

State of Michigan Financial Schedules  
State Universities Component Units

Central Michigan University

*June 30, 2007*

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State Universities Component Units

Central Michigan University

*June 30, 2007*

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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, 2007, and have issued our unqualified opinion thereon dated August 28, 2007.

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 28, 2007 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 28, 2007

STATE OF MICHIGAN  
STATEMENT OF NET ASSETS  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
June 30, 2007

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 27,730,750		\$ 27,730,750	1
Accounts receivable, net	18,273,358		18,273,358	2
State appropriations receivable, operations	6,435,390		6,435,390	2
State appropriations receivable, Charter Schools	36,178,230		36,178,230	2
Inventories	5,158,207		5,158,207	1
Other assets	623,416		623,416	2
Total current assets	94,399,351			
<b>CURRENT ASSETS</b>				
Cash		\$ 27,730,750		\$ 27,730,750
Amounts due from primary government		42,893,743		42,893,743
Amounts due from federal government		692,440		692,440
Inventories		5,158,207		5,158,207
Other current assets		17,924,211		17,924,211
Total Current Assets	94,399,351	94,399,351	94,399,351	94,399,351
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	6,790,603		6,790,603	3
Endowment investments	82,421,949		82,421,949	3
Loans receivable, net	8,372,733		8,372,733	1
Other long-term investments	139,451,914		139,451,914	3
Capital assets, net	369,954,487		369,954,487	4
<b>RESTRICTED ASSETS</b>				
Cash and cash equivalents		6,790,603		6,790,603
Mortgages and loans receivable		8,372,733		8,372,733
Investments		48,288,304		48,288,304
<b>INVESTMENTS</b>		173,585,559		173,585,559
<b>CAPITAL ASSETS</b>				
Land and other nondepreciable assets		10,874,636		10,874,636
Buildings, equipment, and other depreciable assets		580,248,618		580,248,618
Less accumulated depreciation			251,636,266	(251,636,266)
Construction in progress		30,467,499		30,467,499
Net capital assets				369,954,487
Total Noncurrent Assets	606,991,686	858,627,952	858,627,952	606,991,686
<b>TOTAL ASSETS</b>	<b>701,391,037</b>	<b>953,027,303</b>	<b>953,027,303</b>	<b>701,391,037</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	56,540,427	56,540,427		5
Deferred revenue	10,786,092	10,786,092		1
Deposits	719,035	719,035		5
Current portion of debt obligation	6,315,000	6,315,000		6
Total Current Liabilities	74,360,554			
<b>CURRENT LIABILITIES</b>				
Accounts payable and other liabilities			55,291,848	55,291,848
Amounts due to primary government			385,839	385,839
Bonds and notes payable			6,315,000	6,315,000
Interest payable			1,581,775	1,581,775
Deferred revenue			10,786,092	10,786,092
Total Current Liabilities	74,360,554	74,360,554	74,360,554	74,360,554
<b>NONCURRENT LIABILITIES</b>				
Long-term debt and other obligations	187,475,986	187,475,986		7
Bonds and notes payable			171,616,971	171,616,971
Noncurrent portion of other long-term obligations			15,859,015	15,859,015
<b>TOTAL LIABILITIES</b>	<b>261,836,540</b>	<b>261,836,540</b>	<b>261,836,540</b>	<b>261,836,540</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	195,624,182	195,624,182		1
Restricted for:				
Nonexpendable				
Scholarships, fellowships, and research	25,265,512	25,265,512		8
Expendable				
Scholarships, fellowships, and research	26,802,280	26,802,280		8
Instructional department uses	4,572,394	4,572,394		8
Loans	1,312,157	1,312,157		8
Capital projects and debt service	3,977,706	3,977,706		1
Unrestricted	181,800,266	181,800,266		1
Total Net Assets	439,554,497	439,554,497		
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt			195,624,182	195,624,182
Restricted for:				
Education			57,952,343	57,952,343
Construction and debt service			3,977,706	3,977,706
Unrestricted Net Assets			181,800,266	181,800,266
<b>TOTAL NET ASSETS</b>	<b>\$ 439,554,497</b>	<b>\$ 439,554,497</b>	<b>\$ 439,554,497</b>	<b>\$ 439,554,497</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, 2007

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	\$ 18,273,358		
State appropriations receivable, operations	6,435,390		
State appropriations receivable, Charter Schools	36,178,230		
State appropriations	(6,435,390)	\$ 6,435,390	
State appropriations, Charter Schools	(36,178,230)	36,178,230	
State grants	(280,123)	280,123	
Federal agencies	(692,440)		\$ 692,440
	<u>\$ 17,300,795</u>	<u>\$ 42,893,743</u>	<u>\$ 692,440</u>
Other current assets	\$ 623,416		
Other receivables	17,300,795		
	<u>\$ 17,924,211</u>		

3) Reclassify investments

	Investments	Restricted	Other Expendable
Cash and cash equivalents	\$ 6,790,603	\$ 6,790,603	
Endowment investments	82,421,949	48,288,304	\$ 34,133,645
Other long-term investments	139,451,914		139,451,914
	<u>\$ 228,664,466</u>	<u>\$ 55,078,907</u>	<u>\$ 173,585,559</u>

4) Reclassify capital assets

	Capital Assets
Land and other nondepreciable assets	\$ 10,874,636
Buildings, equipment, and other depreciable assets	580,248,618
Construction in progress	30,467,499
Total	621,590,753
Less accumulated depreciation	251,636,266
	<u>\$ 369,954,487</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 56,540,427		
Deposits	719,035		
MPSERS & MPSERS - MIP	(368,079)	\$ 368,079	
Mich income tax	(15)	15	
Mich sales tax	(17,745)	17,745	
Interest	(1,581,775)		\$ 1,581,775
	<u>\$ 55,291,848</u>	<u>\$ 385,839</u>	<u>\$ 1,581,775</u>

6) Reclassify current portion of debt obligation

	Current Portion of Debt Obligation	Bonds and Notes Payable
	\$ 6,315,000	\$ 6,315,000
	<u>\$ 6,315,000</u>	<u>\$ 6,315,000</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds and Notes Payable
Long-term debt and other obligations	\$ 187,475,986	
Bonds and notes payable	(171,616,971)	\$ 171,616,971
	<u>\$ 15,859,015</u>	<u>\$ 171,616,971</u>

8) Combine restricted net assets

	Restricted for Education
Restricted for:	
Nonexpendable-scholarships, fellowships, and research	\$ 25,265,512
Expendable-scholarships, fellowships and research, and departmental use	31,374,674
Expendable-loans	1,312,157
	<u>\$ 57,952,343</u>

STATE OF MICHIGAN  
STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
FISCAL YEAR ENDED JUNE 30, 2007

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 156,940,098	\$ 156,940,098	1	
Federal grants and contracts	16,071,259	16,071,259	2	
State and local grants and contracts	2,080,164	2,080,164	2	
Private grants and contracts	3,012,342	3,012,342	2	
Sales and services of educational activities	15,271,236	15,271,236	1	
Auxiliary enterprises	63,967,981	63,967,981	1	
Total operating revenues	257,343,080	257,343,080		
<b>OPERATING EXPENSES</b>	325,356,817			\$ 325,356,817 3
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	72,670,973	72,670,973	4	
Gifts and pledges net of allowance	5,177,717	5,177,717	2	
Investment income net of expense	28,394,660	28,394,660	5	
Interest on capital assets related debt	(9,519,662)			9,519,662 3
Other nonoperating revenues	344,146	344,146	6	
Net nonoperating revenues	97,067,834	106,587,496		9,519,662
<b>OTHER REVENUES</b>				
Capital grants and gifts	6,986,836	6,986,836	7	
Additions to permanent endowments	2,609,299	2,609,299	2	
Total other revenues	9,596,135	9,596,135		
Increase in net assets	38,650,232	373,526,711		334,876,479
<b>EXPENSES</b>		334,876,479	3	\$ 334,876,479
<b>PROGRAM REVENUES</b>				
Charges for services				236,179,315 1
Operating grants/contributions				28,950,781 2
Capital grants/contributions				6,986,836 7
<b>NET REVENUE</b>				272,116,932
<b>GENERAL REVENUES</b>				
Interest and investment earnings				28,394,660 5
Payments from State of Michigan				72,670,973 4
Other				344,146 6
Total general revenues				101,409,779
Change in net assets	38,650,232			38,650,232
Net assets -- beginning	400,904,265			400,904,265
Net assets -- ending	\$ 439,554,497	\$ 708,403,190		\$ 708,403,190 \$ 439,554,497

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES .  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2007

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 156,940,098
	Sales and services of educational activities	15,271,236
	Auxiliary enterprises	63,967,981
		<u>\$ 236,179,315</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 16,071,259
	State and local grants and contracts	2,080,164
	Private grants and contracts	3,012,342
	Gifts and pledges net of allowance	5,177,717
	Additions to permanent endowments	2,609,299
		<u>\$ 28,950,781</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses	\$ 325,356,817
	Interest on capital assets, net of related debt	9,519,662
		<u>\$ 334,876,479</u>
4)	Payments from State of Michigan	<u>Payments from State of Michigan</u>
	State appropriations	\$ 72,670,973
		<u>\$ 72,670,973</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, 2007**

**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).

**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% of the 20-quarter rolling average of the market value of the endowment pool. The annual spending income allocation cannot reduce original gift principal. The spending policy is reviewed periodically by the investment committee, which recommends changes to the Board of Trustees. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$39,978,000. The net appreciation is a component of restricted, expendable net assets. The yields of the Endowment Investments were as follows:

Interest and Dividends	4.8 %
Net Realized and Unrealized Gains	13.8 %
Total Return	<u>18.6 %</u>

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

**Credit Risk**

The university's investment policy requires that all bond investments have a Standard and Poor's or a Moody's Investors Service rating of A or better. Debt investments held by the university as of June 30, 2007, that mature June 30, 2008, 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.



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

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

Investment Type	Rating	Fair Market Value	Investment Maturities (in Years) at June 30, 2007			
			Less Than 1	1 - 5	6 - 10	More Than 10
Investments:						
Commercial Paper	Moody's P-1	\$ 21,499,333	\$ 21,499,333			
Government Securities-US Backed	Moody's Aaa	3,742,852			\$ 2,855,910	\$ 886,942
Government Securities-US Sponsored	Moody's Aaa	57,220,319	48,105,463			9,114,856
Corporate Bonds and Notes	Moody's Aaa	9,033,040		\$ 922,289	2,866,167	5,244,584
Mutual Bond Funds	Moody's Aaa	63,646,651	63,646,651			
Other Investments	Moody's Aaa	274,297				274,297
<b>Total Investments</b>		<b>155,416,492</b>	<b>\$ 133,251,447</b>	<b>\$ 922,289</b>	<b>\$ 5,722,077</b>	<b>\$ 15,520,679</b>
Real Estate Investments	N/A	1,423,886				
Equities	N/A	1,202,403				
Equities-Foreign	N/A	17,444,904				
Equity Mutual Funds	N/A	80,975,139				
Life Insurance Policies	N/A	512,218				
Cash Equivalents	N/A	2,370,230				
Investments Reported as						
"Cash" on Statements of Net Assets		(2,950,056)				
<b>Total Investments</b>		<b>\$ 256,395,216</b>				
<b>As Reported on the Statement of Net Assets</b>						
Current investments:		\$ 27,730,750				
Noncurrent restricted investments		55,078,907				
Noncurrent investments		173,585,559				
<b>Total Investments</b>		<b>\$ 256,395,216</b>				

**Interest Rate Risk**

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

**Concentration of Credit Risk**

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

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

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

**Foreign Currency Risk**

The university's holding in foreign investments were made in mutual funds and equities, which approximated \$29 million dollars.

**Custodial Credit Risk**

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name. The carrying amount of deposits, excluding those classified as investments, was \$(2,950,056). The deposits were reflected in the accounts of the banks at \$2,170,077. Of the bank balance, \$1,866,317 was uninsured and uncollateralized and \$303,760 was covered by federal depository insurance or by collateral held by the university's agent in the university's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investments pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The university had custodial credit risk of \$221.2 million in its investment portfolios.

NOTE C--NOTES AND BONDS PAYABLE

Long-term debt and other obligations consist of the following as of June 30, 2007.

	Interest Rate	Fiscal Year Maturity	July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 5,437,092	\$ 404,879		\$ 5,841,971	
General Revenue Bonds, Series 1997			885,000		\$ 885,000		
General Revenue Bonds, Series 1998							
Series Bonds	4.25-4.85%	2008-2014	9,610,000		230,000	9,380,000	1,165,000
Term Bonds	4.80-5.00%	2015-2028	29,010,000			29,010,000	
General Revenue Bonds, Series 2002A	Various	2017-2033	22,000,000			22,000,000	
General Revenue Bonds, Series 2002B	Various	2008-2016	24,600,000		1,850,000	22,750,000	2,000,000
General Revenue Bonds, Series 2002A-Fixed Rate							
Series Bonds	2.375-2.75%	2008-2009	1,500,000		500,000	1,000,000	500,000
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	2.375-5.00%	2008-2011	7,760,000		1,445,000	6,315,000	1,495,000
General Revenue Bonds, Series 2005							
Series Bonds	3.00-5.00%	2008-2020	10,145,000			10,145,000	625,000
Term Bonds	4.375-5.00%	2021-2035	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	530,000
Term Bonds	4.375-4.50%	2024-2036	17,325,000			17,325,000	
		Total	182,437,092	404,879	4,910,000	177,931,971	6,315,000
Compensated Absences			3,671,847	242,209		3,914,056	
Federal portion of Perkins Loan Program			6,925,562		180,814	6,744,748	
Retirement Service Award Program			3,998,680	1,348,427	682,415	4,664,692	
Other Liabilities			535,519			535,519	
Total Long-Term Debt and Other Obligations			\$ 197,568,700	\$ 1,995,515	\$ 5,773,229	\$ 193,790,986	6,315,000

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

NOTE C--NOTES AND BONDS PAYABLE--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 years 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 years 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) (3.5644% at June 30, 2007). 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 4.58%.

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 bond, 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 (3.458% at June 30, 2007). 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 5.62%.

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, 2007 the swap agreements related to the 2002 Series A and Series B bonds were in a negative position of \$1,633,787 and \$1,765,509, 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**  
**NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued**

NOTE C--NOTES AND BONDS PAYABLE--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, 2007, 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, 2007, 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, 2007.

<u>Maturity Date</u>	<u>Accreted Value</u>	<u>Ultimate Maturity Value</u>
10-1-2011	\$ 1,347,549	\$ 1,820,000
10-1-2012	1,250,130	1,820,000
10-1-2013	1,160,202	1,820,000
10-1-2014	1,079,565	1,820,000
10-1-2015	1,004,525	1,820,000
Total	\$ <u>5,841,971</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, 2007 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2008	\$ 6,315,000	\$ 7,339,983	\$ 623,545	\$ 14,278,528
2009	6,605,000	7,121,591	580,717	14,307,308
2010	6,315,000	6,878,338	536,365	13,729,703
2011	6,680,000	6,624,102	488,724	13,792,826
2012	6,562,549	6,870,066	438,545	13,871,160
Total five years	<u>32,477,549</u>	<u>34,834,080</u>	<u>2,667,896</u>	<u>69,979,525</u>
2013-2017	32,229,422	31,362,602	1,385,455	64,977,479
2018-2022	24,455,000	23,122,326	890,164	48,467,490
2023-2027	31,025,000	16,788,448	761,362	48,574,810
2028-2032	39,735,000	8,662,510	397,286	48,794,796
2033-2036	18,010,000	1,103,775		19,113,775
Total five year periods	<u>145,454,422</u>	<u>81,039,661</u>	<u>3,434,267</u>	<u>229,928,350</u>
Total	\$ <u>177,931,971</u>	\$ <u>115,873,741</u>	\$ <u>6,102,163</u>	\$ <u>299,907,875</u>

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

NOTE C--NOTES AND BONDS PAYABLE--continued

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 is \$32,610,000.

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

NOTE 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:

**Total Operating Lease Commitments**

2008	\$	2,425,146
2009		2,116,711
2010		1,421,910
2011		1,256,281
2012		1,083,034
2013-2017		3,707,591
2018-2022		25,750
2023		5,150
Total	\$	<u>12,041,573</u>

No assets were acquired under capital leases.

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2007:

	<u>Beginning Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2007</u>
Land	\$ 10,903,374	\$ 201,262	\$ 230,000	\$ 10,874,636
Land Improvements	15,742,018	2,530,427		18,272,445
Infrastructure	11,088,067			11,088,067
Buildings	382,161,559	44,358,051	662,481	425,857,129
Leasehold improvements	95,759			95,759
Furniture and equipment	67,607,167	6,121,284	4,957,169	68,771,282
Library materials	50,309,701	3,908,375		54,218,076
Capitalized collections	775,973	891,866		1,667,839
Intangible assets	305,612			305,612
Construction in progress	37,628,430	(5,313,958)	1,846,973	30,467,499
<b>TOTAL</b>	<u>\$ 576,617,660</u>	<u>\$ 52,697,307</u>	<u>\$ 7,696,623</u>	<u>\$ 621,618,344</u>

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

NOTE E--FIXED ASSETS--continued

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007
Less accumulated depreciation:				
Land Improvements	\$ 9,904,433	\$ 1,635,920		\$ 11,540,353
Infrastructure	3,212,345	517,550		3,729,895
Buildings	140,393,610	10,046,683	\$ 655,177	149,785,116
Leasehold improvements	798	9,576		10,374
Furniture and equipment	46,277,901	4,112,674	4,522,355	45,868,220
Library materials	37,508,477	3,118,574		40,627,051
Intangible assets	95,068	7,780		102,848
TOTAL	<u>237,392,632</u>	<u>19,448,757</u>	<u>5,177,532</u>	<u>251,663,857</u>
CAPITAL ASSETS, NET	<u>\$ 339,225,028</u>	<u>\$ 33,248,550</u>	<u>\$ 2,519,091</u>	<u>\$ 369,954,487</u>

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 \$2,200,000 in support of this endeavor. Fiscal year 2007 is the sixth year of the commitment. At June 30, 2007 the net assets of CMURC were \$208,779.

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.

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 6.38% of employees' pay at June 30, 2007 and 6.3% at June 30, 2006, 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% and 4.3% of their annual pay. The university is required to pay a monthly supplemental contribution for retiree

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

NOTE G--RETIREMENT PLANS--continued

health care benefits, which aggregated to \$4,536,929 during the 2006-2007 university fiscal year (\$4,705,593 during the 2005-2006 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, excluding retiree health benefits in fiscal year 2007 are summarized as follows:

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPERS</u>	<u>University Total</u>
University contributions	\$ 8,518,386	\$ 1,765,397	\$ 1,555,385	\$ 11,839,168
Required employee contributions			467,512	467,512
Covered payroll	80,649,536	18,840,495	24,459,191	123,949,222
Total payroll				150,559,516

The university's contributions, which equaled required contributions, to MPERS totaled \$1,563,213 in fiscal year 2006 and \$2,474,860 in fiscal year 2005. Required employee contributions were \$470,105 in fiscal year 2006 and \$485,941 in fiscal year 2005.

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 \$3,079,686 for fiscal year 2006-2007 (\$3,312,532 for fiscal year 2005-2006) 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:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Overfunded</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Ratio Of Overfunded To Covered Payroll</u>
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:

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 54,760	100%	-
2006	54,760	100%	-
2007	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.

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

**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--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, automobile physical damage, 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.