

State of Michigan Financial Schedules  
State Universities Component Units

Central Michigan University

*June 30, 2006*

State of Michigan Financial Schedules  
State Universities Component Units

Central Michigan University

*June 30, 2006*

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

Report of Independent Auditors on  
Supplementary Information

Board of Trustees  
Central Michigan University  
Mt. Pleasant, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Central Michigan University (University), a component unit of the State of Michigan, as of and for the year ended June 30, 2006, and have issued our unqualified opinion thereon dated August 18, 2006.

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

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, 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.

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

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

Saginaw, Michigan  
August 18, 2006

STATE OF MICHIGAN  
STATEMENT OF NET ASSETS  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSIT  
June 30, 2006

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 8,017,544		\$ 8,017,544	1
Accounts receivable, net	15,244,107		15,244,107	2
State appropriations receivable, operations	15,559,400		15,559,400	2
State appropriations receivable, Charter Schools	34,037,200		34,037,200	2
Inventories	4,192,081		4,192,081	1
Other assets	1,427,853		1,427,853	2
Total current assets	78,478,185			
<b>CURRENT ASSETS</b>				
Cash		\$ 8,017,544		\$ 8,017,544
Amounts due from primary government		50,209,254		50,209,254
Amounts due from federal government		399,397		399,397
Inventories		4,192,081		4,192,081
Other current assets		15,659,909		15,659,909
Total Current Assets	78,478,185	78,478,185	78,478,185	78,478,185
<b>NONCURRENT ASSETS:</b>				
Restricted cash and cash equivalents	37,135,617		37,135,617	3
Endowment investments	68,406,395		68,406,395	3
Loans receivable, net	8,403,082		8,403,082	1
Other long-term investments	128,762,137		128,762,137	3
Capital assets, net	339,225,028		339,225,028	4
<b>RESTRICTED ASSETS</b>				
Cash and cash equivalents		37,135,617		37,135,617
Mortgages and loans receivable		8,403,082		8,403,082
Investments		39,536,164		39,536,164
<b>INVESTMENTS</b>				
		157,632,368		157,632,368
<b>CAPITAL ASSETS</b>				
Land and other nondepreciable assets		10,903,374		10,903,374
Buildings, equipment, and other depreciable assets		528,085,856		528,085,856
Less accumulated depreciation			237,392,632	(237,392,632)
Constructions in progress		37,628,430		37,628,430
Net capital assets				339,225,028
Total Noncurrent Assets	581,932,259	819,324,891	819,324,891	581,932,259
<b>TOTAL ASSETS</b>	<b>660,410,444</b>	<b>897,803,076</b>	<b>897,803,076</b>	<b>660,410,444</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	50,969,425	50,969,425		
Deferred revenue	10,395,814	10,395,814		
Deposits	572,240	572,240		
Current portion of debt obligation	4,910,000	4,910,000		
Total Current Liabilities	66,847,479			
<b>CURRENT LIABILITIES</b>				
Accounts payable and other liabilities			49,341,566	49,341,566
Amounts due to primary government			579,288	579,288
Bonds and notes payable			4,910,000	4,910,000
Interest payable			1,620,811	1,620,811
Deferred revenue			10,395,814	10,395,814
Total Current Liabilities	66,847,479	66,847,479	66,847,479	66,847,479
<b>NONCURRENT LIABILITIES</b>				
Long-term debt and other obligations	192,658,700	192,658,700		
Bonds and notes payable			177,527,092	177,527,092
Noncurrent portion of other long-term obligations			15,131,608	15,131,608
<b>TOTAL LIABILITIES</b>	<b>259,506,179</b>	<b>259,506,179</b>	<b>259,506,179</b>	<b>259,506,179</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related deb	192,270,699	192,270,699		
Restricted for:				
Nonexpendable				
Scholarships, fellowships, and research	22,358,860	22,358,860		
Expendable				
Scholarships, fellowships, and research	20,884,866	20,884,866		
Instructional department use:	4,474,469	4,474,469		
Loans	1,372,428	1,372,428		
Capital projects and debt service	3,797,092	3,797,092		
Unrestricted	155,745,851	155,745,851		
Total Net Assets	400,904,265	400,904,265		
<b>NET ASSETS</b>				
Invested in capital assets, net of related deb			192,270,699	192,270,699
Restricted for:				
Education			49,090,623	49,090,623
Construction and debt service			3,797,092	3,797,092
Unrestricted Net Assets			155,745,851	155,745,851
<b>TOTAL NET ASSETS</b>	<b>\$ 400,904,265</b>	<b>\$ 400,904,265</b>	<b>\$ 400,904,265</b>	<b>\$ 400,904,265</b>

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF NET ASSETS  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2006

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

2) Reclassify current receivables

	Other Receivables	Due from Primary Government	Due from Federal Government
Accounts receivable, net	\$ 15,244,107		
State appropriations receivable, operations	15,559,400		
State appropriations receivable, Charter Schools	34,037,200		
State Appropriations	(15,559,400)	\$ 15,559,400	
State Appropriations - Charter Schools	(34,037,200)	34,037,200	
State Grants	(612,654)	612,654	
Federal Agencies	(399,397)		\$ 399,397
	<u>\$ 14,232,056</u>	<u>\$ 50,209,254</u>	<u>\$ 399,397</u>
Other current assets	\$ 1,427,853		
Other receivables	14,232,056		
	<u>\$ 15,659,909</u>		

3) Reclassify investments

	Investments	Restricted	Other Expendable
Cash and cash equivalents	\$ 37,135,617	\$ 37,135,617	
Endowment investments	68,406,395	39,536,164	\$ 28,870,231
Other long-term investments	128,762,137		128,762,137
	<u>\$ 234,304,149</u>	<u>\$ 76,671,781</u>	<u>\$ 157,632,368</u>

4) Reclassify capital assets

	Capital Assets
Land and other nondepreciable assets	\$ 10,903,374
Buildings, equipment, and other depreciable assets	528,085,856
Construction in progress	37,628,430
Total	576,617,660
Less accumulated depreciation	237,392,632
	<u>\$ 339,225,028</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 50,969,425		
Deposits	572,240		
MPSERS & MPSERS - MIP	(558,817)	\$ 558,817	
Mich income tax	(173)	173	
Mich sales tax	(20,298)	20,298	
Interest	(1,620,811)		\$ 1,620,811
	<u>\$ 49,341,566</u>	<u>\$ 579,288</u>	<u>\$ 1,620,811</u>

6) Reclassify current portion of debt obligation

	Current Portion of Debt Obligation	Bonds and Notes Payable
	\$ 4,910,000	\$ 4,910,000

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds and Notes Payable
Long-term debt and other obligations	\$ 192,658,700	
Bonds and notes payable	(177,527,092)	\$ 177,527,092
	<u>\$ 15,131,608</u>	<u>\$ 177,527,092</u>

8) Combine restricted net assets

	Restricted for Education
Restricted for:	
Nonexpendable-scholarships, fellowships, and research	\$ 22,358,860
Expendable-scholarships, fellowships and research, and departmental use	25,359,335
Expendable-loans	1,372,428
	<u>\$ 49,090,623</u>

STATE OF MICHIGAN  
STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
FISCAL YEAR ENDED JUNE 30, 2006

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 141,471,991	\$ 141,471,991	1	
Federal grants and contracts	16,410,297	16,410,297	2	
State and local grants and contracts	2,503,778	2,503,778	2	
Private grants and contracts	3,382,700	3,382,700	2	
Sales and services of educational activities	13,221,207	13,221,207	1	
Auxiliary enterprises	59,685,963	59,685,963	1	
Total operating revenues	236,675,936	236,675,936		
<b>OPERATING EXPENSES</b>	308,291,001			\$ 308,291,001 3
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	80,693,400	80,693,400	4	
Gifts and pledges net of allowance	3,893,903	3,893,903	2	
Investment income net of expense	15,270,331	15,270,331	5	
Interest on capital assets related debt	(6,992,784)			6,992,784 3
Other nonoperating revenues	17,777	17,777	6	
Net nonoperating revenues	92,882,627	99,875,411		6,992,784
<b>OTHER REVENUES</b>				
Capital appropriations	1,079,762	1,079,762	4	
Capital grants and gifts	4,153,204	4,153,204	7	
Additions to permanent endowments	1,937,513	1,937,513	2	
Total other revenues	7,170,479	7,170,479		
Increase in net assets	28,438,041	343,721,826		315,283,785
<b>EXPENSES</b>		315,283,785	3	\$ 315,283,785
<b>PROGRAM REVENUES</b>				
Charges for services				214,379,161 1
Operating grants/contributions				28,128,191 2
Capital grants/contributions				4,153,204 7
<b>NET REVENUE</b>				246,660,556
<b>GENERAL REVENUES</b>				
Interest and investment earnings				15,270,331 5
Payments from State of Michigan				81,773,162 4
Other				17,777 6
Total general revenues				97,061,270
Change in net assets	28,438,041			28,438,041
Net assets -- beginning	372,466,224			372,466,224
Net assets -- ending	\$ 400,904,265	\$ 659,005,611		\$ 659,005,611 \$ 400,904,265

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2006

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 141,471,991
	Sales and services of educational activities	13,221,207
	Auxiliary enterprises	<u>59,685,963</u>
		<u>\$ 214,379,161</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 16,410,297
	State and local grants and contracts	2,503,778
	Private grants and contracts	3,382,700
	Gifts and pledges net of allowance	3,893,903
	Additions to permanent endowments	<u>1,937,513</u>
		<u>\$ 28,128,191</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses	\$ 308,291,001
	Interest on capital assets, net of related debt	6,992,784
		<u>\$ 315,283,785</u>
4)	Payments from State of Michigan	<u>Payments from State of Michigan</u>
	State appropriations	\$ 80,693,400
	Capital appropriations	1,079,762
		<u>\$ 81,773,162</u>

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

**CENTRAL MICHIGAN UNIVERSITY**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared to incorporate all fund groups utilized internally by Central Michigan University (University). These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NOTE B--CASH, POOLED INVESTMENTS, AND INVESTMENTS

**Policy**

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

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

Policies regarding marketable securities in the Endowment Investments, as set forth by the Board of Trustees, authorize the investment manager to invest in high-grade equities, bonds, or other marketable securities. The endowment income spending policy is 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	<u>13.9%</u>	<u>11.1%</u>

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

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

Investment Type	Rating	Fair Market Value	Investment Maturities (in Years) at June 30, 2006			
			Less Than 1	1 - 5	6 - 10	More Than 10
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 bond 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>As Reported on the Statement of Net Assets</b>						
Current investments		\$ 8,017,544				
Noncurrent restricted investments		37,135,617				
Noncurrent investments		197,168,532				
Total Investments		\$ 242,321,693				

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

NOTE B--CASH, POOLED INVESTMENTS, AND 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 bond funds	Moody's Aaa	65,285,579	65,285,579			
Other investments	Moody's Aaa	412,061				412,061
		143,675,126	\$ 113,717,764	\$ 12,628,894	\$ 4,733,865	\$ 12,594,603
Preferred Stock	N/A	190,939				
Equities	N/A	7,555,476				
Equities - Foreign	N/A	12,404,268				
Equity Mutual Funds	N/A	51,061,924				
Life Insurance Policies	N/A	587,375				
Cash Equivalents	N/A	516,987				
Investments Reported as						
"Cash" on Statements of Net Assets		(5,279,573)				
Total Investments		\$ 210,712,522				
<b>As Reported on the Statement of Net Assets</b>						
Current investments		\$ 26,463,277				
Noncurrent restricted investments		30,657,063				
Noncurrent investments		153,592,182				
Total Investments		\$ 210,712,522				

**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.

## **CENTRAL MICHIGAN UNIVERSITY**

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

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

#### **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 and \$308,737 at June 30, 2006 and \$261,718 at June 30, 2005 was covered by federal depository insurance or by collateral held by the University's agent in the University's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. 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**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

**NOTE C--NOTES AND BONDS PAYABLE**

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			\$ 172,082,645	\$ 29,867,102	\$ 4,381,047	\$ 197,568,700	\$ 4,910,000

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.

## CENTRAL MICHIGAN UNIVERSITY

### NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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

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.

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.

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

NOTE C--NOTES AND BONDS PAYABLE--continued

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>

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:

	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
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
Total five years	<u>30,825,000</u>	<u>35,116,608</u>	<u>2,964,467</u>	<u>68,906,075</u>
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 five year periods	<u>151,612,092</u>	<u>87,875,472</u>	<u>4,019,703</u>	<u>243,507,267</u>
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.

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

NOTE D--LEASES

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

<u>Total Operating Lease Commitments</u>	
2007	\$ 2,577,932
2008	2,044,161
2009	1,702,751
2010	1,261,861
2011	1,086,319
2012-2016	4,435,216
2017-2021	192,060
2022-2023	10,300
Total	<u>\$13,310,600</u>

No assets were acquired under capital leases.

NOTE E--CAPITAL ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2006:

	<u>Beginning Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 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	13,914,237	25,568,773	1,854,580	37,628,430
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	87,288	7,780		95,068
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>

## CENTRAL MICHIGAN UNIVERSITY

### NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

#### NOTE F--AFFILIATED ORGANIZATIONS

The Central Michigan University Research Corporation (CMURC) was formed as an independent 501(c)(3) nonprofit corporation on February 15, 2002. The corporation's sole member is Central Michigan University. The purpose for which the corporation was formed is to solicit, collect, receive, and administer funds exclusively for the support of the scientific, literary, and educational programs of the University as permitted to be carried on by an organization exempt from federal income taxation. The University has contributed \$1,700,000 and has a remaining commitment of \$1,375,000 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 G--RETIREMENT PLANS

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

Hourly employees hired prior to January 1, 1996, and other eligible employees choosing this option, participate in the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit plan through the State of Michigan. The University contribution rate was 6.30% 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.



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

NOTE G--RETIREMENT PLANS--continued

Contributions and covered payroll under all plans in fiscal year 2006 are summarized as follows:

	TIAA-CREF and Fidelity	MPSERS	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 MPSERS 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 all maintenance and food service employees. The plan provides for distributions to qualifying employees at retirement based principally on length of service and salary at retirement. Assets and liabilities of \$3,998,680 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%

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.

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

NOTE I--LIABILITY AND PROPERTY INSURANCE

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

NOTE J--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.