

State of Michigan Financial Schedules
State Universities Component Units

Central Michigan University

June 30, 2010



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

State of Michigan Financial Schedules
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Central Michigan University

June 30, 2010

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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, 2010, and have issued our unqualified opinion thereon dated August 31, 2010.

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.

As described in Note A, the University adopted the provisions of the Governmental Accounting Standards Board Statement No. 53, *Accounting and Reporting for Derivatives*, as of July 1, 2009. This statement required the University to evaluate each hedging instrument and record the hedge's fair value in each financial statement presented and to make certain additional disclosures. Adoption of this statement had no impact on the University's net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010 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 PLC

Saginaw, Michigan
September 15, 2010

STATE OF MICHIGAN
STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2010

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
ASSETS:				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 64,995,902		\$ 64,995,902	1
Accounts receivable, net	22,455,767		22,455,767	2
State appropriations receivable, SBA	116,733		116,733	2
State appropriations receivable, operations	14,562,533		14,562,533	2
State appropriations receivable, charter schools	39,132,533		39,132,533	2
Inventories	7,249,474		7,249,474	1
Other assets	928,298		928,298	2
Total current assets	149,441,240			
CURRENT ASSETS:				
Cash		\$ 64,995,902		\$ 64,995,902
Amounts due from primary government		54,129,418		54,129,418
Amounts due from federal government		702,645		702,645
Inventories		7,249,474		7,249,474
Other current assets		22,363,801		22,363,801
Total Current Assets	149,441,240	149,441,240	149,441,240	149,441,240
NONCURRENT ASSETS:				
Endowment investments	65,915,199		65,915,199	3
Loans receivable, net	6,908,854		6,908,854	1
Other long-term investments	157,733,095		157,733,095	3
Deferred outflows	8,436,026		8,436,026	1
Capital assets, net	416,532,227		416,532,227	4
RESTRICTED ASSETS:				
Mortgages and loan receivable		6,908,854		6,908,854
Investments		40,106,817		40,106,817
INVESTMENTS				
		183,541,477		183,541,477
CAPITAL ASSETS:				
Land and other non depreciable assets		12,993,727		12,993,727
Buildings, equipment, and other depreciable assets		676,834,790		676,834,790
Less accumulated depreciation			303,914,997	(303,914,997)
Construction in progress		30,618,707		30,618,707
Net capital assets				416,532,227
OTHER NONCURRENT ASSETS				
		8,436,026		8,436,026
Total Noncurrent Assets	655,525,401	959,440,398	959,440,398	655,525,401
TOTAL ASSETS	804,966,641	1,108,881,638	1,108,881,638	804,966,641
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	61,026,644	61,026,644		
Deferred revenue	11,907,516	11,907,516		
Deposits	823,722	823,722		
Long term liabilities - current portion	7,238,694	7,238,694		
Total Current Liabilities	80,996,576			
CURRENT LIABILITIES:				
Accounts payable and other liabilities			59,888,499	59,888,499
Amounts due to primary government			476,797	476,797
Bond and notes payable - current portion			6,762,000	6,762,000
Interest payable			1,485,070	1,485,070
Deferred revenue			11,907,516	11,907,516
Other long term obligations - current portion			476,694	476,694
Total Current Liabilities	80,996,576	80,996,576	80,996,576	80,996,576
NONCURRENT LIABILITIES:				
Long-term debt, hedging instruments, and other obligations	178,677,860	178,677,860		
Bonds and notes payable			153,919,655	153,919,655
Noncurrent portion of other long-term obligations			24,758,205	24,758,205
TOTAL LIABILITIES	259,674,436	259,674,436	259,674,436	259,674,436
FUND BALANCES:				
Invested in capital assets, net of related debt	255,850,572	255,850,572		
Restricted for:				
Nonexpendable:				
Scholarships, fellowships, and research	31,182,231	31,182,231		
Expendable:				
Scholarships, fellowships, and research	14,580,826	14,580,826		
Instructional department uses	7,128,902	7,128,902		
Loans	1,197,828	1,197,828		
Capital projects and debt service	7,044,242	7,044,242		
Unrestricted	228,307,604	228,307,604		
Total Net Assets	545,292,205	545,292,205		
NET ASSETS:				
Invested in capital assets, net of related debt			255,850,572	255,850,572
Restricted for:				
Education			54,089,787	54,089,787
Public safety and corrections				
Construction and debt service			7,044,242	7,044,242
Permanent fund and endowments				
Unrestricted Net Assets			228,307,604	228,307,604
TOTAL NET ASSETS	\$ 545,292,205	\$ 545,292,205	\$ 545,292,205	\$ 545,292,205

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, 2010

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

	<u>Other Receivables</u>	<u>Amounts Due from Primary Government</u>	<u>Amounts Due from Federal Government</u>
Accounts receivable, net	\$ 22,455,767		
State appropriations receivable, operations	14,562,533		
State appropriations receivable, charter schools	39,132,533		
State appropriations receivable, SBA	116,733		
State appropriations receivable, operations	(14,562,533)	\$ 14,562,533	
State appropriations receivable, charter schools	(39,132,533)	39,132,533	
State appropriations receivable, SBA	(116,733)	116,733	
State grants	(317,619)	317,619	
Federal agencies	(702,645)		\$ 702,645
	<u>\$ 21,435,503</u>	<u>\$ 54,129,418</u>	<u>\$ 702,645</u>

Other current assets	\$ 928,298		
Other receivables	21,435,503		
	<u>\$ 22,363,801</u>		

	<u>Investments</u>	<u>Restricted</u>	<u>Other Expendable</u>
3) Reclassify investments			
Endowment investments	\$ 65,915,199	\$ 40,106,817	\$ 25,808,382
Other long-term investments	157,733,095		157,733,095
Investments	<u>\$ 223,648,294</u>	<u>\$ 40,106,817</u>	<u>\$ 183,541,477</u>

	<u>Capital Assets</u>
4) Reclassify capital assets	
Land and other nondepreciable assets	\$ 12,993,727
Buildings, equipment, and other depreciable assets	676,834,790
Construction in progress	30,618,707
Total	<u>720,447,224</u>
Less accumulated depreciation	<u>303,914,997</u>
	<u>\$ 416,532,227</u>

	<u>Accounts Payable and Other</u>	<u>Amounts Due to Primary Government</u>	<u>Interest Payable</u>
5) Reclassify current liabilities			
Accounts payable and accrued liabilities	\$ 61,026,644		
Deposits	823,722		
MPSERS and MPSERS - MIP	(393,780)	\$ 393,780	
Michigan income tax	(62,238)	62,238	
Michigan sales tax	(20,779)	20,779	
Interest	(1,485,070)		\$ 1,485,070
	<u>\$ 59,888,499</u>	<u>\$ 476,797</u>	<u>\$ 1,485,070</u>

	<u>Current Portion of Long-Term Liabilities</u>	<u>Bonds and Notes Payable</u>
6) Reclassify current portion of debt obligation		
Debt, hedging instruments, and other obligations	\$ 7,238,694	
Bonds and notes payable	(6,762,000)	\$ 6,762,000
	<u>\$ 476,694</u>	<u>\$ 6,762,000</u>

	<u>Other Long-Term Liabilities</u>	<u>Bonds and Notes Payable</u>
7) Reclassify noncurrent liabilities		
Long-term debt, hedging instruments, and other obligations	\$ 178,677,860	
Long-term bonds and notes payable	(153,919,655)	\$ 153,919,655
	<u>\$ 24,758,205</u>	<u>\$ 153,919,655</u>

	<u>Restricted for Education</u>
8) Combine restricted net assets	
Restricted for:	
Nonexpendable-scholarships, fellowships and research	\$ 31,182,231
Expendable-scholarships, fellowships, and research	14,580,826
Expendable-Instructional department uses	7,128,902
Expendable-loans	1,197,828
	<u>\$ 54,089,787</u>

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2010

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
OPERATING REVENUES				
Tuition	\$ 191,733,297	\$ 191,733,297	1	
Federal grants and contracts	4,872,916	4,872,916	2,4	
State and local grants and contracts	3,647,270	3,647,270	2	
Private grants and contracts	3,201,639	3,201,639	2	
Sales and services of educational activities	18,441,925	18,441,925	1	
Auxiliary enterprises	71,772,471	71,772,471	1	
Total operating revenues	293,669,518	293,669,518		
OPERATING EXPENSES	372,787,483			\$ 372,787,483 3
NONOPERATING REVENUES (EXPENSES)				
State appropriations	80,087,200	80,087,200	4	
Gifts and pledges net of allowance	5,336,715	5,336,715	2	
Investment income net of expense	18,367,129	18,367,129	5	
Interest on capital assets related debt	(7,381,993)			7,381,993 3
Other nonoperating revenues	26,641,260	26,641,260	6	
Net nonoperating revenues	123,050,311	130,432,304		7,381,993
OTHER REVENUES				
Capital appropriations	4,165,724	4,165,724	4	
Capital grants and gifts	4,383,513	4,383,513	7	
Additions to permanent endowments	1,660,499	1,660,499	2	
Total other revenues	10,209,736	10,209,736		
Increase in net assets	54,142,082	434,311,558		380,169,476
EXPENSES		380,169,476	3	\$ 380,169,476
PROGRAM REVENUES				
Charges for services				281,947,693 1
Operating grants/contributions				17,678,462 2
Capital grants/contributions				4,383,513 7
NET REVENUE				304,009,668
GENERAL REVENUES				
Interest and investment earnings				18,367,129 5
Payments from State of Michigan				85,293,501 4
Other				26,641,260 6
Total general revenues				130,301,890
Change in net assets	54,142,082			54,142,082
Net assets -- beginning	491,150,123			491,150,123
Net assets -- ending	\$ 545,292,205	\$ 814,481,034		\$ 814,481,034 \$ 545,292,205

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, 2010

1)	Charges for services	<u>Charges for Services</u>
	Tuition	\$ 191,733,297
	Sales and services of educational activities	18,441,925
	Auxiliary enterprises	<u>71,772,471</u>
		<u>\$ 281,947,693</u>
2)	Operating grants/contributions	<u>Operating Grants/ Contributions</u>
	Federal grants and contracts	\$ 4,872,916
	ARRA SFSF 09/10 (see 4 below)	(1,040,577)
	State and local grants and contracts	3,647,270
	Private grants and contracts	3,201,639
	Gifts and pledges net of allowance	5,336,715
	Additions to permanent endowments	<u>1,660,499</u>
		<u>\$ 17,678,462</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses	\$ 372,787,483
	Interest on capital assets related debt	7,381,993
		<u>\$ 380,169,476</u>
4)	Payments from State of Michigan	<u>Payments from State of Michigan</u>
	State appropriations	\$ 80,087,200
	Capital appropriations	4,165,724
	ARRA SFSF 09/10 (see 2 above)	<u>1,040,577</u>
		<u>\$ 85,293,501</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, 2010

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).

During the year, the university adopted, by restating the 2009 financial statements, the provisions of GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments*. As a result of the adoption of this Statement, the university recorded deferred outflows (noncurrent assets) and hedging instruments (noncurrent liabilities) of \$8,436,026 at June 30, 2010.

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 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. During 2009, the State of Michigan adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). According to UPMIFA, the university may appropriate for spending as much of the endowment as the institution deems prudent for the uses, benefits, purposes and duration for which the particular endowment fund was established, subject to evaluation of several specific factors including general economic conditions and the fund's purpose. Although UPMIFA allows spending of the original gift, the university's board policy does not allow the annual spending income allocation to reduce the original gift principal. Therefore, some of the endowments may not have distributed for fiscal year 2010. 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 \$8,791,000 at June 30, 2010. The net appreciation is a component of restricted, expendable net assets. The yields of the endowment investments at June 30, 2010 were as follows:

Interest and Dividends	3.4%
Net Realized and Unrealized Gains	<u>11.1%</u>
Total Return	<u>14.5%</u>

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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

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, 2010, that mature June 30, 2011, or later, were rated by Moody's with a rating of Aaa. The following tables list the university's investments by category showing the investment's rating and scheduled maturity at June 30, 2010:

Investment Type	Rating	Fair Market Value	Investment Maturities (in years)			
			Less Than 1	1-5	6-10	More Than 10
Investments:						
Government securities backed	Moody's Aaa	\$ 999,280	\$ 999,280			
Government securities-US sponsored	Moody's Aaa	24,748,674	24,748,674			
Bond mutual funds	Moody's Aaa	111,002,716	111,002,716			
Total investments		136,750,670	\$136,750,670	\$ -	\$ -	\$ -
Real estate investments	N/A	3				
Equities	N/A	1,435,825				
Equities – foreign	N/A	23,048,398				
Equity mutual funds	N/A	65,286,306				
Life insurance policies	N/A	489,240				
Cash equivalents	N/A	184,319				
Alternative investments	N/A	50,957				
Cash on statement of net assets		61,398,478				
Total investments		\$288,644,196				
<u>As reported on the Statement of Net Assets</u>						
Current investments:						
Cash and cash equivalents		\$ 64,995,902				
Noncurrent investments:						
Endowment investments		25,808,382				
Endowment investments restricted		40,106,817				
Other long-term investments		157,733,095				
Total noncurrent investments		223,648,294				
Total investments		\$288,644,196				

Interest Rate Risk

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

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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

Concentration of Credit Risk

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

Foreign Currency Risk

The university's holding in foreign investments was made primarily in equities, which approximated \$23.0 million at June 30, 2010.

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 \$61,398,478 at June 30, 2010. The deposits were reflected in the accounts of the banks at \$65,708,745 at June 30, 2010. Of the bank balance, \$65,400,194 at June 30, 2010 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 risk because their existence is not evidenced by securities that exist in physical or book entry form. The university had custodial credit risk of \$253.8 million in its investment portfolios.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE

GENERAL REVENUE BONDS

Long-term debt, hedging instruments, and other obligations consist of the following as of June 30, 2010:

	Interest Rate	Fiscal Year Maturity	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Current Portion
General Revenue Bonds, Series 1990	7.30-7.35%	2012-2016	\$ 6,744,424	\$ 502,231		\$ 7,246,655	
General Revenue Bonds, Series 1998							
Series Bonds	N/A	Refunded 10/09	6,990,000		\$ 6,990,000		
Term Bonds	N/A	Refunded 10/09	29,010,000		29,010,000		
General Revenue Bonds, Series 2002A-Fixed Rate							
Term Bonds	5.05%	2017-2033	20,900,000			20,900,000	
General Revenue Bonds, Series 2003A	3.50%	2011	3,280,000		1,605,000	1,675,000	\$1,675,000
General Revenue Bonds, Series 2005							
Series Bonds	3.25-5.00%	2011-2020	8,880,000		665,000	8,215,000	685,000
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%	2011-2023	10,510,000		570,000	9,940,000	590,000
Term Bonds	4.375-4.50%	2027-2036	17,325,000			17,325,000	
General Revenue Bonds, Series 2008A	Variable	2011-2033	40,895,000		2,250,000	38,645,000	2,390,000
General Revenue Bonds, Series 2009A							
Series Bonds	2.00-5.00%	2011-2027		32,265,000		32,265,000	1,250,000
Unamortized Premium				2,916,688	121,688	2,795,000	172,000
		Total	166,209,424	35,683,919	41,211,688	160,681,655	6,762,000
Hedging Instruments			7,469,710	966,316		8,436,026	
Compensated Absences			4,413,767		93,747	4,320,020	103,046
Federal Portion of Perkins Loan Program			6,574,630	168,013	341,467	6,401,176	
Retirement Service Award Program			6,370,038	500,978	793,339	6,077,677	373,648
Total long-term debt, hedging instruments, and other obligations			\$191,037,569	\$37,319,226	\$42,440,241	\$185,916,554	\$7,238,694

On October 1, 2009, the university issued \$32,265,000 in General Revenue Bonds, Series 2009A. Proceeds from this issuance were \$35,181,688, consisting of principal amount of the bonds (\$32,265,000) and net original issue premium of \$2,916,688. The proceeds from the sale of the bonds were used to refund the General Revenue Bonds, Series 1998. The bonds mature in the fiscal year 2011 through 2027.

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. 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 2011 through 2033.

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 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 2011 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 2011 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. The bonds mature in the fiscal year 2011.

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. The bonds mature in the fiscal year 2017 through 2033.

In October 1998, the university issued \$40,000,000 in General Revenue Bonds, Series 1998 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 was \$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 outstanding balance for these defeased bonds as of June 30, 2010 was \$29,670,000. The remaining proceeds from the General Revenue Bond, Series 2008 were used to finance various capital projects. The General Revenue Bonds issued in October 1998 were refunded by the General Revenue Bonds, Series 2009A issued in October 2009.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

General Revenue Bond Series 1990 are capital appreciation bonds recorded in the following table at their accreted year-end book value. The table, which follows, summarizes capital appreciation bonds at June 30, 2010.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2011	\$1,670,938	\$1,820,000
10-1-2012	1,549,243	1,820,000
10-1-2013	1,439,881	1,820,000
10-1-2014	1,339,845	1,820,000
10-1-2015	1,246,748	1,820,000
Total	<u>\$7,246,655</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, 2010 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
2011	\$ 6,590,000	\$ 5,215,763	\$ 1,687,164	\$ 13,492,927
2012	6,815,938	5,262,905	1,558,147	13,636,990
2013	6,964,243	5,257,723	1,421,496	13,643,462
2014	7,139,881	5,232,181	1,276,621	13,648,683
2015	7,244,845	5,192,450	1,127,114	13,564,409
Total five years	34,754,907	26,161,022	7,070,542	67,986,471
2016-2020	25,216,748	21,615,500	4,485,618	51,317,866
2021-2025	27,535,000	15,932,973	3,903,576	47,371,549
2026-2030	35,280,000	9,729,970	2,833,019	47,842,989
2031-2035	33,380,000	3,109,532	459,446	36,948,978
2036	1,720,000	38,700		1,758,700
Total five year periods	123,131,748	50,426,675	11,681,659	185,240,082
	<u>157,886,655</u>	<u>\$76,587,697</u>	<u>\$18,752,201</u>	<u>\$253,226,553</u>
Unamortized premium	2,795,000			
Total	<u>\$160,681,655</u>			

HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2010. The objective of these swaps is to hedge interest rate risk on the Series 2008A bonds. A description of the swaps is as follows:

CENTRAL MICHIGAN UNIVERSITY

NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

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) (0.2339% at June 30, 2010). The notional amount of the swap at June 30, 2010 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 (0.2269% at June 30, 2010). The notional amount of the swap at June 30, 2010 is \$16,370,000. The swap agreement matures on October 1, 2015. The university received \$756,000 from the counterparty at the execution of the swap agreement. The original swap agreement was with Lehman Brothers. Effective August 16, 2004, the swap agreement was assumed by Bank One, Michigan. The swap provisions and termination date remain unchanged.

As of June 30, 2010, the swap agreements had a total notional amount of \$38,370,000 and were in a negative position of \$8,436,026 (\$6,355,268 for the 2002 swap and \$2,080,758 for the 2000 swap). 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 pay-fixed, receive-variable, interest rate swaps are considered cash flow hedges. The change in fair value was an increase to deferred outflow of \$966,316 for fiscal year 2010. The fair value of \$8,436,026 is recorded in non-current liabilities at June 30, 2010.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk

As of June 30, 2010, all hedging instruments are liabilities; therefore, credit risk is minimal. 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 hedging instrument's fair value. As of June 30, 2010, all of the university's interest rate swap counterparties are rated A+ or higher by Fitch or S&P, and Aa3 or higher by Moody's. The university manages credit risk by requiring its counterparties to post collateral in certain events. The Board is entitled to collateral from its counterparties if a net position with a counterparty is an asset of \$25.0 million or more and the counterparty is rated below AA- by Fitch or S&P, or Aa3 by Moody's; the university is not required to post collateral. As of June 30, 2010, the university has no collateral posted or held. The university enters into hedge agreements with multiple counterparties to limit concentration of credit risk. As of June 30, 2010, the university has interest rate swaps with two different counterparties and no counterparty accounts for more than 57% of outstanding notional. The university monitors counterparty credit risk on an ongoing basis. The university is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation, whenever the swap has a positive fair value.

CENTRAL MICHIGAN UNIVERSITY

NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

Interest Rate Risk

Interest payments on the university's variable rate debt will typically increase as interest rates increase. As of June 30, 2010, all hedging instruments are pay-fixed, receive-variable, cash flow hedges. The university believes it has significantly reduced interest rate risk by entering into these interest rate swaps. As interest rates increase, variable rate debt interest payments increase and net swap payments decrease. As interest rates decrease, variable rate debt interest payments decrease and net swap payments increase.

Basis Risk

The variable rate debt hedged by the university's swaps are variable rate demand obligation (VRDO) bonds that are remarketed weekly. The university is exposed to basis risk because the variable rate receipts from the hedging instruments are based on a rate or index other than the interest rates the university pays on the VRDO bonds. As these rates change, the overall synthetic rate on the bonds will change. The synthetic rates on the swaps were 4.47% and 5.52% at June 30, 2010, when associated with the General Revenue Bonds, Series 2008A. The university is exposed to basis risk to the degree that variable payments on the hedged item are not offset by the variable receipts from the hedging instrument. For the period, the weighted average interest rate on the university's variable rate hedged debt is 0.22%, SIFMA is 0.28%, and 67% of 1-Month LIBOR is 0.18%.

Termination Risk

The university or its counterparties may terminate a hedging instrument if the other party fails to perform under the terms of the contract. In addition, the university's swap counterparties have the right to terminate a hedging instrument if the credit rating of the university's unenhanced, unlimited tax general obligation bonds is withdrawn or reduced by any two of Fitch, Moody's, and S&P below BBB in the case of Fitch or S&P, or Baa2 in the case of Moody's. If such an event occurs, the university could be forced to terminate a hedging instrument in a liability position because 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 swap's fair value. As of June 30, 2010, the university's unenhanced, unlimited tax general obligation bonds are rated AA- by Fitch and S&P, and Aa2 by Moody's.

Rollover Risk

Rollover risk is the risk that a hedging instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. As of June 30, 2010, the university does not believe that rollover risk is material.

Foreign Currency Risk

All hedging instruments are denominated in US dollars and therefore the university is not exposed to foreign currency risk.

Market Access Risk

Market access risk is the risk that the university will not be able to enter credit markets or that credit will become more costly. For example, to complete a hedging instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time the university is unable to enter credit markets, expected cost savings may not be realized.

OTHER OBLIGATIONS

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
2011	\$ 2,799,629
2012	2,726,659
2013	2,529,050
2014	2,391,197
2015	1,845,671
2016-2020	2,582,164
2021-2023	15,450
Total	<u>\$14,889,820</u>

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2010:

	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010
Land	\$ 12,993,727			\$ 12,993,727
Land improvements	20,718,891	\$ 1,495,487		22,214,378
Infrastructure	13,003,214	298,050		13,301,264
Buildings	495,682,049	5,257,048	\$ 261,461	500,677,636
Leasehold improvements	95,759			95,759
Furniture and equipment	70,022,908	6,673,605	3,617,550	73,078,963
Library materials	61,887,107	3,859,740		65,746,847
Capitalized collections	2,485,707	89,766	1,780,236	795,237
Intangible assets	924,706			924,706
Construction in progress	14,960,358	15,840,024	181,675	30,618,707
TOTAL	<u>692,774,426</u>	<u>33,513,720</u>	<u>5,840,922</u>	<u>720,447,224</u>
Less accumulated depreciation:				
Land improvements	14,698,046	1,645,441		16,343,487
Infrastructure	4,828,499	619,151		5,447,650
Buildings	170,908,902	11,701,574	25,028	182,585,448
Leasehold improvements	29,526	9,576		39,102
Furniture and equipment	47,121,691	4,567,457	3,396,027	48,293,121
Library materials	47,318,522	3,510,675		50,829,197
Intangible assets	242,375	134,617		376,992
TOTAL	<u>285,147,561</u>	<u>22,188,491</u>	<u>3,421,055</u>	<u>303,914,997</u>
CAPITAL ASSETS, NET	<u>\$407,626,865</u>	<u>\$11,325,229</u>	<u>\$2,419,867</u>	<u>\$416,532,227</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 contributes \$500,000 annually in support of this endeavor. Fiscal year 2010 is the ninth year of the commitment. At June 30, 2010, the net assets of CMURC were approximately \$34,000.

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 for the year ended June 30, 2010. At June 30, 2010, the net assets of the NCSI were approximately \$577,000.

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 (MPERS), a cost-sharing multiple-employer defined benefit plan through the State of Michigan. The university contribution rate was 4.58% of employees' pay at June 30, 2010, 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 \$4,691,730 during the 2009-2010 university fiscal year. Employees hired on or after January 1, 1996 cannot participate in MPERS, unless they previously were enrolled in the plan at Central Michigan University, or one of the other six universities that are part of MPERS. MPERS issues an annual financial report that includes financial statements and required supplementary information. The report may be obtained at Michigan Public School Employees' Retirement System, P.O. Box 30673, Lansing, Michigan 48909-8103. Separate pension information related to the university's employees included in this plan is not available.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE G--RETIREMENT PLANS--continued

Contributions and covered payroll under all plans in fiscal year 2010 are summarized as follows:

	TIAA-CREF	Fidelity	MPSERS	University Total
University contributions	\$ 9,690,024	\$ 2,442,482	\$ 1,108,512	\$ 13,241,018
Required employee contributions			433,428	433,428
Covered payroll	92,143,369	25,355,710	22,887,864	140,386,943
Total payroll				169,790,086

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 \$4,030,116 for fiscal year 2009-2010 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, hedging instruments and other long-term obligations in the statement of net assets. During fiscal year 2010, 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.