.



# CENTRAL MICHIGAN UNIVERSITY

A full-time undergraduate student intending to graduate in four years takes an average of 15 credit hours per semester and a full-time graduate student in a one-year graduate program takes an average of 12 credit hours per semester. The following table sets forth the annual student tuition and fees for such full time on-campus students for the academic years indicated.

<u>Student Classification</u>	<u>Annual Full-Time Tuition and Fees</u>				
	<u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Undergraduate, resident	\$ 6,130*	\$ 5,375	\$ 5,228	\$ 4,747	\$ 4,247
Undergraduate, nonresident	14,291*	12,477	12,158	11,119	9,938
Graduate, resident	6,792	5,701	5,566	5,123	4,582
Graduate, nonresident	12,576	10,570	10,303	9,431	8,432

\*Average tuition and fees under the CMU Promise, weighted by Semester Credit Hours and based on 30 hours per year. Note that all mandatory fees have been included in the CMU Promise tuition rates for 2005-06.

Registration or enrollment fees formerly totaled \$160 annually. Students carrying seven credit hours or more paid a \$100 per year student activity center fee and a \$50 campus programming fee. In 1996-97, the university began assessing a technology fee as follows: Students carrying 6 credit hours or less paid \$110 annually, and students carrying 7 credit hours or more paid \$220. In 2000-01, a campus improvement fee was implemented, which was \$75 annually. In 2001-02, a library fee was instituted, which was \$150 annually. In 2003-04, a student publication fee was implemented, which was \$10 annually. As described above, starting in fall 2005, all mandatory fees have been rolled into tuition under the CMU Promise.

## Room and Board and Estimated Total Cost

In addition to the CMU Promise that guarantees tuition rates, Central Michigan University also offers a guarantee on room and board rates. This agreement guarantees room and board rates will not increase for a two-year period.

# CENTRAL MICHIGAN UNIVERSITY

The annual cost of room and board and the estimated total cost for 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>
2006	\$ 6,376	\$ 8,645*	\$ 15,021
2005	6,160	7,865	14,025
2004	5,924	7,718	13,642
2003	5,524	7,032	12,556
2002	5,220	6,597	11,817

\*Based on 2005-06 new student tuition at 30 credit hours per year.

## 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>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Educational Degree Program-Undergraduate	\$ 265	\$ 230	\$ 215	\$ 205	\$ 189
Educational Degree Program-Graduate	345	300	280	266	245
Educational Certification Courses-Undergraduate	265	230	215	205	189
Educational Certification Courses-Graduate	345	300	280	266	245

## **Bonds Payable**

At June 30, 2006, the university had outstanding general revenue bonds totaling \$182.4 million. This represents 70.3% of the university's total liabilities.

# CENTRAL MICHIGAN UNIVERSITY

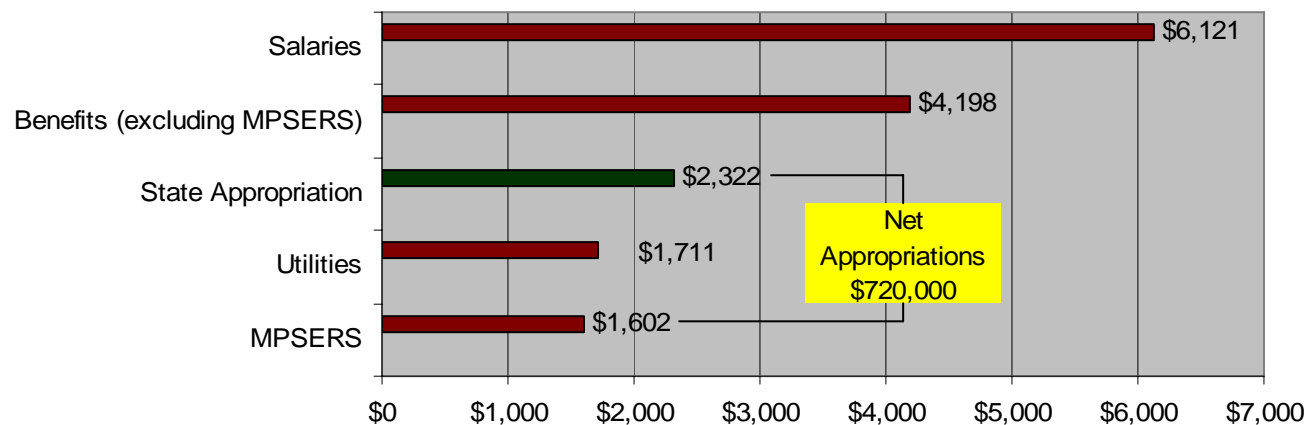
## State Building Authority

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 Budget for fiscal year 2007 and Capital Budgets for fiscal years 2007-2010 totaling \$340.8 million and \$139.1 million respectively. The general fund expense budget increased from \$243.5 million to \$260.1 million. The \$260.1 million balanced budget assumes appropriations for CMU increase at a rate of 4.9% from the 2005-06 budget level and includes increased costs for employee salaries, health care insurance, and other necessary costs. Projected fiscal year 2007 expenditure increases compared to projected appropriation increases are shown below. Note that State Appropriations revenue is offset by an anticipated MPSERS contribution.

**2006-07 Projected Increase in Thousands**



The approved capital budget for fiscal year 2006-2007 is \$36.6 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 2006, the university expended approximately \$7.7 million on plant related projects. Another \$1.1 million of State Building Authority revenues were expended primarily on the Health Professions Building. Funds expended on construction projects during fiscal year 2006 were \$24.1 million.

# CENTRAL MICHIGAN UNIVERSITY

The university's four-year capital budget includes both new projects as well as major projects in process from 2006 through 2010. The budget covers the East Complex Residence Hall addition, Satellite Energy Facility, Beaver Island Academic Center and the Education Building, along with miscellaneous other projects totaling \$139.1 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. The university State appropriation remains \$10 million below its appropriation of five years ago. State appropriation contributes approximately thirty-one percent of general operations revenue not including grant, contract and auxiliary revenues. The university appropriation is offset by a required supplemental contribution to MPERS for retiree health care benefits. The details of the appropriation reduction and the MPERS required contribution are shown below.

			<u>Appropriation</u>	<u>MPERS</u>	<u>Total</u>	
Original 2002-03 Appropriation	\$ 90,003,800					
			\$ (12,539,200)	\$ 419,200	\$ (12,120,000)	
Final 2003-04 Appropriation (13.9% reduction)	77,464,600	\				
		Change /	1,814,800	(631,300)	1,183,500	
Final 2004-05 Appropriation (2.3% partial restore)	79,279,400	\				
		Change /	782,500 *	(596,300)	186,200	
2005-06 Appropriation (1% partial restore)	80,061,900	\				
		Change /	2,321,800	(1,602,300)	719,500	
Proposed 2006-07 Appropriation	82,383,700					
(3% partial restore from 2005-06; 8% reduction from 2002-03)						

\$(10,030,800)

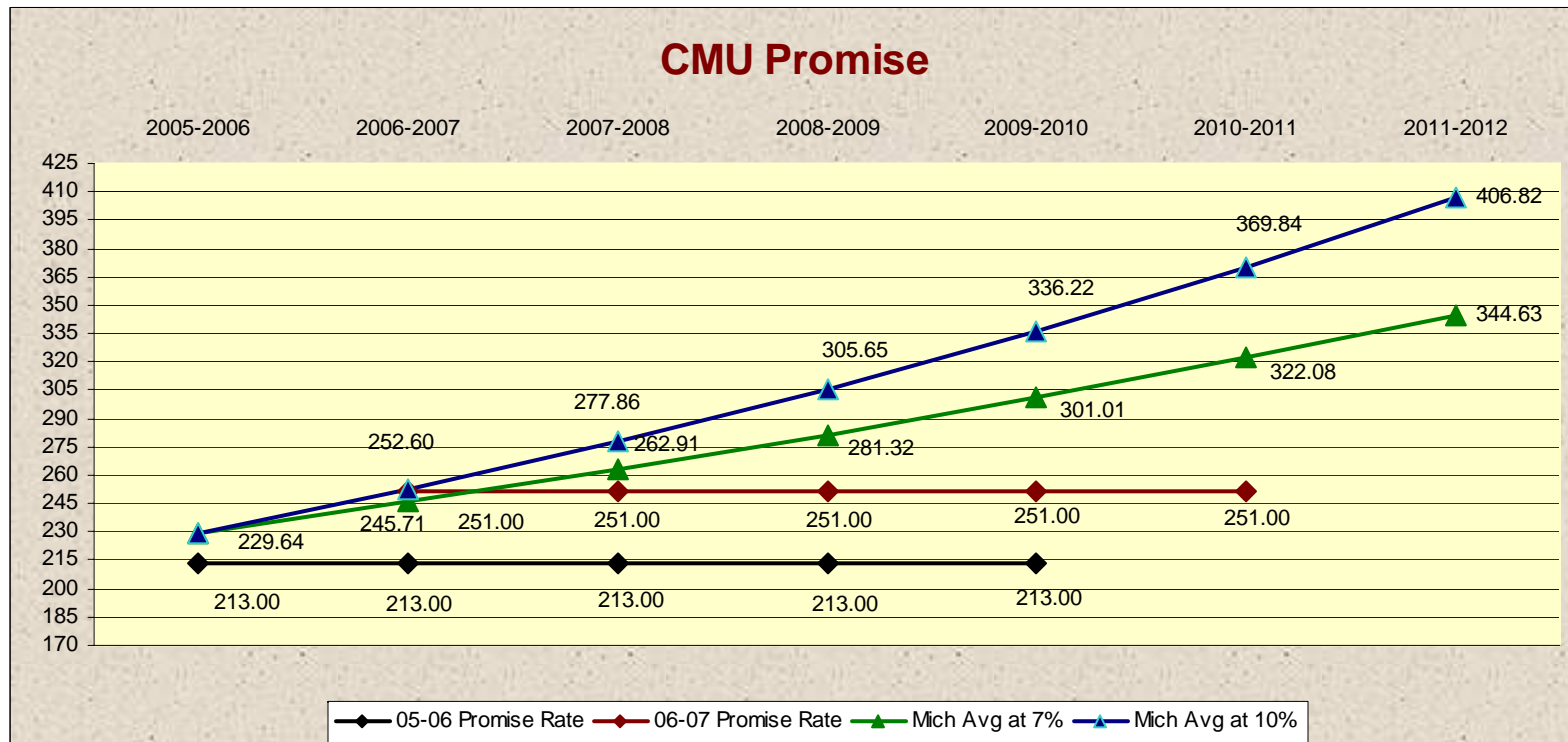
\*Legislation has not determined whether this is 1 time or base; could affect final 2006-07 State Appropriations.

# CENTRAL MICHIGAN UNIVERSITY

## The CMU Promise

Central Michigan University has introduced a straight forward guaranteed tuition plan called The CMU Promise. New students are offered a four year tuition rate with a one-year automatic extension. The CMU Promise is a financial solution for students and families who are frustrated by complicated cost and yearly tuition increases. It provides financial certainty, the assurance of a quality CMU education, and an incentive for timely graduation. It remains the only guaranteed tuition program in the state of Michigan.

This innovative guaranteed tuition program began 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 is guaranteed not to increase for four years, with a one-year grace period. All formerly mandated fees were rolled into these tuition rates. The CMU Promise also guarantees that the room and board rate for residence halls will not increase for two years. The following data shows the CMU Promise rate for two beginning freshman classes compared to an average tuition increase of 7% and 10% over a five year period to graduation based on the Presidents Council 2005-06 Final Tuition & Fee Summary Report .



# CENTRAL MICHIGAN UNIVERSITY

## Campus Management

A new student information system went live in July, 2006. CMU transitioned from the current ISIS system to Campus Management. This conversion entailed transferring approximately 50 million pieces of data. It is anticipated that there may be some challenges as people become familiar with the new technology.

The benefits of Campus Management include improved service to CMU students by many departments on campus, including Admissions, Advising, Receivable Accounting and the Registrar's offices. SAP Campus Management will be available almost 24 hours a day, seven days a week. Campus Management will provide us with the ability to streamline processes, reduce manual handling and consolidate information into one database, eliminating or decreasing the need for departments to maintain shadow systems.

## Deferred Maintenance

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.

## Capital Projects

The sources of funds available for the capital needs are State Capital outlay, bonds, gifts, the parking services operating budget, the residences and auxiliary services operating budget, the general fund operating budget and other miscellaneous funding sources. The internal sources are pooled and distributed through the approval process. Restricted dollars are maintained separate from the internal sources.

Anticipated restricted revenue sources for the 2006-2007 capital projects are bond proceeds, State Building Authority Funds, grants and gifts. The following are projects to be completed in 2007-2009:

### East Complex Residence Hall

The East Complex Residence Hall construction began in fiscal year 2004-05 with an occupancy move-in date of August 2006. Sources of funds include the 2005 bond issue with an approved level for the residence halls construction of \$30.0 million dollars for construction and renovation.



# CENTRAL MICHIGAN UNIVERSITY

## Satellite Energy Facility

Construction of the SEF began in May 2006 with a completion date of June 2007. Sources of funds for this project come from internal general funds and part of the 2006 bond issue for a total project cost of \$27.0 million dollars.



## Beaver Island Academic Center

The Beaver Island Academic Center is a \$3.8 million dollar project with scheduled construction to begin in August 2006. Sources of funds come from part of the 2006 bond issue and internal general funds. Final project completion is anticipated for October 2007.



View from Lake Michigan

# CENTRAL MICHIGAN UNIVERSITY

## CART Wet Laboratory

The Wet Laboratory Addition to the CART facility will be approximately 19,140 gross square feet of new space. It shall house wet laboratories, general laboratories, a bio-laboratory, and shipping and receiving. The addition also includes bathrooms, mechanical, electrical and circulation space. The existing building will receive renovations to expand and upgrade the computer room, a conference/seminar room and provide circulation through existing space to the new addition. Project completion is scheduled for December 2006.

## Education Building

The Education building is in the design phase with construction scheduled to begin in May 2007. Opening of the building is projected for summer 2009. Sources of funds include the 2006 bond issue along with internal general funds and state capital outlay funds for a total project cost of \$50.0 million dollars.





# CENTRAL MICHIGAN UNIVERSITY

## **CMU 2010 Vision Plan**

In May 2004, President Rao set in motion the charge to establish a steering committee to lead a planning process that would result in a set of key elements and measurable objectives centered around the university vision statement. CMU 2010 is Central Michigan University's strategic plan for achieving its vision. Institutional priorities, strategies and year one initiatives were established last year. The priorities are: 1. Create an environment that supports teaching and learning as the top priority; 2. Provide educational experiences and programs that enhance diversity and global perspectives; 3. Enhance the infrastructure for research and creative activity; 4. Provide service for the public good; and 5. Strengthen the institution's culture of integrity.

Initiatives related to the goals of the CMU 2010 five year vision plan are emerging. As a part of the first round of proposals, eight fiscal year 2006-2007 projects were funded and are underway. One exciting project was the North American Indigenous Summer Enrichment Camp, when 25 Native American 8<sup>th</sup> through 12<sup>th</sup> grade students lived in Kulhavi Hall and were introduced to university academic processes and cultural life.

## **University Committees**

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.

## **GASB Statement No. 45**

The Governmental Accounting Standards Board (GASB) has 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 the cost for the retiree health benefits for those employees covered under the Michigan Public Schools Employees Retirement System (MPERS) on the accrual basis of accounting. While the amount of the expense and potential liability is not known at this time, it is anticipated to be material. The requirements of this statement are effective for the university in the fiscal year 2007-2008 financial statements.



**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, 2006 and 2005. 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, 2006 and 2005, 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 18, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 27 is not a required part of the 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of Central Michigan University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financials statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Saginaw, Michigan  
August 18, 2006

**CENTRAL MICHIGAN UNIVERSITY  
STATEMENTS OF NET ASSETS**

	<b>JUNE 30</b>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note B)	\$ 8,017,544	\$ 26,463,277
Accounts receivable, net (Note C)	15,244,107	17,488,112
State appropriations receivable, operations (Note C)	15,559,400	13,897,752
State appropriations receivable, charter schools (Note C)	34,037,200	32,558,269
Inventories	4,192,081	3,407,794
Other assets	1,427,853	1,322,153
<b>TOTAL CURRENT ASSETS</b>	<u>78,478,185</u>	<u>95,137,357</u>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and cash equivalents (Note B)	37,135,617	30,657,063
Endowment investments (Note B)	68,406,395	59,297,272
Loans receivable, net (Note C)	8,403,082	7,275,136
Other long-term investments (Note B)	128,762,137	94,294,910
Capital assets, net (Note D)	339,225,028	318,299,999
<b>TOTAL NONCURRENT ASSETS</b>	<u>581,932,259</u>	<u>509,824,380</u>
<b>TOTAL ASSETS</b>	<u>660,410,444</u>	<u>604,961,737</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities (Note E)	50,969,425	50,550,658
Deferred revenue	10,395,814	9,389,345
Deposits	572,240	472,865
Current portion of debt obligations (Note F)	4,910,000	4,055,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>66,847,479</u>	<u>64,467,868</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt and other obligations (Note F)	192,658,700	168,027,645
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>192,658,700</u>	<u>168,027,645</u>
<b>TOTAL LIABILITIES</b>	<u>259,506,179</u>	<u>232,495,513</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	192,270,699	190,363,125
Restricted for:		
Nonexpendable		
Scholarships, fellowships and research	22,358,860	20,467,287
Expendable		
Scholarships, fellowships and research	20,884,866	16,734,693
Instructional department uses	4,474,469	4,608,744
Loans	1,372,428	1,222,278
Capital projects and debt service	3,797,092	3,698,067
Unrestricted	155,745,851	135,372,030
<b>TOTAL NET ASSETS</b>	<u>\$ 400,904,265</u>	<u>\$ 372,466,224</u>

See notes to financial statements.

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

	<b>YEAR ENDED JUNE 30</b>	
	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>		
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances of \$14,877,447 in 2006 and \$12,916,390 in 2005)	\$ 141,471,991	\$ 126,484,792
Federal grants and contracts	16,410,297	19,606,261
State and local grants and contracts	2,503,778	2,224,573
Nongovernmental grants and contracts	3,382,700	3,000,560
Sales and services of educational activities	13,221,207	12,959,774
Auxiliary enterprises (net of room & board allowances of \$3,997,771 in 2006 and \$3,289,871 in 2005)	59,685,963	55,944,088
<b>TOTAL OPERATING REVENUES</b>	<u>236,675,936</u>	<u>220,220,048</u>
<b>EXPENSES</b>		
<b>OPERATING EXPENSES:</b>		
Compensation:		
Faculty	69,165,569	67,240,299
Staff	61,383,921	58,636,737
Benefits	48,622,802	43,290,252
Student	10,666,543	10,197,065
Scholarships and fellowships	14,346,414	14,773,144
Utilities	8,091,387	6,662,552
Supplies and other	77,575,060	72,339,580
Depreciation	18,439,305	18,131,861
<b>TOTAL OPERATING EXPENSES</b>	<u>308,291,001</u>	<u>291,271,490</u>
<b>OPERATING LOSS</b>	(71,615,065)	(71,051,442)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	80,693,400	81,725,700
Gifts and pledges net of allowance	3,893,903	5,183,616
Investment income (net of investment expense)	15,270,331	12,531,839
Interest on capital assets related debt	(6,992,784)	(7,767,021)
Other nonoperating revenues	17,777	193,862
<b>NET NONOPERATING REVENUES</b>	<u>92,882,627</u>	<u>91,867,996</u>
<b>INCOME BEFORE OTHER REVENUES</b>	21,267,562	20,816,554
Capital appropriations	1,079,762	3,225,756
Capital grants and gifts	4,153,204	1,766,979
Additions to permanent endowments	1,937,513	1,384,391
<b>TOTAL OTHER REVENUES</b>	<u>7,170,479</u>	<u>6,377,126</u>
<b>INCREASE IN NET ASSETS</b>	28,438,041	27,193,680
<b>NET ASSETS</b>		
NET ASSETS AT BEGINNING OF YEAR	<u>372,466,224</u>	<u>345,272,544</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 400,904,265</u>	<u>\$ 372,466,224</u>

See notes to financial statements.

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

	YEAR ENDED JUNE 30	
	<u>2006</u>	<u>2005</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 141,019,648	\$ 121,843,319
Grants and contracts	22,985,569	26,577,726
Payments to suppliers	(78,297,725)	(65,043,075)
Payments for utilities	(8,091,387)	(6,662,552)
Payments to employees	(140,801,338)	(137,164,985)
Payments for benefits	(48,304,855)	(43,377,102)
Payments for scholarships and fellowships	(14,346,414)	(14,773,144)
Loans issued to students	(524,362)	(420,950)
Collection of loans to students	(344,342)	160,476
Auxiliary activities	59,651,169	56,661,120
Sales and services of educational activities	13,164,475	13,041,533
Other receipts (payments)	<u>(938,396)</u>	<u>(2,904,031)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(54,827,958)</u>	<u>(52,061,665)</u>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	79,031,752	81,634,436
William D. Ford direct lending receipts	100,303,252	93,760,867
William D. Ford direct lending disbursements	(100,304,888)	(93,754,670)
PLUS loan receipts	13,571,471	8,424,170
PLUS loan disbursements	(13,571,471)	(8,428,357)
Other nonoperating revenue	19,413	191,852
Gifts for other than capital purposes	5,061,226	4,635,866
Gifts for endowment purposes	<u>1,937,513</u>	<u>1,384,391</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>86,048,268</u>	<u>87,848,555</u>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from capital debt	29,291,818	32,170,702
Capital appropriations	2,222,791	2,176,840
Capital grants and gifts received	4,401,541	3,298,029
Reductions of capital assets	773,581	663,060
Purchases of capital assets	(40,137,915)	(20,101,960)
Principal paid on capital debt and leases	(4,055,000)	(6,610,000)
Interest paid on capital debt and leases	(6,992,784)	(7,767,021)
Bond premium amortization	<u>(385,502)</u>	<u>385,503</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<u>(14,881,470)</u>	<u>4,215,153</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	450,739,268	235,942,765
Income on investments, net	15,270,331	12,531,839
Purchase of investments	<u>(494,315,618)</u>	<u>(265,562,114)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(28,306,019)</u>	<u>(17,087,510)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(11,967,179)</u>	<u>22,914,533</u>
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR</b>	<u>57,120,340</u>	<u>34,205,807</u>
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<u>\$ 45,153,161</u>	<u>\$ 57,120,340</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (71,615,065)	\$ (71,051,442)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	18,439,305	18,131,861
Change in assets and liabilities:		
Receivables, net	(1,793,615)	(5,136,606)
Inventories	(784,287)	(86,299)
Other assets	(105,700)	88,910
Accounts payable, accrued liabilities and deposits	518,142	6,510,256
Deferred revenue	1,006,469	21,277
Retirement service award program	236,255	(296,796)
Compensated absences	139,242	17,648
Loans to students and employees	<u>(868,704)</u>	<u>(260,474)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (54,827,958)</u>	<u>\$ (52,061,665)</u>

See notes to financial statements.

# CENTRAL MICHIGAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

### 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.

# CENTRAL MICHIGAN UNIVERSITY

## NOTE A--SIGNIFICANT ACCOUNTING POLICIES—continued

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

Operating revenues of the university consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating income. Restricted and unrestricted resources are spent and tracked at the 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
Equipment – Digital TV	20 years
Leasehold Improvements	10 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.

# CENTRAL MICHIGAN UNIVERSITY

## 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

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 4.5% (5.0% at June 30, 2005) of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce the 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 \$26,626,000 at June 30, 2006 and \$20,324,000 at June 30, 2005. The net appreciation is a component of restricted, expendable net assets. The yields of the Endowment Investments were as follows:

	June 30	
	2006	2005
Interest and Dividends	2.2 %	2.2%
Net Realized and Unrealized Gains	11.7 %	8.9%
Total Return	13.9 %	11.1%

According to the laws 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 or a Moody's Investors Service rating of A or better. Debt investments held by the university as of June 30, 2006, that mature June 30, 2007, or later were rated by Moody's with a rating of Aaa. The following tables list the university's investments by category showing the investment's rating and scheduled maturity at June 30, 2006 and June 30, 2005.



**CENTRAL MICHIGAN UNIVERSITY**

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

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	<u>Investment Maturities (in Years) at June 30, 2006</u>			
			<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Investments:						
Government Securities-US Backed	Moody's Aaa	\$ 24,270,393	\$ 21,924,557	\$ 169,664	\$ 149,348	\$ 2,026,824
Government Securities-US Sponsored	Moody's Aaa	71,884,101	60,504,576	1,229,237	1,414,692	8,735,596
Corporate bonds and notes	Moody's Aaa	5,939,157		307,398	2,733,541	2,898,218
Mutual funds	Moody's Aaa	49,050,650	49,050,650			
Other investments	Moody's Aaa	238,883				238,883
		151,383,184	\$ 131,479,783	\$ 1,706,299	\$ 4,297,581	\$ 13,899,521
Equities	N/A	1,001,894				
Equities - Foreign	N/A	16,904,097				
Equity Mutual Funds	N/A	68,959,287				
Life Insurance Policies	N/A	509,442				
Cash Equivalents	N/A	5,510,262				
Investments Reported as						
"Cash" on Statements of Net Assets		(1,946,473)				
Total Investments		\$ 242,321,693				
<b><u>As Reported on the Statement of Net Assets</u></b>						
Current investments:						
Cash and cash equivalents		\$ 8,017,544				
Noncurrent restricted investments:						
Restricted cash and cash equivalents		37,135,617				
Noncurrent investments:						
Endowment investments		68,406,395				
Other long-term investments		128,762,137				
		197,168,532				
Total Investments		\$ 242,321,693				

# 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) at June 30, 2005			
			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
		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 Statements of Net Assets		(5,279,573)				
Total Investments		\$ 210,712,522				
<b><u>As Reported on the Statement of Net Assets</u></b>						
Current investments:						
Cash and cash equivalents		\$ 26,463,277				
Noncurrent restricted investments:						
Restricted cash and cash equivalents		30,657,063				
Noncurrent investments:						
Endowment investments		59,297,272				
Other long-term investments		94,294,910				
		153,592,182				
Total Investments		\$ 210,712,522				

## **CENTRAL MICHIGAN UNIVERSITY**

### **NOTE B--CASH AND CASH EQUIVALENTS, ENDOWMENTS 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 at June 30, 2006 or June 30, 2005.

#### **Foreign Currency Risk**

The university's holding in foreign investments were made in mutual funds, which approximated \$25.0 million at June 30, 2006 and \$18.5 million at June 30, 2005.

#### **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 \$(1,946,473) at June 30, 2006 and \$(5,279,573) at June 30, 2005. The deposits were reflected in the accounts of the banks at \$3,621,722 at June 30, 2006 and \$966,841 at June 30, 2005. Of the bank balance, \$3,312,985 at June 30, 2006 and \$705,123 at June 30, 2005 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 \$215.5 million at June 30, 2006 and \$187.9 million at June 30, 2005 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. Certain fiscal year 2005 accounts receivable have been reclassified and restated to accommodate for the data conversion for Campus Management.

	June 30	
	2006	2005
Tuition and fees	\$ 7,710,020	\$ 6,590,131
Auxiliary enterprises	1,067,517	931,540
Contracts and grants	1,474,889	1,877,718
Sales and services	127,636	119,129
Pledges	3,979,444	5,395,104
State Building Authority	108,177	1,251,206
Agency activities	776,424	1,323,284
Total	<u>15,244,107</u>	<u>17,488,112</u>
State appropriations-operations	15,559,400	13,897,752
State appropriations-charter schools	34,037,200	32,558,269
Loans receivable	8,403,082	7,275,136
Total Accounts Receivable	<u>\$ 73,243,789</u>	<u>\$ 71,219,269</u>

Accounts receivable and student loans are recorded net of the allowance for uncollectible accounts of \$1,668,469 and \$186,000 at June 30, 2006 and \$1,177,154 and \$186,000 at June 30, 2005, 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 \$15,559,400 at June 30, 2006 and \$13,897,752 at June 30, 2005. Charter schools appropriations receivable was recorded for \$34,037,200 at June 30, 2006 and \$32,558,269 at June 30, 2005.

During the fiscal year the university received \$199,299,000 (\$191,939,000 in fiscal year 2005) of State appropriations, which were forwarded to fifty-eight charter schools.

# CENTRAL MICHIGAN UNIVERSITY

## NOTE D--CAPITAL ASSETS

	Beginning Balance <u>July 1, 2005</u>	Additions	Reductions	Ending Balance <u>June 30, 2006</u>
Land	\$ 9,924,920	\$ 978,454		\$ 10,903,374
Land Improvements	14,623,116	1,118,902		15,742,018
Infrastructure	11,078,432	9,635		11,088,067
Buildings	378,645,236	3,546,323	\$ 30,000	382,161,559
Leasehold improvements		95,759		95,759
Furniture and equipment	65,573,610	6,411,842	4,378,285	67,607,167
Library materials	46,693,860	3,615,841		50,309,701
Capitalized collections	129,007	646,966		775,973
Intangible assets	305,612			305,612
Construction in progress	<u>13,914,237</u>	<u>25,568,773</u>	<u>1,854,580</u>	<u>37,628,430</u>
TOTAL	<u>540,888,030</u>	<u>41,992,495</u>	<u>6,262,865</u>	<u>576,617,660</u>
Less accumulated depreciation:				
Land Improvements	8,155,688	1,748,745		9,904,433
Infrastructure	2,694,797	517,548		3,212,345
Buildings	131,197,411	9,226,199	30,000	140,393,610
Leasehold improvements		798		798
Furniture and equipment	45,878,805	4,003,800	3,604,704	46,277,901
Library materials	34,574,042	2,934,435		37,508,477
Intangible assets	<u>87,288</u>	<u>7,780</u>		<u>95,068</u>
TOTAL	<u>222,588,031</u>	<u>18,439,305</u>	<u>3,634,704</u>	<u>237,392,632</u>
CAPITAL ASSETS, NET	<u>\$ 318,299,999</u>	<u>\$ 23,553,190</u>	<u>\$ 2,628,161</u>	<u>\$ 339,225,028</u>

Construction in progress primarily consists of the construction cost for the East Complex Residence Hall addition of \$23.9 million and other projects including maintenance and remodeling approximating \$13.7 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 will be provided by current unrestricted university net assets or by future State appropriations, gifts, grants, SBA monies or bond funds. Funds required to complete the projects in process approximate \$98.0 million as of June 30, 2006 (\$46.5 million as of June 30, 2005).

# 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, 2006</u>	<u>June 30, 2005</u>
Salaries and wages	\$ 5,956,432	\$ 5,541,737
Benefits	945,657	766,952
Supplies	10,030,136	11,683,700
Charter Schools	34,037,200	32,558,269
Total	<u>\$ 50,969,425</u>	<u>\$ 50,550,658</u>

## NOTE F--LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt and other obligations consist of the following as of June 30, 2006:

	Interest Rate	Fiscal Year Maturity	July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 5,060,274	\$ 376,818		\$ 5,437,092	
General Revenue Bonds, Series 1997	4.90%	2007	1,725,000		\$ 840,000	885,000	\$ 885,000
General Revenue Bonds, Series 1998							
Series Bonds	4.25-4.85%	2007-2014	9,830,000		220,000	9,610,000	230,000
Term Bonds	4.80-5.00%	2016-2028	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	2007-2016	26,200,000		1,600,000	24,600,000	1,850,000
General Revenue Bonds, Series 2002A-Fixed Rate							
Series Bonds	2.00-2.75%	2007-2009	1,500,000			1,500,000	500,000
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	2.375-5.00%	2007-2011	9,155,000		1,395,000	7,760,000	1,445,000
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%	2025-2035	21,675,000			21,675,000	
General Revenue Bonds, Series 2006A							
Series Bonds	3.50-5.00%	2008-2023		11,590,000		11,590,000	
Term Bonds	4.375-4.50%	2027-2036		17,325,000		17,325,000	
		Total	157,200,274	29,291,818	4,055,000	182,437,092	4,910,000
Compensated Absences			3,532,605	139,242		3,671,847	
Federal portion of Perkins Loan Program			6,666,320	179,094	(80,148)	6,925,562	
Retirement Service Award Program			3,762,425	256,948	20,693	3,998,680	
Other Liabilities			921,021		385,502	535,519	
Total long-term debt and other obligations			<u>\$ 172,082,645</u>	<u>\$ 29,867,102</u>	<u>\$ 4,381,047</u>	<u>\$ 197,568,700</u>	<u>\$ 4,910,000</u>

## CENTRAL MICHIGAN UNIVERSITY

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

On January 1, 2006, the university issued \$28,915,000 in General Revenue Bonds Series 2006A. Proceeds from this issuance were \$29,378,888 consisting of principal amount of the bonds (\$28,915,000), less original issue discount of \$423,466 and investment earnings of \$887,354. The proceeds from the sale of the bonds will be used to fund the design, acquisition, construction, furnishing and equipping of a new College of Education and Human Services Facility, the expansion, improvement and upgrade of university energy facilities and the infrastructure, design, acquisition, construction, furnishing and equipping of the Beaver Island Research Station. The bonds mature in the year 2008 thru 2036.

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) (3.5288% at June 30, 2006). 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 4.51% at June 30, 2006 and 4.70% at June 30, 2005.

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 (3.4235% at June 30, 2006). 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 5.36% at June 30, 2006 and 5.68% at June 30, 2005.

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 2016.

As of June 30, 2006 the swap agreements related to the 2002 Series A and Series B bonds were in a negative position of \$1,644,248 and \$2,007,989, 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.

# CENTRAL MICHIGAN UNIVERSITY

## 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, 2006, 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, 2006, 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, 2006.

<u>Maturity Date</u>	<u>Accreted Value</u>	<u>Ultimate Maturity Value</u>
10-1-2011	\$ 1,254,313	\$ 1,820,000
10-1-2012	1,163,859	1,820,000
10-1-2013	1,079,616	1,820,000
10-1-2014	1,004,570	1,820,000
10-1-2015	934,734	1,820,000
Total	\$ <u>5,437,092</u>	\$ <u>9,100,000</u>



# CENTRAL MICHIGAN UNIVERSITY

## 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, 2006 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
2007	\$ 4,910,000	\$ 7,454,005	\$ 679,122	\$ 13,043,127
2008	6,315,000	7,254,941	638,663	14,208,604
2009	6,605,000	7,042,816	595,111	14,242,927
2010	6,315,000	6,806,054	550,009	13,671,063
2011	6,680,000	6,558,792	501,562	13,740,354
2012-2016	34,287,092	33,173,583	1,684,161	69,144,836
2017-2021	23,280,000	24,104,543	948,271	48,332,814
2022-2026	29,435,000	18,105,228	822,667	48,362,895
2027-2031	37,855,000	10,365,485	524,188	48,744,673
2032-2036	26,755,000	2,126,633	40,416	28,922,049
Total	\$ <u>182,437,092</u>	\$ <u>122,992,080</u>	\$ <u>6,984,170</u>	\$ <u>312,413,342</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, 2006 and 2005 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.

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 6.30% of employees' pay at June 30, 2006 and 6.52% at June 30, 2005, 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 \$4,705,593 during the 2005-2006 university fiscal year (\$4,515,274 during the 2004-2005 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 2006 are summarized as follows:

	TIAA-CREF and Fidelity	MPERS	University Total
University Contributions	\$ 9,744,126	\$ 1,563,213	\$ 11,307,339
Required Employee Contributions		470,105	470,105
Covered payroll	93,650,123	24,591,653	118,241,776
Total Payroll			141,829,007

The university's contributions, which equaled required contributions, to MPERS totaled \$2,474,860 in fiscal 2005 and \$1,991,139 in fiscal 2004. Required employee contributions were \$485,941 in fiscal 2005 and \$486,063 in fiscal 2004.

The university also sponsors the Retirement Service Award program covering certain employees hired before a specific date in 1976 and certain 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 \$3,998,680 for fiscal year 2005-2006 (\$3,762,424 for fiscal year 2004-2005) 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 a minimum of \$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%

# CENTRAL MICHIGAN UNIVERSITY

## NOTE G--RETIREMENT PLANS—continued

Schedule of Employer Contributions:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 54,760	100%	-
2005	54,760	100%	-
2006	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 \$3,979,000 at June 30, 2006 and \$5,395,000 at June 30, 2005.

## 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:

2007	\$ 2,577,932
2008	2,044,161
2009	1,702,751
2010	1,261,861
2011	1,086,319
2012-2023	<u>4,637,576</u>
Total	<u>\$ 13,310,600</u>

## CENTRAL MICHIGAN UNIVERSITY

### 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 \$1,700,000 in support of this endeavor. Fiscal year 2006 is the fifth year of the commitment. At June 30, 2006 and 2005, the net assets of CMURC were (\$56,834) and (\$4,338), 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, 2006 and 2005, 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 M--FUTURE GASB PRONOUNCEMENTS

The university is subject to GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions for the year ended June 30, 2008. This statement would require the university to record the cost related to its postemployment benefit obligation on an accrual basis. The university has not performed a study to determine the impact of adoption of Statement No. 45 but believes any expense and potential liability required to be recorded would be material.

Central Michigan University  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2006

Federal Agencies / Grant Name	Project Period	Federal or Pass Through Number	Federal Catalogue Number	Expenditures
<b>Major Programs:</b>				
<b>U.S. Department of Education</b>				
Student Financial Assistance Cluster				
Federal Work Study 2006	01-Jul-05 - 30-Sep-06	P033A001985	84.033	\$ 904,082
Federal Perkins Loan Program - Loans and Loan Guarantees			84.038	2,097,449
William D. Ford Federal Direct Loan Program - 2006			84.268	112,825,349
William D. Ford Federal Direct Loan Program - 2005			84.268	1,051,010
Federal Supplemental Educational Opportunity Grants	01-Jul-05 - 30-Sep-06	P007A001985	84.007	466,021
Federal Pell Grant Program 2005	01-Jul-04 - 30-Sep-05	P063P000825	84.063	21,095
Federal Pell Grant Program 2006	01-Jul-05 - 30-Jun-06	P063P000825	84.063	11,535,608
Total Student Financial Assistance Cluster				<u>128,900,614</u>
Total U.S. Department of Education				<u>128,900,614</u>
<b>Research and Development Cluster</b>				
National Science Foundation				
Nuclear Structure & Astrophysics Passed Through Michigan State University	01-Jun-05 - 31-May-06	NSF-PHY-0244453	47.049	33,624
Oxidic Mesostructure	01-Sep-02 - 31-Aug-05	CHE0211029	47.049	14,129
Research Experience Undergrads Year 3	01-May-05 - 30-Apr-06	DMS-0243674	47.049	23,802
Nanotech in Chemistry Lab	01-Jul-04 - 30-Jun-06	407298	47.049	7,383
REU Site in Algebra, Combinations, and Matrix Theory	01-May-06 - 30-Apr-09	DMS-0552594	47.049	40,117
Structure Nanocrystallization Year 2	01-Aug-04 - 31-Jul-05	DMR-0304391	47.049	731
Hypersaline Environment	01-Jan-05 - 31-Dec-07	0433040	47.050	89,059
Microbial Diversity	15-Sep-02 - 31-Aug-05	DEB-0234921	47.074	14,225
Beaver Island IMPR	01-Aug-02 - 31-Jul-05	DBI-0224795	47.074	5,941
Microbiology Equipment	01-Aug-04 - 31-Jul-07	420911	47.074	94,649
Vitus Smart 3-D Scan	01-Sep-04 - 31-Aug-07	04224	47.074	14,978
CAA: Rhizosphere Influence	01-Mar-06 - 29-Feb-08	IOB-0542309	47.074	2,163
Activity Based Learning	01-Sep-03 - 31-Aug-07	0310932	47.076	57,656
Water Analysis W Ion	15-Jul-04 - 30-Jun-07	411143	47.076	11,032
Pre-Service Teachers	01-Jun-05 - 31-May-07	ESI-0455797	47.076	276,827
Weather Tracker Learning	01-Sep-04 - 31-Aug-07	410608	47.076	6,682
Alaska Glacier	05-Dec-03 - 30-Aug-05	Opp-0412684	47.078	2,915
Total National Science Foundation				<u>695,913</u>
Army Research Laboratory				
Army Admin Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	36,662
DNT - Army Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	192,068
CMURC - Army Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	38,964
Army Host Guest Comp Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	27,884
Army Xray Nanotech Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	17,931
Army Self Decon Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	105,242
Army Opto Elec Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	40,185
Army One Pot Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	3,830
Army DNA Probe Year 2	18-Jun-04 - 17-Jun-06	W911NF-04-2-0030	2358	33,640
Total Army Research Laboratory				<u>496,406</u>
Passed Through Michigan State University				
NIRT: Structure of Nanocrystallization	01-Aug-05 - 31-Jul-06	61-2037	47.047	56,546
Total Assistance Passed Through Michigan State University				<u>56,546</u>
Total Research and Development Cluster				<u>1,248,865</u>
<b>Total Major Programs</b>				<u>130,149,479</u>

See Notes to Schedule of Expenditures of Federal Awards.

Central Michigan University  
Schedule of Expenditures of Federal Awards (continued)

Federal Agencies / Grant Name	Project Period	Federal or Pass Through Number	Federal Catalogue Number	Expenditures
<b>U.S. Department of Education</b>				
GEAR UP				
GEAR UP Year 6	01-Sep-04 - 31-Aug-06	P334A990296-04	84.334A	\$ 248,097
Passed Through Michigan Department of Career Development				
GEAR UP Michigan Year 4	15-Aug-04 - 14-Aug-05		84.334A	14,783
GEAR UP Michigan Year 5	15-Aug-05 - 14-Aug-06		84.334A	150,375
Total Assistance for Catalogue Number 84.334A				<u>413,255</u>
Passed Through Flint Community Schools				
GEAR UP Service to Longfellow Middle School	01-Sep-05 - 31-Aug-06		84.XXX	42,888
GEAR UP Service to McKinley Middle School			84.XXX	53,238
Total Assistance for Catalogue Number 84.XXX				<u>96,126</u>
TRIO Cluster				
Upward Bound II Year 2	01-Sep-04 - 31-Aug-05	P047A030568-04	84.047A	106,265
Upward Bound II Year 3	01-Sep-05 - 31-Aug-06	P047A030568-04	84.047A	131,343
McNair II Year 2	01-Oct-04 - 30-Sep-05	P217A030206-04	84.217A	57,640
McNair II Year 3	01-Oct-05 - 30-Sep-06	P217A030206-04	84.217A	177,039
Total TRIO Cluster				<u>472,287</u>
Other U.S. Department of Education				
Invisible Faculty Year 3	01-Sep-03 - 31-Dec-05	P116B010643-03	84.116	108,821
GAANN Program Year 3	15-Aug-02 - 14-Aug-05	P200A00609-02	84.200A	7,982
Deaf-Blind Child Services-Year 5	01-Oct-03 - 30-Sep-05	H326C030019	84.326	5,359
Deaf-Blind Child Services-Year 1	01-Oct-04 - 30-Sep-06	H326C040009	84.326C	77,690
Deaf-Blind Child Services-Year 2	01-Oct-05 - 30-Sep-06	H326C040009	84.326C	171,655
International Business Mid Michigan-Year 1	01-May-05 - 30-Jun-05	P153A040040	84.153A	337
International Business Mid Michigan-Year 2	01-Jul-05 - 30-Jun-07	P153A040040	84.153A	72,197
Info Resources Year 2	01-Oct-04 - 30-Sep-05	P031A030100-04	84.031A	164,839
Info Resources Non CM Year 3	01-Oct-05 - 30-Sep-06	P031A030100-04	84.031A	120,430
Info Resources CM Year 3	01-Oct-05 - 30-Sep-06	P031A030100-04	84.031A	177,014
Innovation Workforce Management	01-May-05 - 30-Jun-06	P116Z050278	84.1162	67,401
Total Other U.S. Department of Education				<u>973,725</u>
Passed Through Michigan Department of Education				
Career & Tech Education	01-Oct-04 - 30-Sep-05	053280-50186	84.048A	290
Math & Science Partnership	01-Oct-04 - 30-Sep-06	052410-MSPF2004	84.366	209,710
Michigan Consortium	01-Jun-05 - 31-Jul-05	052410-MSPF2004	84.366	4,280
Strategies in Action	20-Aug-04 - 30-Jun-06	050290-102	84.367	135,883
Math Academy	29-Jul-05 - 30-Jun-07	060290-594	84.367	36,493
Improving Teacher Quality	29-Jul-05 - 30-Jun-07	060290-594	84.367	67,726
American History II	01-Aug-03 - 31-Jun-06	040290-302	84.367B	28,720
Mid-Level Math II	01-Aug-03 - 31-Jun-05	040290-104	84.367B	201
North MI Achieve II	01-Aug-03 - 31-Jun-05	040290-308	84.367B	33,689
Building Capacity II	01-Aug-03 - 31-Jun-05	040290-213	84.367B	39,887
Teacher Education Improvement	01-Jul-05 - 30-Jun-06	6018-1	84.048A	7,000
Total Assistance Passed Through Michigan Department of Education				<u>563,879</u>
Passed Through Corporation for Public Broadcasting				
Ready to Learn Year 5	01-Sep-04 - 31-Aug-05		84.295	2,879
Ready to Learn in Literature	01-Sep-05 - 30-Sep-06	9757	84.XXX	31,008
Total Assistance Passed Through Corporation for Public Broadcasting				<u>33,887</u>
Passed Through Alpena-Montmorency-Alcona Educational District				
Turning Points	01-Apr-05 - 30-Jun-07	05339-U215X040118	84.XXX	26,741
Total Assistance Passed Through Alpena-Montmorency-Alcona Educational District				<u>26,741</u>
Total U.S. Department of Education				<u>2,579,900</u>

See Notes to Schedule of Expenditures of Federal Awards.

Central Michigan University  
Schedule of Expenditures of Federal Awards (continued)

Federal Agencies / Grant Name	Project Period	Federal or Pass Through Number	Federal Catalogue Number	Expenditures
<b>U.S. Department of Agriculture</b>				
Digital Transition	01-Mar-04 - 28-Feb-07		10.861	\$ 1,502
Atrazine Populations	01-Aug-02 - 31-Jul-05	2001-35107-13592	10.206	3,798
Child & Adult Program-Passed Through Michigan DOE	01-Oct-04 - 30-Sep-05		10.558	891
Child & Adult Program Year 6-Passed Through Michigan DOE	01-Oct-05 - 30-Sep-06	370000012	10.558	8,018
Livestock Guard Dogs	01-Sep-04 - 31-Aug-05	04-07488-0538	10.028	2,383
PBS Michigan Nutrition Network-Passed Through Michigan State University	01-Oct-04 - 28-Jan-06		10.551	33,845
Total U.S. Department of Agriculture				50,437
<b>U.S. Department of Health and Human Services</b>				
Other U.S. Department of Health and Human Services				
Site Model of FE/CU	01-Aug-03 - 31-Dec-05	1R15GM068455-01	93.390	21,522
Cyclodextrin Aids	01-Sep-02 - 31-Aug-05	R5GM6597A	93.390	8,231
Head Start/Child Care Year 5	01-Jun-04 - 31-Jul-05	03-CS-11090400-168	93.600	9,485
Imaging Bone Tissue Year 3	01-Dec-04 - 30-Nov-05	AR47969 F008619	93.846	18,937
Functional SNPs Year 4-Passed Through Children's Research Institute	01-Sep-04 - 31-Aug-05	1688-01-04	93.853	20,172
Conduct Disordered Preschooler Year 1	01-Jan-05 - 31-Dec-05	1R34MH070483-01A1	93.242	51,474
Conduct Disordered Preschooler Year 2	01-Jan-06 - 31-Dec-06	1R34MH070483-01A1	93.242	46,247
Neuro in Parkinsonism	15-May-05 - 30-Apr-08	1R15NS051270-01	93.853	31,051
Geriatric Education Year 5	01-Jul-05 - 30-Jun-06	620555	93.696	12,348
Safety Training	01-May-05 - 01-Nov-05	1R43ES012778-01A2	93.XXX	11,039
Collaborative Child Care-Passed Through EightCap, Inc.	01-Aug-05 - 31-Dec-06		93.XXX	122,395
Total Other U.S. Department of Health and Human Services				352,901
Passed Through the National Institute of Health				
Structural and Mechanistic Analysis	01-Oct-05 - 30-Jun-07	5R01GM067788-13	93.859	14,344
First Author-Passed Through Don Johnston	30-Sep-04 - 31-Jan-06		93.865	30,653
Total Assistance Passed Through the National Institute of Health				44,997
Passed Through the University of Michigan				
Raman Imaging of Bone Tissue & Mineral	01-Dec-05 - 30-Nov-06	1R01AR047969-04	93.846	17,576
Flu Vaccine Study Year 1	15-Aug-04 - 31-Jul-05	A1057853	93.856	2,685
Flu Vaccine Study Year 2	01-Sep-05 - 31-Jul-06	A1057853	93.856	130,030
Total Assistance Passed Through the University of Michigan				150,291
Total U.S. Department of Health and Human Services				548,189
<b>National Endowment for Humanities</b>				
Other National Endowment for Humanities				
MI Newspaper Project Phase 2	01-Jul-04 - 30-Jun-07	PA-24048-02	45.149	129,456
Total Other National Endowment for Humanities				129,456
Passed Through Michigan Humanities Council				
Michigan Story Festival	15-Nov-04 - 15-Nov-06	2543 H 04	45.129	24,750
Made in Michigan	15-Mar-05 - 30-Nov-05	050290-102	45.129	816
Total Assistance Passed Through Michigan Humanities Council				25,566
Passed Through Michigan Council for Arts and Cultural Affairs				
Art Exhibit Series 04/05	01-Aug-04 - 30-Sep-05	04PP0029ZZ	45.025	5,101
Musical Outreach Program to Mid Michigan Communities	01-Oct-05 - 30-Sep-06	06PP0083ZZ	45.000	5,600
Contemporary Art Exhibition Series	01-Oct-05 - 30-Sep-06	06PP0103ZZ	45.XXX	8,100
Total Assistance Passed Through Michigan Council for Arts and Cultural Affairs				18,801
Total National Endowment for Humanities				173,823
<b>U.S. Department of Justice</b>				
Violence Against Women	01-Sep-05 - 31-Aug-07	200-WA-AX-0028	16.525	36,681
Total U.S. Department of Justice				36,681

See Notes to Schedule of Expenditures of Federal Awards.

Central Michigan University  
Schedule of Expenditures of Federal Awards (continued)

Federal Agencies / Grant Name	Project Period	Federal or Pass Through Number	Federal Catalogue Number	Expenditures
<b>U.S. Department of Energy</b>				
Comp Nanophotonics	15-Sep-03 - 14-Nov-06	DE-F602-03ER15489	81.049	\$ 105,328
Total U.S. Department of Energy				<u>105,328</u>
<b>U.S. Department of Transportation Highway Safety-Passed Through Michigan Office of Highway Safety Planning</b>				
Safety Belt Revision	15-Dec-04 - 30-Sep-05	OP-05-06	20.602	10,678
Boosters and Belts	25-Apr-05 - 30-Sep-05	OP-05-10	20.600	37,646
Booster Seat Revision	20-Oct-05 - 30-Sept-05	OP-06-06	20.602	<u>562</u>
Total Assistance Passed Through Michigan Office of Highway Safety Planning for U.S. Department of Transportation Highway Safety				<u>48,886</u>
<b>U.S. Department of Commerce</b>				
National Oceanic and Atmospheric Administration Genetic Pollution-Passed Through Michigan Sea Grant	01-Mar-05 - 28-Feb-07	NA050AR4171045	11.417	<u>58,907</u>
Total National Oceanic and Atmospheric Administration				<u>58,907</u>
Economic Development Administration Nanotech Wetlab Year 1	19-Oct-04 - 18-Dec-08	06-01-04949	11.300	<u>74,844</u>
Total Economic Development Administration				<u>74,844</u>
National Marine Fisheries Services		JG133F-04-SE-0178	Unknown	5,000
National Telecommunications and Information Administration Public Telecommunications Program	01-Oct-01 - 30-Sep-06	26-01N02244	11.550	8,560
PBS - Radio Call Up	01-Oct-04 - 30-Sep-06	26-01-N04129	11.550	<u>50,206</u>
Total National Telecommunications and Information Administration				<u>58,766</u>
Total U.S. Department of Commerce				<u>197,517</u>
<b>Department of Interior</b>				
U.S. Fish and Wildlife Services Lake Sturgeon Population	21-Jan-05 - 31-Dec-06	301815J051	15.FFB	8,454
Double-crested Comorant Population, Monitoring, Diet Evaluation	27-Apr-06 - 01-May-07	98210-6-G084	15.647	<u>1,643</u>
Total U.S. Fish and Wildlife Services				<u>10,097</u>
Passed Through Michigan Department of National Resources Bobcat Habitat in Michigan	01-Jun-04 - 31-Dec-06	L3-03-031	15.638	5,805
Genetic Evaluation Marten	01-Jun-04 - 15-May-07	W303003	15.639	35,153
Forest Migratory	24-Mar-04 - 30-Sep-05		15.634	1,110
Nayanquing Wildlife	24-Jan-05 - 16-Dec-05		15.634	1,297
Avian Collisions	22-Nov-04 - 31-Dec-05	751P5200618	15.634	9,900
Study of Wolf Range Behaviour-Passed Through Little Traverse Bay Bands Odawa Indians	09-Jan-06 - 30-Sep-08	W305021	15.639	20,129
Molecular-Black Bear-Passed Through Little Traverse Bay Bands Ottawa Indians	01-May-05 - 31-Dec-07	L3-04-014	15.368	<u>26,050</u>
Total Assistance Passed Through Michigan Department of Natural Resources				<u>99,444</u>
Total Department of Interior				<u>109,541</u>
<b>National Aeronautics and Space Administration</b>				
Nanofiber Additions for Tailoring Vibration Damping-Passed Through Applied Sciences, Inc.	20-Jan-06 - 24-Sep-06	NNL06AA33P	43.CCN	<u>8,678</u>
Total National Aeronautics and Space Administration				<u>8,678</u>
<b>Digital Distribution-Passed Through the Corporation for Public Broadcasting</b>				
Digital Television Conversion	01-Aug-04 - 01-Mar-07		Unknown	66,555
Digital Distribution Fund	15-Apr-05 - 30-May-07		Unknown	<u>73,575</u>
Total Assistance Passed Through the Corporation for Public Broadcasting for Digital Distribution				<u>140,130</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 134,148,589</u>

See Notes to Schedule of Expenditures of Federal Awards.



Central Michigan University

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

- Note 1:** The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. This schedule does not include matching expenditures by the University or other nonfederal entities.
- Note 2:** As defined in OMB Circular A-133, Student Financial Assistance Programs are considered to be a cluster of programs and, accordingly, have been classified as one program for testing purposes.
- Note 3:** Under the William D. Ford Federal Direct Loan Program, students and parents borrow funds directly from the federal government; the University is responsible for verifying student eligibility, electronically transmitting the loan records to the federal processor and distributing the loan funds directly to the student account or parent borrower. For the year ended June 30, 2006, Direct Student Loans totaled \$100,304,888 (\$49,621,912 subsidized and \$50,682,976 unsubsidized) and Direct Parent Loans for Undergraduate Students totaled \$13,571,471. These amounts were excluded from total federal expenditures when determining the dollar threshold for Type A and Type B programs.
- Note 4:** The University utilizes the services of University Accounting Services, Inc. to administer the repayment of Federal Perkins loans and perform certain due diligence procedures. The University Accounting Services, Inc. Compliance Attestation Examination of Title IV Student Financial Assistance Programs report for the fiscal year ended June 30, 2006 was received and reviewed. No significant items of noncompliance or control weaknesses were noted. There were \$8,589,083 of Federal Perkins Loans (CFDA Number 84.038) outstanding as of June 30, 2006.

Total program disbursements under the Federal Perkins Loans program for the year ended June 30, 2006 were as follows:

Student Loans Awarded	\$2,097,449
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The amount shown as Federal Perkins Loan Program loans and loan guarantees represents the amounts loaned by the University during the year less the current year Federal contribution.

- Note 5:** The following administrative cost allowance was received by the University:

Federal Perkins Loan Program	\$185,210
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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Independent Auditors' Report on Compliance and Other Matters and on Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Board of Trustees  
Central Michigan University  
Mt. Pleasant, Michigan

We have audited the financial statements of Central Michigan University (CMU) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. We conducted our audit 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CMU's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CMU's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Central Michigan University in a separate letter dated August 18, 2006.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities 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 18, 2006



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

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

Board of Trustees  
Central Michigan University  
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of Central Michigan University (CMU) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. CMU's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CMU's management. Our responsibility is to express an opinion on CMU's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CMU's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CMU's compliance with those requirements.

In our opinion, CMU complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

We did not audit CMU's compliance with the requirements governing billing, recordkeeping, payment processing, reporting, and due diligence functions for CMU's Federal Perkins Loan Program. Those requirements govern functions performed by University Accounting Service, Inc. University Accounting Service, Inc.'s compliance with the requirements governing the functions it performs for Central Michigan University was examined by another auditor, whose report was furnished to us. Based on our review of the other auditor's report, we have determined that all of the compliance requirements that are applicable to CMU's Federal Perkins Loan Program are addressed either in our report or the report of the other auditor. Based on our review of the other auditor's report, we have determined that it does not contain any findings of noncompliance pertaining to the services that University Accounting Service, Inc. performs for Central Michigan University.

#### Internal Control Over Compliance

The management of CMU is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, and contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered CMU's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

The internal control policies and procedures relating to billing, recordkeeping, payment processing, reporting, and due diligence functions for CMU's Federal Perkins Loan Program are performed at University Accounting Service, Inc. For these control categories, other auditors obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and assessed control risk. The other auditor's report has been furnished to us; however, the scope of our work did not extend to these internal control policies and procedures established and maintained at University Accounting Service, Inc.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities 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 18, 2006

Central Michigan University  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2006

Section I – Summary of Auditor’s Results

**Financial Statements**

Type of auditor’s report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness identified?	_____ Yes	<u>  X  </u> No	
Reportable condition identified not considered to be material weakness?	_____ Yes	<u>  X  </u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No	

**Federal Awards**

Internal control over major programs:			
Material weakness identified?	_____ Yes	<u>  X  </u> No	
Reportable condition identified not considered to be material weakness?	_____ Yes	<u>  X  </u> None reported	
Type of auditor’s report issued on compliance for major programs:	<u>Unqualified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes	<u>  X  </u> No	

Identification of major programs:

CFDA Number

84.033  
 84.038  
 84.268  
 84.007  
 84.063

Name of Federal Program or Cluster

Student Financial Assistance:  
 Federal Work Study  
 Federal Perkins Loan Program  
 William D. Ford Federal Direct Loan Program  
 Federal Supplemental Educational Opportunity Grants  
 Federal Pell Grant Program

Central Michigan University

Schedule of Findings and Questioned Costs (continued)

Section I – Summary of Auditor’s Results (continued)

**Federal Awards (continued)**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
47.049	Research and Development:
47.049	Nuclear Structure & Astrophysics
47.049	Oxidic Mesostructure
47.049	Research Experience Undergrads
47.049	Nanotech in Chemistry Lab
47.049	REU Site in Algebra, Combinations, Matrix Theory
47.049	Structure Nanocrystallization
47.050	Hypersaline Environment
47.074	Microbial Diversity
47.074	Beaver Island IMPR
47.074	Microbiology Equipment
47.074	Vitus Smart 3-D Scan
47.074	CAA: Rhizosphere Influence
47.076	Activity Based Learning
47.076	Water Analysis W Ion
47.076	Pre-Service Teachers
47.076	Weather Tracker Learning
47.078	Alaska Glacier

Central Michigan University

Schedule of Findings and Questioned Costs (continued)

Section I – Summary of Auditor’s Results (continued)

**Federal Awards (continued)**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
2358	Army Admin Year 2
2358	DNT – Army Year 2
2358	CMURC – Army Year 2
2358	Army Host Guest Comp Year 2
2358	Army Xray Nanotech Year 2
2358	Army Self Decon Year 2
2358	Army Opto Elec Year 2
2358	Army One Pot Year 2
2358	Army DNA Probe Year 2
47.047	NIRT: Structure of Nanocrystallization

Dollar threshold used to distinguish between Type A and Type B programs: \$608,167

Auditee qualified as low-risk auditee?  X  Yes   No

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

None.



Central Michigan University  
Summary Schedule of Prior Audit Findings  
Year ended June 30, 2006

None.