

State of Michigan Financial Schedules
State Universities Component Units

Central Michigan University

June 30, 2008

State of Michigan Financial Schedules
State Universities Component Units

Central Michigan University

June 30, 2008

Contents

Report of Independent Auditors on Supplementary Information.....	i
Exhibit I – Statement of Net Assets	ii
Reclassifying Entries for Statement of Net Assets.....	iii
Exhibit II – Statement of Activities.....	iv
Reclassifying Entries for Statement of Activities	v
Notes to Supplemental Financial Statements	vi



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, 2008, and have issued our unqualified opinion thereon dated August 29, 2008.

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 29, 2008 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 29, 2008

STATE OF MICHIGAN
STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2008

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 17,165,959		\$ 17,165,959	1
Accounts receivable, net	18,488,291		18,488,291	2
State appropriations receivable, SBA	2,654,383		2,654,383	2
State appropriations receivable, operations	14,898,381		14,898,381	2
State appropriations receivable, charter schools	36,905,921		36,905,921	2
Inventories	5,465,358		5,465,358	1
Other assets	684,430		684,430	2
Total Current Assets	96,262,723			
CURRENT ASSETS:				
Cash		\$ 17,165,959		1
Amounts due from primary government		54,835,395		2
Amounts due from federal government		923,407		2
Inventories		5,465,358		1
Other current assets		17,872,604		2
Total Current Assets	96,262,723	96,262,723	96,262,723	
NONCURRENT ASSETS:				
Restricted cash and cash equivalents	5,429		5,429	3
Endowment investments	76,868,395		76,868,395	3
Loans receivable, net	8,690,856		8,690,856	1
Other long-term investments	153,118,117		153,118,117	3
Capital assets, net	382,280,312		382,280,312	4
RESTRICTED ASSETS:				
Cash and cash equivalents		5,429		3
Mortgages and loan receivable		8,690,856		1
Investments		48,288,304		3
INVESTMENTS		181,698,208		3
CAPITAL ASSETS:				
Land and other non depreciable assets		11,060,808		4
Buildings, equipment and other depreciable assets		613,020,289		4
Less accumulated depreciation			269,017,911	4
Constructions in progress		27,217,126		4
Net capital assets				
Total Noncurrent Assets	620,963,109	889,981,020	889,981,020	
TOTAL ASSETS	717,225,832	986,243,743	986,243,743	717,225,832
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	57,096,067	57,096,067		5
Deferred revenue	11,697,617	11,697,617		1
Deposits	688,945	688,945		5
Current portion of debt obligation	6,585,000	6,585,000		6
Total Current Liabilities	76,067,629			
CURRENT LIABILITIES:				
Accounts payable and other liabilities			55,760,954	5
Amounts due to primary government			473,114	5
Interest payable			1,550,944	5
Deferred revenue			11,697,617	1
Bonds and notes payable			6,585,000	6
Total Current Liabilities	76,067,629	76,067,629	76,067,629	
NONCURRENT LIABILITIES:				
Long-term debt and other obligations	183,677,649	183,677,649		7
Bonds and notes payable			165,742,000	7
Noncurrent portion of other long-term obligations			17,935,649	7
TOTAL LIABILITIES	259,745,278	259,745,278	259,745,278	259,745,278
NET ASSETS:				
Invested in capital assets, net of related debt	209,953,312	209,953,312		1
Restricted for:				
Nonexpendable:				
Scholarships, fellowships, and research	27,267,638	27,267,638		8
Expendable:				
Scholarships, fellowships, research and other	22,791,133	22,791,133		8
Instructional department uses	5,283,455	5,283,455		8
Loans	1,272,574	1,272,574		8
Capital projects and debt service	3,896,702	3,896,702		1
Unrestricted	187,015,740	187,015,740		1
Total Net Assets	457,480,554	457,480,554		
NET ASSETS:				
Invested in capital assets, net of related debt			209,953,312	1
Restricted for:				
Education			56,614,800	8
Construction and debt service			3,896,702	1
Unrestricted Net Assets			187,015,740	1
TOTAL NET ASSETS	\$ 457,480,554	\$ 457,480,554	\$ 457,480,554	\$ 457,480,554

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, 2008

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

2) Reclassify current receivables	<u>Other Receivables</u>	<u>Amounts Due from Primary Government</u>	<u>Amounts Due from Federal Government</u>
Accounts receivable, net	\$ 18,488,291		
State appropriations receivable, operations	14,898,381		
State appropriations receivable, charter schools	36,905,921		
State appropriations receivable, SBA	2,654,383		
State appropriations - operations	(14,898,381)	\$ 14,898,381	
State appropriations - charter schools	(36,905,921)	36,905,921	
State appropriations - SBA	(2,654,383)	2,654,383	
State grants	(376,710)	376,710	
Federal agencies	(923,407)		\$ 923,407
	<u>\$ 17,188,174</u>	<u>\$ 54,835,395</u>	<u>\$ 923,407</u>

Other current assets	\$ 684,430		
Other receivables	17,188,174		
	<u>\$ 17,872,604</u>		

3) Reclassify investments	<u>Investments</u>	<u>Restricted</u>	<u>Other Expendable</u>
Cash and cash equivalents	\$ 5,429	\$ 5,429	
Endowment investments	76,868,395	48,288,304	\$ 28,580,091
Other long-term investments	153,118,117		153,118,117
	<u>\$ 229,991,941</u>	<u>\$ 48,293,733</u>	<u>\$ 181,698,208</u>

4) Reclassify capital assets	<u>Capital Assets</u>
Land and other nondepreciable assets	\$ 11,060,808
Buildings, equipment, and other depreciable assets	613,020,289
Construction in progress	27,217,126
Total	<u>651,298,223</u>
Less accumulated depreciation	269,017,911
	<u>\$ 382,280,312</u>

5) Reclassify current liabilities	<u>Accounts Payable and Other Liabilities</u>	<u>Amounts Due to Primary Government</u>	<u>Interest Payable</u>
Accounts payable and accrued liabilities	\$ 57,096,067		
Deposits:	688,945		
MPSERS & MPSERS - MIP	(400,970)	\$ 400,970	
Mich income tax	(66,056)	66,056	
Mich sales tax	(6,088)	6,088	
Interest	(1,550,944)		\$ 1,550,944
	<u>\$ 55,760,954</u>	<u>\$ 473,114</u>	<u>\$ 1,550,944</u>

6) Reclassify current portion of debt obligation	<u>Current Portion of Debt Obligation</u>	<u>Bonds and Notes Payable</u>
	\$ 6,585,000	\$ 6,585,000

7) Reclassify noncurrent liabilities	<u>Other Long-Term Liabilities</u>	<u>Bonds and Notes Payable</u>
Long-term debt and other obligations	\$ 183,677,649	
Long-term bonds and notes payable	(165,742,000)	\$ 165,742,000
	<u>\$ 17,935,649</u>	<u>\$ 165,742,000</u>

8) Combine restricted net assets	<u>Restricted for Education</u>
Restricted for:	
Nonexpendable-scholarships, fellowships, and research	\$ 27,267,638
Expendable-scholarships, fellowships, research, and other	22,791,133
Expendable-instructional department uses	5,283,455
Expendable-loans	1,272,574
	<u>\$ 56,614,800</u>

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2008

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
OPERATING REVENUES				
Tuition and fees	\$ 168,801,773	\$ 168,801,773	1	
Federal grants and contracts	4,046,062	4,046,062	2	
State and local grants and contracts	1,756,101	1,756,101	2	
Private grants and contracts	2,715,181	2,715,181	2	
Sales and services of educational activities	15,982,169	15,982,169	1	
Auxiliary enterprises	66,186,174	66,186,174	1	
Total operating revenues	259,487,460	259,487,460		
OPERATING EXPENSES	347,747,814			\$ 347,747,814 3
NONOPERATING REVENUES (EXPENSES)				
State appropriations	89,429,789	89,429,789	4	
Gifts and pledges net of allowance	7,282,875	7,282,875	2	
Investment income net of expense	(1,746,075)	(1,746,075)	5	
Interest on capital assets related debt	(8,582,482)			8,582,482 3
Other nonoperating revenues	13,238,959	13,238,959	6	
Net nonoperating revenues	99,623,066	108,205,548		8,582,482
OTHER REVENUES				
Capital appropriations	2,657,171	2,657,171	4	
Capital grants and gifts	2,078,130	2,078,130	7	
Additions to permanent endowments	1,828,044	1,828,044	2	
Total other revenues	6,563,345	6,563,345		
Increase in net assets	17,926,057	374,256,353		356,330,296
EXPENSES		356,330,296	3	\$ 356,330,296
PROGRAM REVENUES				
Charges for services				250,970,116 1
Operating grants/contributions				17,628,263 2
Capital grants/contributions				2,078,130 7
NET REVENUE				270,676,509
GENERAL REVENUES				
Interest and investment earnings				(1,746,075) 5
Payments from State of Michigan				92,086,960 4
Other				13,238,959 6
Total general revenues				103,579,844
Change in net assets	17,926,057			17,926,057
Net assets -- beginning	439,554,497			439,554,497
Net assets -- ending	\$ 457,480,554	\$ 730,586,649		\$ 730,586,649 \$ 457,480,554

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2008

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 168,801,773
	Sales and services of educational activities	15,982,169
	Auxiliary enterprises	<u>66,186,174</u>
		<u>\$ 250,970,116</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 4,046,062
	State and local grants and contracts	1,756,101
	Private grants and contracts	2,715,181
	Gifts and pledges net of allowance	7,282,875
	Additions to permanent endowments	<u>1,828,044</u>
		<u>\$ 17,628,263</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses	\$ 347,747,814
	Interest on capital assets, net of related debt	8,582,482
		<u>\$ 356,330,296</u>
4)	Payments from State of Michigan	<u>Payments from State of Michigan</u>
	State appropriations	\$ 89,429,789
	Capital appropriations	2,657,171
		<u>\$ 92,086,960</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, 2008**

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 \$32,295,000. The net appreciation is a component of restricted, expendable net assets. The yields of the endowment investments were as follows:

Interest and dividends	4.4%
Net realized and unrealized gains	<u>-11.8%</u>
Total return	<u><u>-7.4%</u></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, 2008, that mature June 30, 2009, 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 INVESTMENTS--continued

Investment Type	Rating	Fair Market Value	Investment Maturities (in years) at June 30, 2008			
			Less Than 1	1-5	6-10	More Than 10
Investments:						
Government securities-US sponsored	Moody's Aaa	\$ 59,137,800	\$ 58,619,108			\$ 518,692
Corporate bonds and notes	Moody's Aaa	1,998,886			\$269,529	1,729,357
Bond mutual funds	Moody's Aaa	98,174,244	98,174,244			
Total investments		159,310,930	\$156,793,352	\$	\$269,529	\$2,248,049
Real estate investments	N/A	1,423,886				
Equities	N/A	1,119,202				
Equities – foreign	N/A	18,086,645				
Equity mutual funds	N/A	70,984,857				
Life insurance policies	N/A	496,369				
Cash equivalents	N/A	677,452				
Investments reported as “cash” on Statement of Net Assets		(4,941,441)				
Total investments		<u>\$247,157,900</u>				
<u>As reported on the Statement of Net Assets</u>						
Current investments:						
Cash and cash equivalents		\$ 17,165,959				
Noncurrent restricted investments:						
Restricted cash and cash equivalents		5,429				
Noncurrent investments:						
Endowment investments		28,580,091				
Endowment investments restricted		48,288,304				
Other long-term investments		153,118,117				
Total noncurrent investments		<u>229,986,512</u>				
Total investments		<u>\$247,157,900</u>				

Interest Rate Risk

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

Concentration of Credit Risk

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

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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

Foreign Currency Risk

The University's holding in foreign investments were made primarily in equities, which approximated \$25.7 million.

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 \$(4,941,411). The deposits were reflected in the accounts of the banks at \$821,813. Of the bank balance, \$578,318 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 investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. The University had custodial credit risk of \$218.8 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, 2008:

	Interest Rate	Fiscal Year Maturity	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 5,841,971	\$ 435,029		\$ 6,277,000	
General Revenue Bonds, Series 1998							
Series Bonds	4.35-4.85%	2009-2014	9,380,000		\$ 1,165,000	8,215,000	\$1,225,000
Term Bonds	4.80-5.00%	2015-2028	29,010,000			29,010,000	
General Revenue Bonds, Series 2002A	Various	Refinanced May 08	22,000,000		22,000,000		
General Revenue Bonds, Series 2002B	Various	Refinanced May 08	22,750,000		22,750,000		
General Revenue Bonds, Series 2002A-Fixed Rate							
Series Bonds	2.75%	2009	1,000,000		500,000	500,000	500,000
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	3.00-5.00%	2009-2011	6,315,000		1,495,000	4,820,000	1,540,000
General Revenue Bonds, Series 2005							
Series Bonds	3.00-5.00%	2009-2020	10,145,000		625,000	9,520,000	640,000
Term Bonds	4.375-5.00%	2021-2035	21,675,000			21,675,000	
General Revenue Bonds, Series 2006							
Series Bonds	3.50-5.00%	2009-2023	11,590,000		530,000	11,060,000	550,000
Term Bonds	4.375-4.50%	2024-2036	17,325,000			17,325,000	
General Revenue Bonds, Series 2008A	Various	2009-2033		43,025,000		43,025,000	2,130,000
		Total	177,931,971	43,460,029	49,065,000	172,327,000	6,585,000
Compensated Absences			3,914,056	317,860		4,231,916	
Federal portion of Perkins Loan Program			6,744,748		118,749	6,625,999	
Retirement Service Award Program			4,664,692	2,324,856	447,333	6,542,215	
Other Liabilities			535,519			535,519	
Total long-term debt and other obligations			\$193,790,986	\$46,102,745	\$49,631,082	\$190,262,649	\$6,585,000

CENTRAL MICHIGAN UNIVERSITY NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

On May 1, 2008, the University issued \$43,025,000 in General Revenue Bonds, Series 2008A. Proceeds from this issuance were \$43,025,000 of principal. The proceeds from the sale of the bonds were used to retire the 2002 Select Auction Variable Rate Securities (SAVRS) Series A and B bonds, however, the University retained the related swaps and these swaps are now designated as a hedge against the General Revenue Bonds, Series 2008A as a means to fix the variable rate bond, and minimize long-term interest rate risk. The bonds mature in the year 2009 through 2033.

Under the March 2002 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) (1.6624% at June 30, 2008). The notional amount of the swap at June 30, 2008 is \$22,000,000. The swap agreement matures on October 1, 2032. No amounts were paid or received when the swap was initiated.

Under the October 2000 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 (1.6128% at June 30, 2008). The notional amount of the swap at June 30, 2008 is \$20,710,000. The related swap agreement matures on October 1, 2015. The University received \$756,000 from the counterparty at the execution of the swap agreement.

On January 1, 2006, the University issued \$28,915,000 in General Revenue Bonds, Series 2006. 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 were 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 2009 through 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 were 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 2009 through 2035.

On February 1, 2003, the University issued \$11,815,000 in General Revenue Bonds, Series 2003A. Proceeds from this issuance were \$12,263,206, consisting of principal amount of the bonds (\$11,815,000), plus original issue premium of \$448,206. The proceeds from the sale of the bonds refunded the portion of the Board's General Revenue and Refunding Bonds, Series 1993 maturing on October 1 in the year 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 2002A, Select Auction Variable Rate Securities (SAVRS). During the SAVRS rate period, interest on the SAVRS accrued at the SAVRS rate for each auction rate period and was payable in arrears. These bonds were 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. On May 1, 2008, the variable portion of this bond was refinanced with proceeds from the General Revenue Bonds, Series 2008A issue.

On December 19, 2002, the University refinanced \$30,450,000 of the General Revenue and Refunding Bonds, Series 1992 (now Series 2002B), maturing in the year 2003 through 2016. On May 1, 2008, the variable rate bond was refinanced with proceeds from the General Revenue Bonds, Series 2008A issue.

As of June 30, 2008, the swap agreements were in a negative position of \$3,314,590 and \$2,130,620, 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, 2008, 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 become positive, the University would be exposed to credit risk in the amount of the derivative's fair value. However, as of June 30, 2008, 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 synthetic rates on the swaps were 4.23% and 5.33% at June 30, 2008, when associated with the General Revenue Bonds, Series 2008A.

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. The Master Agreement also 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, 2008.

<u>Maturity Date</u>	<u>Accreted Value</u>	<u>Ultimate Maturity Value</u>
10-1-2011	\$1,447,715	\$1,820,000
10-1-2012	1,342,796	1,820,000
10-1-2013	1,246,803	1,820,000
10-1-2014	1,160,159	1,820,000
10-1-2015	1,079,527	1,820,000
Total	<u>\$6,277,000</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, 2008 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>
2009	\$ 6,585,000	\$ 6,076,216	\$ 1,348,601	\$ 14,009,817
2010	6,365,000	6,033,436	1,263,780	13,662,216
2011	6,670,000	5,829,616	1,173,754	13,673,370
2012	6,687,715	6,028,311	1,078,475	13,794,501
2013	6,852,796	5,975,069	977,557	13,805,422
Total five years	<u>33,160,511</u>	<u>29,942,648</u>	<u>5,842,167</u>	<u>68,945,326</u>
2014-2018	30,351,489	26,775,604	3,463,175	60,590,268
2019-2023	25,615,000	19,786,495	2,740,969	48,142,464
2024-2028	32,650,000	13,479,772	2,278,485	48,408,257
2029-2033	41,740,000	6,167,353	884,505	48,791,858
2034-2036	8,810,000	535,988		9,345,988
Total five year periods	<u>139,166,489</u>	<u>66,745,212</u>	<u>9,367,134</u>	<u>215,278,835</u>
Total	<u>\$172,327,000</u>	<u>\$96,687,860</u>	<u>\$15,209,301</u>	<u>\$284,224,161</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 were \$31,680,000.

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:

<u>Total Operating Lease Commitments</u>	
2009	\$ 2,454,396
2010	2,157,833
2011	1,837,311
2012	1,648,176
2013	1,380,526
2014-2018	4,436,598
2019-2023	25,750
Total	<u>\$13,940,590</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, 2008:

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008
Land	\$ 10,874,636	\$ 186,172		\$ 11,060,808
Land improvements	18,272,445	2,238,917	\$ 561,748	19,949,614
Infrastructure	11,088,067	1,920,000		13,008,067
Buildings	425,857,129	25,000,206	14,188	450,843,147
Leasehold improvements	95,759			95,759
Furniture and equipment	68,771,282	3,405,499	3,512,107	68,664,674
Library materials	54,218,076	3,861,407		58,079,483
Capitalized collections	1,667,839	70,078		1,737,917
Intangible assets	305,612	336,016		641,628
Construction in progress	30,467,499	(973,541)	2,276,832	27,217,126
TOTAL	<u>621,618,344</u>	<u>36,044,754</u>	<u>6,364,875</u>	<u>651,298,223</u>

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE E--FIXED ASSETS--continued

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008
Less accumulated depreciation:				
Land improvements	\$ 11,540,353	\$ 2,137,424	\$ 561,748	\$ 13,116,029
Infrastructure	3,729,895	525,550		4,255,445
Buildings	149,785,116	10,923,337	5,957	160,702,496
Leasehold improvements	10,374	9,576		19,950
Furniture and equipment	45,868,220	4,203,491	3,176,662	46,895,049
Library materials	40,627,051	3,280,063		43,907,114
Intangible assets	102,848	18,980		121,828
TOTAL	251,663,857	21,098,421	3,744,367	269,017,911
CAPITAL ASSETS, NET	\$369,954,487	\$14,946,333	\$2,620,508	\$382,280,312

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 \$2,700,000 in support of this endeavor. Fiscal year 2008 is the seventh year of the commitment. At June 30, 2008 the net assets of CMURC were \$102,191.

The Charter Schools Development & Performance Institute d/b/a National Charter Schools Institute (NCSI), 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 NCSI. At June 30, 2008, the net assets of the NCSI were \$747,507.

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 6-8% for hourly staff. University contributions begin immediately for all employees.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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 5.84% of employees' pay at June 30, 2008, 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 \$4,181,914 during the 2007-2008 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 2008 are summarized as follows:

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPERS</u>	<u>University Total</u>
University contributions	\$ 8,896,349	\$ 2,056,249	\$ 1,452,608	\$ 12,405,206
Required employee contributions			454,369	454,369
Covered payroll	84,111,152	21,554,500	24,276,608	129,942,260
Total payroll				157,572,650

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 \$4,424,332 for fiscal year 2007-2008 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. During fiscal year 2008 the University updated and recorded the expected liability for this program.

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement established standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities. The total estimated actuarial liability at June 30, 2008, was approximately \$3,600,000; the University recorded a liability for the estimated implicit employer subsidy of \$500,000 for fiscal year 2008 on certain employees not covered under MPERS.

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, 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.