

State of Michigan Financial Schedules
State Universities Component Units

Central Michigan University

June 30, 2009

State of Michigan Financial Schedules
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Central Michigan University

June 30, 2009

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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, 2009, and have issued our unqualified opinion thereon dated August 27, 2009.

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 27, 2009 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
September 17, 2009

STATE OF MICHIGAN
STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2009

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 21,587,138		\$ 21,587,138	1
Accounts receivable, net	21,006,244		21,006,244	2
State appropriations receivable, SBA	1,951,153		1,951,153	2
State appropriations receivable, operations	15,047,363		15,047,363	2
State appropriations receivable, charter schools	38,163,391		38,163,391	2
Inventories	6,787,366		6,787,366	1
Other assets	981,038		981,038	2
Total current assets	105,523,693			
CURRENT ASSETS:				
Cash		\$ 21,587,138		\$ 21,587,138
Amounts due from primary government		55,585,354		55,585,354
Amounts due from federal government		723,724		723,724
Inventories		6,787,366		6,787,366
Other current assets		20,840,111		20,840,111
Total Current Assets	105,523,693	105,523,693	105,523,693	105,523,693
NONCURRENT ASSETS:				
Restricted cash and cash equivalents	8		8	3
Endowment investments	58,555,978		58,555,978	3
Loans receivable, net	7,738,413		7,738,413	1
Other long-term investments	164,879,312		164,879,312	3
Capital assets, net	407,626,865		407,626,865	4
RESTRICTED ASSETS:				
Cash and cash equivalents			8	8
Mortgages and loan receivable		7,738,413		7,738,413
Investments		35,018,598		35,018,598
INVESTMENTS				
		188,416,692		188,416,692
CAPITAL ASSETS:				
Land and other non depreciable assets		12,993,727		12,993,727
Buildings, equipment, and other depreciable assets		664,820,341		664,820,341
Less accumulated depreciation			285,147,561	(285,147,561)
Constructions in progress		14,960,358		14,960,358
Net capital assets				407,626,865
Total Noncurrent Assets	638,800,576	923,948,137	923,948,137	638,800,576
TOTAL ASSETS	744,324,269	1,029,471,830	1,029,471,830	744,324,269
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	57,695,461	57,695,461		5
Deferred revenue	11,300,027	11,300,027		1
Deposits	610,799	610,799		5
Current portion of debt obligation	6,365,000	6,365,000		6
Total Current Liabilities	75,971,287			
CURRENT LIABILITIES:				
Accounts payable and other liabilities			56,300,463	5
Amounts due to primary government			453,601	5
Interest payable			1,552,196	5
Deferred revenue			11,300,027	1
Bonds and notes payable			6,365,000	6
Total Current Liabilities	75,971,287	75,971,287	75,971,287	75,971,287
NONCURRENT LIABILITIES:				
Long-term debt and other obligations	177,202,859	177,202,859		7
Bonds and notes payable			159,844,424	7
Noncurrent portion of other long-term obligations			17,358,435	7
TOTAL LIABILITIES	253,174,146	253,174,146	253,174,146	253,174,146
FUND BALANCES:				
Invested in capital assets, net of related debt	241,417,441	241,417,441		1
Restricted for:				
Nonexpendable:				
Scholarships, fellowships, and research	29,243,836	29,243,836		8
Expendable:				
Scholarships, fellowships, research and other	10,886,466	10,886,466		8
Instructional department uses	8,504,995	8,504,995		8
Loans	1,255,646	1,255,646		8
Capital projects and debt service	3,701,520	3,701,520		1
Unrestricted	196,140,219	196,140,219		1
Total Net Assets	491,150,123	491,150,123		
NET ASSETS:				
Invested in capital assets, net of related debt			241,417,441	1
Restricted for:				
Education			49,890,943	8
Public safety and corrections				
Construction and debt service			3,701,520	1
Permanent fund and endowments				
Unrestricted Net Assets			196,140,219	1
TOTAL NET ASSETS	\$ 491,150,123	\$ 491,150,123	\$ 491,150,123	\$ 491,150,123

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, 2009

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	\$ 21,006,244		
State appropriations receivable, operations	15,047,363		
State appropriations receivable, charter schools	38,163,391		
State appropriations receivable, SBA	1,951,153		
State appropriations	(15,047,363)	\$ 15,047,363	
State appropriations - charter schools	(38,163,391)	38,163,391	
State appropriations - SBA	(1,951,153)	1,951,153	
State grants	(423,447)	423,447	
Federal agencies	(723,724)		\$ 723,724
	<u>\$ 19,859,073</u>	<u>\$ 55,585,354</u>	<u>\$ 723,724</u>
Other current assets	\$ 981,038		
Other receivables	19,859,073		
	<u>\$ 20,840,111</u>		

3) Reclassify investments

	<u>Investments</u>	<u>Restricted</u>	<u>Other Expendable</u>
Cash and cash equivalents	\$ 8	\$ 8	
Endowment investments	58,555,978	35,018,598	\$ 23,537,380
Other long-term investments	164,879,312		164,879,312
Investments	<u>\$ 223,435,298</u>	<u>\$ 35,018,606</u>	<u>\$ 188,416,692</u>

4) Reclassify capital assets

	<u>Capital Assets</u>
Land and other nondepreciable assets	\$ 12,993,727
Buildings, equipment, and other depreciable assets	664,820,341
Construction in progress	14,960,358
Total	692,774,426
Less accumulated depreciation	285,147,561
	<u>\$ 407,626,865</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	\$ 57,695,461		
Deposits:	610,799		
MPSERS and MPSERS - MIP	(385,881)	\$ 385,881	
Michigan income tax	(65,614)	65,614	
Michigan sales tax	(2,106)	2,106	
Interest	(1,552,196)		\$ 1,552,196
	<u>\$ 56,300,463</u>	<u>\$ 453,601</u>	<u>\$ 1,552,196</u>

6) Reclassify current portion of debt obligation

	<u>Current Portion of Debt Obligation</u>	<u>Bonds and Notes Payable</u>
	<u>\$ 6,365,000</u>	<u>\$ 6,365,000</u>

7) Reclassify noncurrent liabilities

	<u>Other Long-Term Liabilities</u>	<u>Bonds and Notes Payable</u>
Long-term debt and other obligations	\$ 177,202,859	
Long-term bonds and notes payable	(159,844,424)	\$ 159,844,424
	<u>\$ 17,358,435</u>	<u>\$ 159,844,424</u>

8) Combine restricted net assets

	<u>Restricted for Education</u>
Restricted for:	
Nonexpendable-scholarships, fellowships, and research	\$ 29,243,836
Expendable-scholarships, fellowships, and research	10,886,466
Instructional department uses	8,504,995
Expendable-loans	1,255,646
	<u>\$ 49,890,943</u>

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2009

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
OPERATING REVENUES				
Tuition	\$ 180,202,583	\$ 180,202,583	1	
Federal grants and contracts	4,496,583	4,496,583	2	
State and local grants and contracts	2,270,059	2,270,059	2	
Private grants and contracts	2,940,363	2,940,363	2	
Sales and services of educational activities	17,656,161	17,656,161	1	
Auxiliary enterprises	69,368,781	69,368,781	1	
Total operating revenues	276,934,530	276,934,530		
OPERATING EXPENSES	353,921,582			\$ 353,921,582 3
NONOPERATING REVENUES (EXPENSES)				
State appropriations	82,760,500	82,760,500	4	
Gifts and pledges net of allowance	4,914,376	4,914,376	2	
Investment income net of expense	(19,422,882)	(19,422,882)	5	
Interest on capital assets related debt	(8,119,503)			8,119,503 3
Other nonoperating revenues	16,520,192	16,520,192	6	
Net nonoperating revenues	76,652,683	84,772,186		8,119,503
OTHER REVENUES				
Capital appropriations	25,200,685	25,200,685	4	
Capital grants and gifts	7,103,309	7,103,309	7	
Additions to permanent endowments	1,699,944	1,699,944	2	
Total other revenues	34,003,938	34,003,938		
Increase in net assets	33,669,569	395,710,654		362,041,085
EXPENSES		362,041,085	3	\$ 362,041,085
PROGRAM REVENUES				
Charges for services				267,227,525 1 267,227,525
Operating grants/contributions				16,321,325 2 16,321,325
Capital grants/contributions				7,103,309 7 7,103,309
NET REVENUE				290,652,159 290,652,159
GENERAL REVENUES (EXPENSES)				
Interest and investment earnings				(19,422,882) 5 (19,422,882)
Payments from State of Michigan				107,961,185 4 107,961,185
Other				16,520,192 6 16,520,192
Total general revenues				105,058,495 105,058,495
Change in net assets	33,669,569			33,669,569
Net assets -- beginning	457,480,554			457,480,554
Net assets -- ending	\$ 491,150,123	\$ 757,751,739		\$ 757,751,739 \$ 491,150,123

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, 2009

1) Charges for services	<u>Charges for Services</u>
Tuition	\$ 180,202,583
Sales and services of educational activities	17,656,161
Auxiliary enterprises	69,368,781
	<u>\$ 267,227,525</u>
2) Operating grants/contributions	<u>Operating Grants/Contributions</u>
Federal grants and contracts	\$ 4,496,583
State and local grants and contracts	2,270,059
Private grants and contracts	2,940,363
Gifts and pledges net of allowance	4,914,376
Additions to permanent endowments	1,699,944
	<u>\$ 16,321,325</u>
3) Expenses	<u>Expenses</u>
Operating expenses	\$ 353,921,582
Interest on capital assets related debt	8,119,503
	<u>\$ 362,041,085</u>
4) Payments from State of Michigan	<u>Payments from State of Michigan</u>
State appropriations	\$ 82,760,500
Capital appropriations	25,200,685
	<u>\$ 107,961,185</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, 2009

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 managers 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 \$5,663,000. The net appreciation is a component of restricted, expendable net assets. The yields of the endowment investments were as follows:

Interest and Dividends	3.6%
Net Realized and Unrealized Gains	<u>-27.9%</u>
Total Return	<u>-24.3%</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, 2009 that mature June 30, 2010 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, 2009			
			Less Than 1	1-5	6-10	More Than 10
Investments:						
Government securities-US sponsored	Moody's Aaa	\$ 73,895,270	\$ 73,895,270			
Bond mutual funds	Moody's Aaa	105,903,377	105,903,377			
Total investments		179,798,647	\$179,798,647	\$	\$	\$
Real estate investments	N/A	711,942				
Equities	N/A	709,667				
Equities – foreign	N/A	12,735,933				
Equity mutual funds	N/A	53,032,547				
Life insurance policies	N/A	495,666				
Cash equivalents	N/A	847,133				
Alternative investments	N/A	42,488				
Net cash overdraft		(3,351,587)				
Total investments		<u>\$245,022,436</u>				
<u>As reported on the Statement of Net Assets</u>						
Current investments:						
Cash and cash equivalents		\$ 21,587,138				
Noncurrent restricted investments:						
Restricted cash and cash equivalents		8				
Noncurrent investments:						
Endowment investments		23,537,380				
Endowment investments restricted		35,018,598				
Other long-term investments		164,879,312				
Total noncurrent investments		<u>223,435,290</u>				
Total investments		<u>\$245,022,436</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 did not have investments in any one issuer that represented 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 \$18.2 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 \$(3,351,587). The deposits were reflected in the accounts of the banks at \$947,263. Of the bank balance, \$603,139 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 \$224.6 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, 2009:

	Interest Rate	Fiscal Year Maturity	July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 6,277,000	\$ 467,424		\$ 6,744,424	
General Revenue Bonds, Series 1998							
Series Bonds	4.45-4.85%	2010-2014	8,215,000		\$1,225,000	6,990,000	\$1,275,000
Term Bonds	4.80-5.00%	2016-2028	29,010,000			29,010,000	
General Revenue Bonds, Series 2002A-Fixed Rate							
Series Bonds			500,000		500,000		
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	3.50-5.00%	2010-2011	4,820,000		1,540,000	3,280,000	1,605,000
General Revenue Bonds, Series 2005							
Series Bonds	3.25-5.00%	2010-2020	9,520,000		640,000	8,880,000	665,000
Term Bonds	4.375-5.00%	2025-2035	21,675,000			21,675,000	
General Revenue Bonds, Series 2006							
Series Bonds	3.50-5.00%	2010-2023	11,060,000		550,000	10,510,000	570,000
Term Bonds	4.375-4.50%	2027-2036	17,325,000			17,325,000	
General Revenue Bonds, Series 2008A	Various	2010-2033	43,025,000		2,130,000	40,895,000	2,250,000
		Total	172,327,000	467,424	6,585,000	166,209,424	6,365,000
Compensated Absences			4,231,916	181,851		4,413,767	
Federal portion of Perkins Loan Program			6,625,999	193,794	245,163	6,574,630	
Retirement Service Award Program			6,542,215	364,900	537,077	6,370,038	
Other Liabilities			535,519		535,519		
Total long-term debt and other obligations			\$190,262,649	\$1,207,969	\$7,902,759	\$183,567,859	\$6,365,000

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 fiscal year 2010 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) (0.2391% at June 30, 2009). The notional amount of the swap at June 30, 2009 is \$22,000,000. The swap agreement matures on October 1, 2032. No amounts were paid or received when the swap was initiated. The original swap agreement was with Lehman Brothers. Effective November 7, 2008, the swap agreement was assumed by Deutsche Bank AG. The swap provisions and termination date remain unchanged.

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 (0.2320% at June 30, 2009). The notional amount of the swap at June 30, 2009 is \$18,600,000. 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 fiscal year 2010 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 fiscal year 2010 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.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

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, 2009, the swap agreements were in a negative position of \$5,211,286 and \$2,402,203, 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, 2009, 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. As of June 30, 2009, Standard & Poor's gave counterparty Deutsche Bank AG an A+ rating and counterparty JP Morgan Chase Bank NA an AA- rating, while Fitch gave both counterparties an AA- rating.

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 4.45% and 5.51% at June 30, 2009, 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, 2009.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2011	\$1,555,327	\$1,820,000
10-1-2012	1,442,331	1,820,000
10-1-2013	1,339,869	1,820,000
10-1-2014	1,246,769	1,820,000
10-1-2015	1,160,128	1,820,000
Total	<u>\$6,744,424</u>	<u>\$9,100,000</u>

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 2009 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

	Principal	Interest	Interest Rate Swaps, Net	Total
2010	\$ 6,365,000	\$ 5,532,938	\$ 1,807,071	\$ 13,705,009
2011	6,670,000	5,382,111	1,685,284	13,737,395
2012	6,795,327	5,502,560	1,556,392	13,854,279
2013	6,952,331	5,488,464	1,419,872	13,860,667
2014	7,139,869	5,454,403	1,275,136	13,869,408
Total five years	33,922,527	27,360,476	7,743,755	69,026,758
2015-2019	28,206,897	23,718,141	4,755,974	56,681,012
2020-2024	26,680,000	17,487,184	4,021,924	48,189,108
2025-2029	34,320,000	11,136,235	3,172,111	48,628,346
2030-2034	37,730,000	4,381,526	843,030	42,954,556
2035-2036	5,350,000	202,738		5,552,738
Total five year periods	132,286,897	56,925,824	12,793,039	202,005,760
Total	\$166,209,424	\$84,286,300	\$20,536,794	\$271,032,518

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 \$30,700,000.

The Retirement Service Award program, Federal Perkins loans to students and compensated absences 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 off campus 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
2010	\$ 2,290,518
2011	2,152,370
2012	2,147,189
2013	1,917,993
2014	1,851,553
2015-2019	4,231,247
2020-2023	20,600
Total	<u>\$14,611,470</u>

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2009:

	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009
Land	\$ 11,060,808	\$ 1,932,919		\$ 12,993,727
Land improvements	19,949,614	769,277		20,718,891
Infrastructure	13,008,067	79,104	\$ 83,957	13,003,214
Buildings	450,843,147	45,825,284	986,382	495,682,049
Leasehold improvements	95,759			95,759
Furniture and equipment	68,664,674	5,676,018	4,317,784	70,022,908
Library materials	58,079,483	3,807,624		61,887,107
Capitalized collections	1,737,917	747,790		2,485,707
Intangible assets	641,628	283,078		924,706
Construction in progress	27,217,126	(11,143,039)	1,113,729	14,960,358
TOTAL	<u>651,298,223</u>	<u>47,978,055</u>	<u>6,501,852</u>	<u>692,774,426</u>
Less accumulated depreciation:				
Land improvements	13,116,029	1,582,017		14,698,046
Infrastructure	4,255,445	617,155	44,101	4,828,499
Buildings	160,702,496	11,016,508	810,102	170,908,902
Leasehold improvements	19,950	9,576		29,526
Furniture and equipment	46,895,049	4,265,718	4,039,076	47,121,691
Library materials	43,907,114	3,411,408		47,318,522
Intangible assets	121,828	120,547		242,375
TOTAL	<u>269,017,911</u>	<u>21,022,929</u>	<u>4,893,279</u>	<u>285,147,561</u>
CAPITAL ASSETS, NET	<u>\$382,280,312</u>	<u>\$ 26,955,126</u>	<u>\$1,608,573</u>	<u>\$407,626,865</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 a cumulative amount of \$3,200,000 in support of this endeavor. Fiscal year 2009 is the eighth year of the commitment. At June 30, 2009, the net assets of CMURC were approximately \$166,255.

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, 2009, the net assets of NCSI were approximately \$602,238.

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.

Hourly employees hired prior to January 1, 1996, and other eligible employees choosing this option participate in the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit plan through the State of Michigan. The university contribution rate was 5.66% of employees' pay at June 30, 2009, 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 \$4,732,251 during the 2008-2009 university fiscal year. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at Central Michigan University, or one of the other six universities that are part of MPSERS. MPSERS 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 2009 are summarized as follows:

	TIAA-CREF	Fidelity	MPSERS	University Total
University contributions	\$ 9,278,540	\$ 2,336,772	\$ 1,383,823	\$ 12,999,135
Required employee contributions			445,571	445,571
Covered payroll	91,845,402	28,515,652	24,284,067	144,645,121
Total payroll				165,959,042

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 \$4,289,755 for fiscal year 2008-2009 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 2009, the university updated and recorded the expected liability for this program.

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, 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. 53, Accounting and Financial Reporting for Derivative Instruments for the year ended June 30, 2010. This Statement addresses recognition, measurement, and disclosure of information regarding derivative instruments. Derivative instruments covered by this Statement are required to be reported at fair value. The Statement requires the university to determine whether each swap agreement is effective at each year end. An effective swap will have no impact on net assets. If the swap is not effective, the university will record a cumulative effect adjustment to beginning net assets and subsequent changes in fair value will be recorded in the Statement of Revenues, Expenses and Changes in Net Assets. The Statement also retains the current disclosures required by Technical Bulletin 2003-1. The university has not determined whether the interest rate swaps are effective at June 30, 2009.

NOTE K--SUBSEQUENT EVENTS

The university Board of Trustees has authorized the issuance of General Revenue Refunding Bonds to be used to current refund and defease all of the outstanding callable Series 1998 Bonds. The refunding is expected to take place in September 2009.