

State of Michigan Financial Schedules
State Universities Component Units

Central Michigan University

June 30, 2011

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Central Michigan University

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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, 2011, and have issued our unqualified opinion thereon dated August 29, 2011.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Central Michigan University 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 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

As described in Note A, the University early adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity Omnibus*, as of July 1, 2010. This Statement required the University to evaluate its component units for financial statement inclusion, proper presentation, and disclosure. As a result of this Statement, the University blended three component units into their financial statements. Adoption of this Statement increased the net assets of the University by \$894,146 at June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011 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 and 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 Technology, Management, & Budget, and the State of Michigan Office of the Auditor General 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 13, 2011

| | University Financial Report | Adjustments and Reclassifications | | SOMCAFR Format |
|--|-----------------------------------|--------------------------------------|----------------|-------------------|
| | | Debit | Credit | |
| ASSETS: | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 67,280,470 | | \$ 67,280,470 | 1 |
| Accounts receivable, net | 30,535,076 | | 30,535,076 | 2 |
| State appropriations receivable, SBA | 947,993 | | 947,993 | 2 |
| State appropriations receivable, operations | 14,569,456 | | 14,569,456 | 2 |
| State appropriations receivable, charter schools | 36,379,115 | | 36,379,115 | 2 |
| Inventories | 7,047,825 | | 7,047,825 | 1 |
| Other assets | 2,427,307 | | 2,427,307 | 2 |
| Total current assets | 159,187,242 | | | |
| CURRENT ASSETS: | | | | |
| Cash | | \$ 67,280,470 | | \$ 67,280,470 |
| Amounts due from primary government | | 52,347,710 | | 52,347,710 |
| Amounts due from federal government | | 625,075 | | 625,075 |
| Inventories | | 7,047,825 | | 7,047,825 |
| Other current assets | | 31,905,372 | | 31,905,372 |
| Total Current Assets | 159,187,242 | 159,206,452 | 159,187,242 | 159,206,452 |
| NONCURRENT ASSETS: | | | | |
| Restricted cash and cash equivalents | 6 | | 6 | 1 |
| Endowment investments | 85,648,910 | | 85,648,910 | 3 |
| Loans receivable, net | 6,733,759 | | 6,733,759 | 1 |
| Other long-term investments | 200,840,079 | | 200,840,079 | 3 |
| Deferred outflows | 7,002,415 | | 7,002,415 | 1 |
| Capital assets, net | 436,727,253 | | 436,727,253 | 4 |
| RESTRICTED ASSETS: | | | | |
| Cash and cash equivalents | | 6 | | 6 |
| Mortgages and loan receivable | | 6,733,759 | | 6,733,759 |
| Investments | | 52,832,315 | | 52,832,315 |
| INVESTMENTS | | | | |
| | | 233,656,674 | | 233,656,674 |
| CAPITAL ASSETS: | | | | |
| Land and other non depreciable assets | | 12,993,727 | | 12,993,727 |
| Buildings, equipment, and other depreciable assets | | 721,431,903 | | 721,431,903 |
| Less accumulated depreciation | | | 322,115,504 | (322,115,504) |
| Construction in progress | | 24,417,127 | | 24,417,127 |
| Net capital assets | | | | 436,727,253 |
| OTHER NONCURRENT ASSETS | | | | |
| | | 7,002,415 | | 7,002,415 |
| Total Noncurrent Assets | 736,952,422 | 1,059,067,926 | 1,059,067,926 | 736,952,422 |
| TOTAL ASSETS | | | | |
| | 896,139,664 | 1,218,274,378 | 1,218,255,168 | 896,158,874 |
| LIABILITIES: | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable and accrued liabilities | 60,836,482 | 60,836,482 | | 5 |
| Deferred revenue | 13,064,487 | 13,064,487 | | 1 |
| Deposits | 742,707 | 742,707 | | 5 |
| Long term liabilities - current portion | 7,251,459 | 7,251,459 | | 6 |
| Total Current Liabilities | 81,895,135 | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable and other liabilities | | | 59,706,245 | 59,706,245 |
| Amounts due to primary government | | | 497,191 | 497,191 |
| Bond and notes payable | | | 7,112,142 | 7,112,142 |
| Interest payable | | | 1,394,963 | 1,394,963 |
| Deferred revenue | | | 13,064,487 | 13,064,487 |
| Current portion of other long-term obligations | | | 139,317 | 139,317 |
| Total Current Liabilities | 81,895,135 | 81,895,135 | 81,914,345 | 81,914,345 |
| NONCURRENT LIABILITIES: | | | | |
| Long-term debt, hedging instruments, and other obligations | 178,788,124 | 178,788,124 | | 7 |
| Bonds and notes payable | | | 147,347,144 | 147,347,144 |
| Noncurrent portion of other long-term obligations | | | 31,440,980 | 31,440,980 |
| TOTAL LIABILITIES | | | | |
| | 260,683,259 | 260,683,259 | 260,702,469 | 260,702,469 |
| FUND BALANCES: | | | | |
| Invested in capital assets, net of related debt | 282,267,967 | 282,267,967 | | 1 |
| Restricted for: | | | | |
| Nonexpendable | | | | |
| Scholarships, fellowships, and research | 35,260,652 | 35,260,652 | | 8 |
| Expendable | | | | |
| Scholarships, fellowships, and research | 23,650,375 | 23,650,375 | | 8 |
| Instructional department uses | 8,085,787 | 8,085,787 | | 8 |
| Loans | 1,157,460 | 1,157,460 | | 8 |
| Capital projects | 8,916,511 | 8,916,511 | | 1 |
| Other | 43,640 | 43,640 | | 1 |
| Unrestricted | 276,074,013 | 276,074,013 | | 1 |
| Total Net Assets | 635,456,405 | 635,456,405 | | |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | | | 282,267,967 | 282,267,967 |
| Restricted for: | | | | |
| Education | | | 68,154,274 | 68,154,274 |
| Other purposes | | | 43,640 | 43,640 |
| Construction and debt service | | | 8,916,511 | 8,916,511 |
| Unrestricted | | | 276,074,013 | 276,074,013 |
| TOTAL NET ASSETS | | | | |
| | \$ 635,456,405 | \$ 635,456,405 | \$ 635,456,405 | \$ 635,456,405 |

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2011

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 | \$ 30,535,076 | | |
| State appropriations receivable, operations | 14,569,456 | | |
| State appropriations receivable, charter schools | 36,379,115 | | |
| State appropriations receivable, SBA | 947,993 | | |
| State appropriations receivable, operations | (14,569,456) | \$ 14,569,456 | |
| State appropriations receivable, charter schools | (36,379,115) | 36,379,115 | |
| State appropriations receivable, SBA | (947,993) | 947,993 | |
| State grants | (431,936) | 431,936 | |
| Michigan sales tax over payment - reclass from accounts payable (see 5 below) | | 19,210 | |
| Federal agencies | (625,075) | | \$ 625,075 |
| | <u>29,478,065</u> | <u>\$ 52,347,710</u> | <u>\$ 625,075</u> |
| Other current assets | <u>2,427,307</u> | | |
| | <u>\$ 31,905,372</u> | | |

| | <u>Investments</u> | <u>Restricted</u> | <u>Other</u> |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 3) Reclassify investments | | | |
| Endowment investments | \$ 85,648,910 | \$ 52,832,315 | \$ 32,816,595 |
| Other long-term investments | <u>200,840,079</u> | | <u>200,840,079</u> |
| | <u>\$ 286,488,989</u> | <u>\$ 52,832,315</u> | <u>\$ 233,656,674</u> |

| | <u>Capital Assets</u> |
|--|-----------------------|
| 4) Reclassify capital assets | |
| Land and other nondepreciable assets | \$ 12,993,727 |
| Buildings, equipment, and other depreciable assets | 721,431,903 |
| Construction in progress | <u>24,417,127</u> |
| Total | <u>758,842,757</u> |
| Less accumulated depreciation | <u>322,115,504</u> |
| | <u>\$ 436,727,253</u> |

| | <u>Accounts Payable and Other Liabilities</u> | <u>Amounts Due to Primary Government</u> | <u>Interest Payable</u> |
|--|---|--|-----------------------------|
| 5) Reclassify current liabilities | | | |
| Accounts payable and accrued liabilities | \$ 60,836,482 | | |
| Deposits | 742,707 | | |
| MPSERS and MPSERS - MIP | (430,641) | \$ 430,641 | |
| Michigan income tax | (66,550) | 66,550 | |
| Michigan sales tax over payment - reclass to accounts receivable (see 2 above) | 19,210 | | |
| Interest | (1,394,963) | | \$ 1,394,963 |
| | <u>\$ 59,706,245</u> | <u>\$ 497,191</u> | <u>\$ 1,394,963</u> |

| | <u>Long-Term Liabilities Current Portion</u> | <u>Bonds and Notes Payable</u> |
|--|--|------------------------------------|
| 6) Reclassify current portion of debt obligation | | |
| Debt, hedging instruments, and other obligations | \$ 7,251,459 | |
| Bonds and notes payable | <u>(7,112,142)</u> | <u>\$ 7,112,142</u> |
| | <u>\$ 139,317</u> | <u>\$ 7,112,142</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 | \$ 178,788,124 | |
| Long-term bonds and notes payable | <u>(147,347,144)</u> | <u>\$ 147,347,144</u> |
| | <u>\$ 31,440,980</u> | <u>\$ 147,347,144</u> |

| | <u>Restricted for Education</u> |
|---|-------------------------------------|
| 8) Combine restricted net assets | |
| Restricted for: | |
| Nonexpendable-scholarships, fellowships, and research | \$ 35,260,652 |
| Expendable-scholarships, fellowships, and research | 23,650,375 |
| Expendable-instructional department uses | 8,085,787 |
| Expendable-loans | <u>1,157,460</u> |
| | <u>\$ 68,154,274</u> |

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2011

EXHIBIT II

| | University Financial Report | Adjustments and Reclassifications | | SOMCAFR Format |
|--|-----------------------------------|--------------------------------------|--------|-------------------------------|
| | | Debit | Credit | |
| OPERATING REVENUES | | | | |
| Tuition | \$ 207,957,573 | \$ 207,957,573 | 1 | |
| Federal grants and contracts | 6,568,099 | 6,568,099 | 2,4 | |
| State and local grants and contracts | 3,895,972 | 3,895,972 | 2 | |
| Private grants and contracts | 4,162,263 | 4,162,263 | 2 | |
| Sales and services of educational activities | 18,420,263 | 18,420,263 | 1 | |
| Auxiliary enterprises | 88,337,424 | 88,337,424 | 1 | |
| Total operating revenues | 329,341,594 | 329,341,594 | | |
| OPERATING EXPENSES | 394,411,082 | | | \$ 394,411,082 3 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 80,102,300 | 80,102,300 | 4 | |
| Gifts and pledges net of allowance | 5,064,173 | 5,064,173 | 2 | |
| Investment income net of expense | 36,220,659 | 36,220,659 | 5 | |
| Interest on capital assets related debt | (6,461,493) | | | 6,461,493 3 |
| Federal Pell grant program | 30,201,036 | 30,201,036 | 5 | |
| Other nonoperating revenues | 218,929 | 218,929 | 5 | |
| Net nonoperating revenues | 145,345,604 | 151,807,097 | | 6,461,493 |
| OTHER REVENUES | | | | |
| Capital appropriations | 2,632,443 | 2,632,443 | 4 | |
| Capital grants and gifts | 3,544,486 | 3,544,486 | 5 | |
| Additions to permanent endowments | 3,711,155 | 3,711,155 | 2 | |
| Total other revenues | 9,888,084 | 9,888,084 | | |
| Increase in net assets | 90,164,200 | 491,036,775 | | 400,872,575 |
| EXPENSES | | 400,872,575 | 3 | \$ 400,872,575 |
| PROGRAM REVENUES | | | | |
| Charges for services | | | | 314,715,260 1 314,715,260 |
| Operating grants/contributions | | | | 22,106,679 2 22,106,679 |
| Capital grants/contributions | | | | 3,544,486 5 3,544,486 |
| NET REVENUE | | | | 340,366,425 340,366,425 |
| GENERAL REVENUES | | | | |
| Interest and investment earnings | | | | 36,220,659 5 36,220,659 |
| Payments from State of Michigan | | | | 84,029,726 4 84,029,726 |
| Federal Pell grant program | | | | 30,201,036 5 30,201,036 |
| Other | | | | 218,929 5 218,929 |
| Total general revenues | | | | 150,670,350 150,670,350 |
| Change in net assets | 90,164,200 | | | 90,164,200 |
| Net assets -- beginning | 545,292,205 | | | 545,292,205 |
| Net assets -- ending | \$ 635,456,405 | \$ 891,909,350 | | \$ 891,909,350 \$ 635,456,405 |

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2011

| | |
|---|--|
| 1) Charges for services | <u>Charges for Services</u> |
| Tuition | \$ 207,957,573 |
| Sales and services of educational activities | 18,420,263 |
| Auxiliary enterprises | 88,337,424 |
| | <u>\$ 314,715,260</u> |
| 2) Operating grants/contributions | <u>Operating Grants/Contributions</u> |
| Federal grants and contracts | \$ 6,568,099 |
| ARRA SFSF 09/10 (see 4 below) | (1,294,983) |
| State and local grants and contracts | 3,895,972 |
| Private grants and contracts | 4,162,263 |
| Gifts and pledges net of allowance | 5,064,173 |
| Additions to permanent endowments | 3,711,155 |
| | <u>\$ 22,106,679</u> |
| 3) Expenses | <u>Expenses</u> |
| Operating expenses | \$ 394,411,082 |
| Interest on capital assets related debt | 6,461,493 |
| | <u>\$ 400,872,575</u> |
| 4) Payments from State of Michigan | <u>Payments from State of Michigan</u> |
| State appropriations | \$ 80,102,300 |
| Capital appropriations | 2,632,443 |
| ARRA SFSF 09/10 (see 2 above) | 1,294,983 |
| | <u>\$ 84,029,726</u> |
| 5) 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, 2011

NOTE A--ORGANIZATION AND BASIS OF PRESENTATION

Organization

Central Michigan University (the university) is an institution of higher education and is considered to be a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Trustees (the board). Accordingly, the university is included in the state's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, appropriations for Charter Schools, grants from various state agencies, State Building Authority (SBA) revenues and payments to the state retirement program for university employees. The university has six affiliated organizations that were evaluated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, which the university adopted July 1, 2010. Adoption of this Statement increased the net assets of the university by \$894,146 at June 30, 2011.

The university has two additional related entities that meet the definition of component unit of GASB Statement No. 61 that are not included in the amounts of 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.

The sixth entity related to the university is the CMU Charter Schools. This entity does not meet the definition of a component unit in accordance with GASB Statement No. 61 and therefore, the operations of the CMU Charter Schools are excluded from the financial statements.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting with the exception that certain investment income and interest on Federal Perkins student loans are recorded only when received. The statements incorporate all fund groups utilized internally by the university. These statements have been prepared in accordance with accounting principles generally accepted in the United States America as prescribed by the 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 investments. The component units maintain interest-bearing deposits and short-term investments with financial institutions that are insured by the Federal Deposit Insurance Corporation.

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. Investments may be made in securities of the US 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 AAA for the short-term investment pool accounts, AA for the intermediate-term investment pool accounts and A for the long-term investment pool accounts. The weighted average credit quality is to be no less than B for the non-investment grade 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.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

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

Policy--continued

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 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 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 2011. 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 approximate \$17,372,000 at June 30, 2011. The net appreciation is a component of restricted, expendable net assets. The yields of the endowment investments at June 30, 2011 were as follows:

| | |
|-----------------------------------|---------------------|
| Interest and Dividends | 3.7% |
| Net Realized and Unrealized Gains | <u>23.0%</u> |
| Total Return | <u><u>26.7%</u></u> |

The university and its component units had the following investments at June 30, 2011:

| | Fair Market Value | Investment Maturities (in years) <u>Less Than 1</u> |
|---|-----------------------|--|
| Investments: | | |
| Government securities backed | \$ 2,510,310 | \$ 2,510,310 |
| Government securities – US sponsored | 17,749,577 | 17,749,577 |
| Bond mutual funds | 135,950,552 | 135,950,552 |
| | <u>156,210,439</u> | <u>\$ 156,210,439</u> |
| Equities | 36,619,104 | |
| Equity mutual funds | 83,821,097 | |
| Life insurance policies | 471,294 | |
| Alternative investments | 4,970,788 | |
| Cash equivalents – restricted | 4,396,273 | |
| Cash equivalents | 3,310,831 | |
| Cash deposits | 63,969,639 | |
| Total investments | <u>\$ 353,769,465</u> | |
| As reported on the Statement of Net Assets | | |
| Current investments: | | |
| Cash and cash equivalents | \$ 67,280,470 | |
| Noncurrent restricted investments: | | |
| Restricted cash and cash equivalents | 6 | |
| Noncurrent investments: | | |
| Endowment investments | 32,816,595 | |
| Endowment investments restricted | 52,832,315 | |
| Other long-term investments | 200,840,079 | |
| Total noncurrent investments | <u>286,488,995</u> | |
| Total investments | <u>\$ 353,769,465</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, 2011, that mature June 30, 2012, or later, were rated by Moody's with a rating of Aaa.

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. All government securities and bond mutual funds have a maturity of less than one year.

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 at June 30, 2011.

One of the blended component units invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. The corporation holds the majority of its investments in common stock and mutual funds. Included in investments are six mutual funds that represent 44% of the component unit's total investments at June 30, 2011.

Foreign Currency Risk

The university's holding in foreign investments was made primarily in equities, which approximated \$33.8 million at June 30, 2011.

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 \$63,969,639 at June 30, 2011. The deposits were reflected in the accounts of the banks at \$68,989,229 at June 30, 2011. Of the bank balance, \$68,153,494 at June 30, 2011 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 \$21.5 million at June 30, 2011 in its investment portfolios primarily held by JP Morgan as the counterparty.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2011:

| | Beginning Balance <u>July 1, 2010</u> | <u>Additions</u> | <u>Reductions</u> | Ending Balance <u>June 30, 2011</u> | Current Portion |
|--|---|---------------------|---------------------|---|---------------------|
| General Revenue Bonds: | | | | | |
| Series 1990 Capital Appreciation | \$ 7,246,655 | \$ 539,631 | | \$ 7,786,286 | \$ 1,795,142 |
| Series 2002A Term Bonds | 20,900,000 | | | 20,900,000 | |
| Series 2003A Series Bonds | 1,675,000 | | \$ 1,675,000 | | |
| Series 2005: | | | | | |
| Series Bonds | 8,215,000 | | 685,000 | 7,530,000 | 710,000 |
| Term Bonds | 21,675,000 | | | 21,675,000 | |
| Series 2006: | | | | | |
| Series Bonds | 9,940,000 | | 590,000 | 9,350,000 | 610,000 |
| Term Bonds | 17,325,000 | | | 17,325,000 | |
| Series 2008A Series Bonds | 38,645,000 | | 2,390,000 | 36,255,000 | 2,525,000 |
| Series 2009A Series Bonds | 32,265,000 | | 1,250,000 | 31,015,000 | 1,300,000 |
| Series 2009A Unamortized Premium | 2,795,000 | | 172,000 | 2,623,000 | 172,000 |
| Total Long-Term Debt | <u>160,681,655</u> | <u>539,631</u> | <u>6,762,000</u> | <u>154,459,286</u> | <u>7,112,142</u> |
| Hedging Instruments | 8,436,026 | | 1,433,611 | 7,002,415 | |
| Compensated Absences | 4,320,020 | 20,195 | | 4,340,215 | 12,127 |
| Federal Portion of Perkins Loan Program | 6,401,176 | | 275,510 | 6,125,666 | |
| Retirement Service Award Program | 6,077,677 | 150,789 | 650,058 | 5,578,408 | 127,190 |
| Member Hospital and Malpractice Fund | | 8,533,593 | | 8,533,593 | |
| Total | <u>\$ 185,916,554</u> | <u>\$ 9,244,208</u> | <u>\$ 9,121,179</u> | <u>\$ 186,039,583</u> | <u>\$ 7,251,459</u> |

GENERAL REVENUE BONDS

On October 1, 2009, the university issued \$32,265,000 in General Revenue Bonds, Series 2009A. The outstanding bonds bear an interest rate between 4.00% and 5.00% and mature in fiscal years 2012 through 2027. 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.

On May 1, 2008, the university issued \$43,025,000 in General Revenue Bonds, Series 2008A. The variable rate bonds mature in the fiscal years 2012 through 2033. 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.

On January 1, 2006, the university issued \$28,915,000 in General Revenue Bonds, Series 2006. The outstanding bonds bear an interest rate between 4.00% and 5.00% and mature in fiscal years 2012 through 2036. 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.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

On January 1, 2005, the university issued \$31,820,000 in General Revenue Bonds, Series 2005. The outstanding bonds bear an interest rate between 3.375% and 5.000% and mature in fiscal years 2012 through 2035. 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.

On February 1, 2003, the university issued \$11,815,000 in General Revenue Bonds, Series 2003A. These bonds matured in fiscal year 2011. 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). 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 outstanding fixed rate bonds bear an interest rate of 5.05% and mature in fiscal years 2017 through 2033.

In October 1998, the university issued \$40,000,000 in General Revenue Bonds, Series 1998. 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, 2011 was \$28,585,000. The General Revenue Bonds, Series 1998 were refunded by the General Revenue Bonds, Series 2009A, which were issued on October 1, 2009.

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, 2011.

| <u>Maturity Date</u> | <u>Accreted Value</u> | <u>Ultimate Maturity Value</u> |
|----------------------|-----------------------|--------------------------------|
| 10-1-2011 | \$ 1,795,142 | \$ 1,820,000 |
| 10-1-2012 | 1,664,081 | 1,820,000 |
| 10-1-2013 | 1,547,359 | 1,820,000 |
| 10-1-2014 | 1,439,869 | 1,820,000 |
| 10-1-2015 | 1,339,835 | 1,820,000 |
| Total | \$ <u>7,786,286</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, 2011 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

| | Principal | Interest | Interest Rate Swaps, Net | Total |
|-------------------------|-----------------------|-------------------|-----------------------------|--------------------|
| 2012 | \$ 6,940,142 | \$ 5,060,683 | \$ 1,592,391 | \$ 13,593,216 |
| 2013 | 7,079,081 | 5,074,814 | 1,453,193 | 13,607,088 |
| 2014 | 7,247,359 | 5,062,427 | 1,305,620 | 13,615,406 |
| 2015 | 7,344,869 | 5,036,186 | 1,153,327 | 13,534,382 |
| 2016 | 7,649,835 | 4,992,301 | 989,600 | 13,631,736 |
| Total five years | <u>36,261,286</u> | <u>25,226,411</u> | <u>6,494,131</u> | <u>67,981,828</u> |
| 2017-2021 | 22,715,000 | 19,896,752 | 4,453,217 | 47,064,969 |
| 2022-2026 | 28,690,000 | 14,564,794 | 3,864,075 | 47,118,869 |
| 2027-2031 | 37,385,000 | 8,305,413 | 2,464,881 | 48,155,294 |
| 2032-2036 | 26,785,000 | 1,970,977 | 191,125 | 28,947,102 |
| Total five year periods | <u>115,575,000</u> | <u>44,737,936</u> | <u>10,973,298</u> | <u>171,286,234</u> |
| | 151,836,286 | \$ 69,964,347 | \$ 17,467,429 | \$ 239,268,062 |
| Unamortized Premium | <u>2,623,000</u> | | | |
| | <u>\$ 154,459,286</u> | | | |

HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2011. The objective of these swaps is to hedge interest rate risk on the Series 2008A bonds. A description of the swaps is as follows:

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) (0.13179% at June 30, 2011). The notional amount of the swap at June 30, 2011 is \$22,000,000. The swap agreement matures on October 1, 2032. The university received \$3,806,000 from the counterparty which was used to terminate the original swap 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 (0.1279% at June 30, 2011). The notional amount of the swap at June 30, 2011 is \$14,000,000. 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, 2011, the swap agreements had a total notional amount of \$36,000,000 and were in a negative position of \$7,002,415 (\$5,463,527 for the 2002 swap and \$1,538,888 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.

The pay-fixed, receive-variable, interest rate swaps are considered cash flow hedges. The change in fair value was a decrease to deferred outflows of \$1,433,611 for fiscal year 2011. The fair value of \$7,002,415 is recorded in noncurrent liabilities at June 30, 2011.

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.

CENTRAL MICHIGAN UNIVERSITY

NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

Credit Risk

As of June 30, 2011, 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, 2011, 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, 2011, 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, 2011, the university has interest rate swaps with two different counterparties and no counterparty accounts for more than 62% 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.

Interest Rate Risk

Interest payments on the university's variable rate debt will typically increase as interest rates increase. As of June 30, 2011, all hedging instruments are pay-fixed, receive-variable, cash flow hedges. The university believes it has significantly reduced future 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 debts 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 4.36% and 5.41% at June 30, 2011, 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 0.25%, and 67% of 1-Month LIBOR is 0.17%.

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, 2011, the university's unenhanced, unlimited tax general obligation bonds are rated A+ by Fitch and S&P, and Aa3 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, 2011, the university does not believe that rollover risk is material.

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE C--NOTES AND BONDS PAYABLE--continued

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, member hospital and malpractice fund and compensated absences have been determined to be primarily long-term liabilities.

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 aggregate minimum rental commitment for operating leases of real and personal property for each of the succeeding five years ending June 30 and thereafter, including blended component unit lease commitments of \$330,000 for occupancy space:

| | Total Operating Lease Commitments |
|-----------|--|
| 2012 | \$ 2,965,512 |
| 2013 | 2,782,749 |
| 2014 | 2,536,442 |
| 2015 | 1,975,603 |
| 2016 | 1,843,496 |
| 2017-2021 | 798,281 |
| 2022-2023 | 8,154 |
| Total | <u>\$12,910,237</u> |

CENTRAL MICHIGAN UNIVERSITY
NOTES TO SUPPLEMENTAL FINANCIAL STATEMENTS--continued

NOTE E--FIXED ASSETS

The following table summarizes, by major class of asset, the recorded costs of fixed assets as of June 30, 2011:

| | Beginning Balance July 1, 2010 | Additions | Reductions | Ending Balance June 30, 2011 |
|--------------------------------|--------------------------------------|----------------------|---------------------|------------------------------------|
| Land | \$ 12,993,727 | | | \$ 12,993,727 |
| Land Improvements | 22,214,378 | \$ 1,040,377 | | 23,254,755 |
| Infrastructure | 13,301,264 | 837,693 | | 14,138,957 |
| Buildings | 500,677,636 | 36,782,288 | \$ 111,099 | 537,348,825 |
| Leasehold Improvements | 95,759 | 228,706 | | 324,465 |
| Furniture and Equipment | 73,078,963 | 6,743,621 | 2,320,110 | 77,502,474 |
| Library Materials | 65,746,847 | 4,060,469 | 2,646,414 | 67,160,902 |
| Capitalized Collections | 795,237 | 33,013 | 51,431 | 776,819 |
| Intangible Assets | 924,706 | | | 924,706 |
| Construction In Progress | 30,618,707 | (5,100,908) | 1,100,672 | 24,417,127 |
| Total | <u>720,447,224</u> | <u>44,625,259</u> | <u>6,229,726</u> | <u>758,842,757</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 16,343,487 | 1,626,775 | | 17,970,262 |
| Infrastructure | 5,447,650 | 644,372 | | 6,092,022 |
| Buildings | 182,585,448 | 12,082,066 | 80,967 | 194,586,547 |
| Leasehold Improvements | 39,102 | 41,406 | | 80,508 |
| Furniture and Equipment | 48,293,121 | 4,907,547 | 2,117,805 | 51,082,863 |
| Library Materials | 50,829,197 | 3,608,910 | 2,646,414 | 51,791,693 |
| Intangible Assets | 376,992 | 134,617 | | 511,609 |
| Total | <u>303,914,997</u> | <u>23,045,693</u> | <u>4,845,186</u> | <u>322,115,504</u> |
| Capital Assets, Net | <u>\$ 416,532,227</u> | <u>\$ 21,579,566</u> | <u>\$ 1,384,540</u> | <u>\$ 436,727,253</u> |

NOTE F--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 4.11% of employees' pay at June 30, 2011, 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. Effective July 1, 2010, all active employees enrolled in MPERS are required to contribute 3.0% of their pay toward retiree health benefits. The university is required to pay a monthly supplemental contribution for retiree health care benefits, which aggregated to \$5,213,858 during the 2010-2011 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 F--RETIREMENT PLANS--continued

Contributions and covered payroll under all plans in fiscal year 2011 are summarized as follows:

| | TIAA-CREF | Fidelity | MPSERS | University Total |
|---------------------------------|---------------|--------------|------------|---------------------|
| University contributions | \$ 10,206,548 | \$ 2,424,240 | \$ 826,626 | \$ 13,457,414 |
| Required employee contributions | | | 944,898 | 944,898 |
| Covered payroll | 97,046,291 | 25,025,466 | 19,563,218 | 141,634,975 |
| Total payroll | | | | 172,831,473 |

The university also contributes to MPSERS a percentage, which was actuarially determined by the plan's actuaries, of member and non-member payrolls. The university contribution rate was 9.73% for June 30, 2011. The university's contributions, which are not included in the table above, to MPSERS totaled \$4,155,174 in fiscal year 2011.

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 \$3,574,238 for fiscal year 2011 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 2011, the university updated and recorded the expected liability for this program.

NOTE G--CONTINGENCIES AND COMMITMENTS

In the normal course of its activities, the university is a party in various legal and administrative actions. 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 H--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.

Effective January 1, 2011, CMU Medical Education Partners (CMEP), whose membership is owned 90% by one of the university's component units, purchased commercial insurance coverage for professional medical malpractice covering the corporation for its acts and omissions. Malpractice and other claims have been asserted against the corporation by various claimants. Such claims are in various stages of processing and some may be litigated. Accordingly, CMEP management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of management, all such matters are adequately covered by prior and existing insurance policies and a Self-Insurance Trust Fund.