

Central Michigan University

State of Michigan Financial Schedules

June 30, 2012

Contents

Report of Independent Auditor on Supplemental Information	1
Basic Financial Statements	
Exhibit I - Reclassified Statement of Net Assets and Reclassifying Entries	2-4
Exhibit II - Reclassified Statement of Activities and Reclassifying Entries	5-6
Notes to State of Michigan CAFR	7-17

Independent Auditor's Report

To the Board of Trustees
Central Michigan University

We have audited the accompanying financial statements of Central Michigan University (the "University") as of and for the year ended June 30, 2012. We did not audit the financial statements of the Central Health Advancement Solutions (CHAS), which present all the balances and activity reported in the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for CHAS, is based on the report of the other auditors. The University and the discretely presented component unit collectively comprise the basic financial statements. These financial statements are the responsibility of the University's management. We have issued our report thereon dated September 20, 2012, which contained unqualified opinions on these financial statements.

The accompanying other financial information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is presented for the purpose of conforming the University's financial statements with the State of Michigan Comprehensive Annual Financial Report format. 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 as a whole.

This report is intended solely for the information and use of the University, the State of Michigan Department of Management and Budget, the Office of Financial Management, and the State of Michigan Auditor General and is not intended to be and should not be used for any other purposes.

Plante & Moran, PLLC

September 20, 2012

STATE OF MICHIGAN
STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2012

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 73,533,272		\$ 73,533,272	1
Accounts receivable, net	22,692,994		22,692,994	2
State appropriations receivable, operations	12,383,438		12,383,438	2
State appropriations receivable, Charter Schools	35,461,203		35,461,203	2
Inventories	7,103,665		7,103,665	1
Other assets	2,265,333		2,265,333	2
Total current assets	153,439,905			
CURRENT ASSETS				
Cash		\$ 73,533,272		\$ 73,533,272
Amounts due from other funds				
Amounts due from component units				
Amounts due from primary government		48,226,605	2,5	48,226,605
Amounts due from federal government		724,389	2	724,389
Amounts due from local units				
Inventories		7,103,665	1	7,103,665
Investments (Note 8)				
Securities lending collateral				
Other current assets		23,867,948	2	23,867,948
Total Current Assets	153,439,905	153,455,879		153,455,879
NONCURRENT ASSETS:				
Endowment investments	81,608,146		81,608,146	3
Loans receivable, net	6,692,316		6,692,316	1
Other long-term investments	204,980,313		204,980,313	3
Capital assets, net	433,552,236		433,552,236	4
RESTRICTED ASSETS				
Mortgages and loan receivable		6,692,316	1	6,692,316
Investments		50,921,750	3	50,921,750
INVESTMENTS				
		235,666,709	3	235,666,709
CAPITAL ASSETS:				
Land and other nondepreciable assets		13,574,273	4	13,574,273
Buildings, equipment and other depreciable assets		725,558,649	4	725,558,649
Less accumulated depreciation			327,263,959	4
Construction in progress		21,683,273	4	21,683,273
Net capital assets				433,552,236
Other noncurrent assets		11,579,392	1	11,579,392
Total noncurrent assets	726,833,011	1,065,676,362		1,054,096,970
TOTAL ASSETS	880,272,916	1,219,132,241		891,868,282
DEFERRED OUTFLOWS				
Accumulated decrease in fair value of hedging derivatives and gain on defeased debt	11,579,392		11,579,392	1

STATE OF MICHIGAN
STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2012

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
LIABILITIES:				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	62,580,805	62,580,805	5	
Unearned revenue	12,191,890	12,191,890	1	
Deposits	1,498,152	1,498,152	5	
Long-term liabilities - current portion	7,605,128	7,605,128	6	
Total Current Liabilities	83,875,975			
CURRENT LIABILITIES				
Accounts payable and other liabilities				62,432,621 2,5 62,432,621
Amounts due to primary government				487,774 5 487,774
Bond and notes payable				7,374,431 6 7,374,431
Interest payable				1,174,536 5 1,174,536
Deferred revenue				12,191,890 1 12,191,890
Other long-term obligations - current portion				230,697 6 230,697
Total Current Liabilities	83,875,975	83,875,975		83,891,949 83,891,949
NONCURRENT LIABILITIES:				
Long-term debt, hedging instruments and other obligations	166,843,132	166,843,132	7	
Bonds and notes payable				142,534,091 7 142,534,091
Noncurrent portion of other long-term obligations				24,309,041 7 24,309,041
TOTAL LIABILITIES	250,719,107	250,719,107		250,735,081 250,735,081
NET POSITION				
Invested in capital assets, net of related debt	285,158,353	285,158,353	1	
Restricted for:				
Nonexpendable				
Scholarships, fellowships, and research	37,268,879	37,268,879	1	
Expendable				
Scholarships, fellowships, research and other	19,964,621	19,964,621	8	
Instructional department uses	9,782,560	9,782,560	8	
Loans	1,142,062	1,142,062	8	
Capital projects and debt service	8,152,479	8,152,479	1	
Unrestricted	279,664,247	279,664,247	1	
Total net assets	641,133,201	641,133,201		
NET ASSETS				
Invested in capital assets, net of related debt				285,158,353 1 285,158,353
Restricted for:				
Education				30,889,243 8 30,889,243
Public safety and corrections				
Construction and debt service				8,152,479 1 8,152,479
Funds held as permanent endowments:				
Nonexpendable				37,268,879 1 37,268,879
Unrestricted Net Assets				279,664,247 1 279,664,247
TOTAL NET ASSETS	\$ 641,133,201	\$ 641,133,201		\$ 641,133,201 \$ 641,133,201

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET ASSETS
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2012

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

2) Reclassify current receivables

	<u>Other Receivables</u>	<u>Due from Primary Government</u>	<u>Due from Component Units</u>	<u>Due from Federal Government</u>
Accounts receivable, net	\$ 22,692,994			
State appropriations receivable, operations	12,383,438			
State appropriations receivable, Charter Schools	35,461,203			
State appropriations receivable, SBA	0			
State Appropriations	(12,383,438)	\$ 12,383,438		
State Appropriations - Charter Schools	(35,461,203)	35,461,203		
State Appropriations - SBA			0	
State Grants	(365,990)	365,990		
Michigan sales tax over payment - reclass from AP see 5 below		15,974		
Federal Agencies	<u>(724,389)</u>			<u>\$ 724,389</u>
	<u>21,602,615</u>	<u>\$ 48,226,605</u>		<u>\$ 724,389</u>
Other current assets	<u>2,265,333</u>			
	<u>\$ 23,867,948</u>			

3) Reclassify investments

	<u>Investments</u>	<u>Restricted</u>	<u>Other</u>
Cash and cash equivalents	\$ 0	\$ 0	
Endowment investments	81,608,146	50,921,750	\$ 30,686,396
Other long-term investments	204,980,313		204,980,313
Investments	<u>\$ 286,588,459</u>	<u>\$ 50,921,750</u>	<u>\$ 235,666,709</u>

4) Reclassify capital assets

	<u>Capital Assets</u>
Land and other nondepreciable assets	\$ 13,574,273
Buildings, equipment, and other depreciable assets	725,558,649
Infrastructure	
Construction in progress	<u>21,683,273</u>
Total	<u>760,816,195</u>
Less accumulated depreciation	<u>327,263,959</u>
Capital Assets, net	<u>\$ 433,552,236</u>

5) Reclassify current liabilities

	<u>Accounts Payable and Other Liabilities</u>	<u>Due to Primary Government</u>	<u>Interest Payable</u>
Accounts payable and accrued liabilities	\$ 62,580,805		
Deposits	1,498,152		
MPSERS & MPSERS - MIP	(418,719)	\$ 418,719	
Mich income tax	(69,055)	69,055	
Mich sales tax over payment - reclass to AR see 2 above	15,974		
Interest	<u>(1,174,536)</u>		<u>\$ 1,174,536</u>
	<u>\$ 62,432,621</u>	<u>\$ 487,774</u>	<u>\$ 1,174,536</u>

6) Reclassify current portion of debt obligation

	<u>Long-term Liabilities Current Portion</u>	<u>Bonds and Notes Payable</u>
Current portion of long-term obligations	\$ 7,605,128	
Bonds and notes payable	<u>(7,374,431)</u>	<u>7,374,431</u>
	<u>\$ 230,697</u>	<u>\$ 7,374,431</u>

7) Reclassify noncurrent liabilities

	<u>Other Long-Term Liabilities</u>	<u>Bonds and Notes Payable</u>
Accumulated decrease in fair value of hedging derivatives	\$ 0	
Long-term debt and other obligations	166,843,132	
Long-term bonds and notes payable	<u>(142,534,091)</u>	<u>\$ 142,534,091</u>
	<u>\$ 24,309,041</u>	<u>\$ 142,534,091</u>

8) Combine restricted net assets

	<u>Restricted for Education</u>
Restricted for:	
Expendable-scholarships, fellowships, research	\$ 19,964,621
Instructional department uses	9,782,560
Expendable-loans	<u>1,142,062</u>
	<u>\$ 30,889,243</u>

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2012

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
OPERATING REVENUES				
Tuition and fees	\$ 215,146,959	\$ 215,146,959	1	
Federal grants and contracts	6,739,774	6,739,774	2	
State and local grants and contracts	3,033,322	3,033,322	2	
Private grants and contracts	2,977,040	2,977,040	2	
Sales and services of educational activities	18,655,846	18,655,846	1	
Auxiliary enterprises	74,968,831	74,968,831	1	
Total operating revenues	321,521,772	321,521,772		
OPERATING EXPENSES	421,223,084			\$ 421,223,084 3
NONOPERATING REVENUES (EXPENSES)				
State appropriations	68,128,993	68,128,993	4	
Gifts and pledges net of allowance	6,815,689	6,815,689	2	
Investment income net of expense	1,622,752	1,622,752	5	
Interest on capital assets related debt	(6,498,197)			6,498,197 3
Federal Pell grant program	29,776,466	29,776,466	6	
Other nonoperating revenues	1,161,701	1,161,701	5	
Net nonoperating revenues	101,007,404	107,505,601		6,498,197
OTHER REVENUES				
Capital appropriations		0	4	
Capital grants and gifts	2,828,488	2,828,488	7	
Additions to permanent endowments	1,978,620	1,978,620	2	
Total other revenues	4,807,108	4,807,108		
Increase in net assets	6,113,200	433,834,481		427,721,281
EXPENSES		427,721,281	3	\$ 427,721,281
PROGRAM REVENUES				
Charges for services				308,771,636 1 308,771,636
Operating grants/contributions				21,518,445 2 21,518,445
Capital grants/contributions				2,828,488 7 2,828,488
NET (EXPENSE) REVENUE				
Governmental activities				333,118,569 333,118,569
Business-type activities				
GENERAL REVENUES				
Interest and investment earnings				1,622,752 5 1,622,752
Payments from State of Michigan				68,154,993 4 68,154,993
Federal Pell grant program				29,776,466 6 29,776,466
Other				1,161,701 5 1,161,701
Total general revenues and transfers				100,715,912 100,715,912
Change in net assets	6,113,200			6,113,200
Net assets -- beginning	635,020,001			635,020,001
Net assets -- ending	\$ 641,133,201	\$ 861,555,762		\$ 861,555,762 \$ 641,133,201

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2012

1) Charges for services	<u>Charges for Services</u>
Tuition and fees	\$ 215,146,959
Sales and services of educational activities	18,655,846
Auxiliary enterprises	74,968,831
	<u>\$ 308,771,636</u>
2) Operating grants/contributions	<u>Operating Grants/Contributions</u>
Federal grants and contracts	\$ 6,739,774
ARRA SFSF (see 4 below)	0
STARR (see 4 below)	(26,000)
State and local grants and contracts	3,033,322
Private grants and contracts	2,977,040
Gifts and pledges net of allowance	6,815,689
Additions to permanent endowments	1,978,620
	<u>\$ 21,518,445</u>
3) Expenses	<u>Expenses</u>
Operating expenses	\$ 421,223,084
Interest on capital assets, net of related debt	6,498,197
	<u>\$ 427,721,281</u>
4) Payments from State of Michigan	<u>Payments from State of Michigan</u>
State appropriations	\$ 68,128,993
Capital appropriations	0
ARRA SFSF (see 2 above)	0
STARR (see 2 above)	26,000
	<u>\$ 68,154,993</u>

5,6,7) Reclassify University financial data into the specified format to be used in the State's CAFR Statement.

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. 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 of America as prescribed by the GASB.

The university early implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting research bulletins of the American Institute of Certified Public Accountants (AICPA), Committee or Accounting Procedure

Cash and Cash Equivalents

The university and its component units define cash and cash equivalents as highly liquid, short-term investments that bear little or no market risk and are stated at fair value.

Restricted cash and cash equivalents represent unspent cash held in trust accounts related to bonded debt.

Both cash and cash equivalents and restricted cash and cash equivalents are included in cash and cash equivalents on the Statements of Cash Flows.

Inventories

Inventories are primarily stated at actual cost, using the first-in, first-out method.

Investments

All investments are stated at fair value.

Capital Assets

Capital assets for the university are stated at cost or, when donated, at fair market value at date of gift. Depreciation is computed using the straight-line method from the date of acquisition. University building additions and improvements with a cost in excess of \$50,000 are capitalized if the life of the building is extended; equipment with a cost in excess of \$5,000 and a useful life greater than one year is capitalized; and software in excess of \$250,000 is capitalized. Assets are depreciated over the estimated useful life for the respective asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The university does not capitalize certain works of art or historical treasures (except for certain museum collections) that are held for exhibition, education, research or public service.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Depreciation is provided for physical properties on a straight-line basis over the estimated useful life of the property as follows:

Classification	Life
Buildings > \$100,000	40 years
Buildings < \$100,000	10 years
Infrastructure	20 years
Equipment – Digital TV	20 years
Leasehold Improvements	10 years
Land Improvements	8 years
Equipment	3–8 years
Library Books	8 years
Vehicles	4 years
Software	3–5 years

Deferred Outflows and Hedging Instruments

Deferred outflows and hedging instruments consist primarily of interest rate swap agreements and are stated at fair value based on the zero coupon valuation method. The university recorded deferred outflows and hedging instruments (noncurrent liabilities) of \$10,064,753 at June 30, 2012. Effective June 30, 2012, deferred outflows also include \$1,514,639 of gain on the defeasance of the General Revenue Bonds Series 2002A,

Operating and Nonoperating Revenues

Operating revenues of the university consist of tuition, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, including state appropriations, Federal Pell grant revenue, gifts and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient university department within the guidelines of donor restrictions, if any.

NOTE 4--ACCOUNTING CHANGES AND RESTATEMENTS

Change in Reporting Entity

During the fiscal year ended June 30, 2012, the university changed its method for reporting Central Health Advancement Solutions (CHAS), a component unit. Previously, CHAS was blended into the university's financial statements. Beginning this year, the university is discretely presenting CHAS because the services are being provided to those outside the university, rather than to the university itself. As a result, the university's net assets as of July 1, 2011 were decreased by \$436,404. This change has impacted the amount reported as the university's change in net assets by reducing the year ended June 30, 2011 by \$436,404. CHAS did not have any activity in the fiscal year ended June 30, 2010.

Change in Accounting Principles

Effective with the fiscal year ended June 30, 2012, the university early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the university that is applicable to a future reporting period, and an acquisition of net assets by the university that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. In accordance with the standards, the university has modified the presentation of the statement of net position and has reported deferred outflows of resources from a refunding of debt in June 30, 2012 in accordance with the standard.

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

NOTE 8--DEPOSITS AND INVESTMENTS

The university had the following investments:

	Fair Market Value	Investment Maturities (in Years)				N/A
		Less Than 1	1-5	6-10	More Than 10	
Deposits:						
Time deposits	\$ 75,756,638	\$ 75,756,638	\$ -	\$ -	\$ -	\$ -
Government money market accounts						
Investments:						
Commercial paper						
Short-term notes						
Repurchase agreements						
Government securities	20,116,055	20,116,055				
Insured mortgage-backed securities						
Government-backed securities	1,008,240	1,008,240				
Investment agreements						
Corporate bonds and notes						
Preferred stock						
Equities	29,037,823	29,037,823				
Real estate	27,492	27,492				
Venture capital & leveraged buyouts						
Government money market funds						
Mutual bond/equity funds	219,648,470					219,648,470
Guaranteed investment contracts						
Pooled investment funds						
Other Investments	14,527,013		14,527,013			
Total Investments	360,121,731	125,946,248	14,527,013			219,648,470
Less Investments Reported as						
"Cash" on Statement of Net Assets	73,533,272					
Total Investments	\$ 286,588,459					
As Reported on the Statement of Net Assets						
Current investments	\$ -					
Noncurrent restricted investments	50,921,750					
Noncurrent investments	235,666,709					
Total Investments	\$ 286,588,459					

Credit Risk

The university's investment policy requires that all bond investments have a Standard & Poor's or a Moody's Investors Service rating of A or better. Debt investments held by the university as of June 30, 2012, that mature by June 30, 2013, 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 have a maturity of less than one year.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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, 2012.

Foreign Currency Risk

The university's holding in foreign investments was made primarily in equities, which approximated \$25.1 million at June 30, 2012, adjusted for a non-foreign investment of \$2.5 million.

Custodial Credit Risk

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name. The carrying amount of deposits, excluding those classified as investments, was \$59,167,465 at June 30, 2012. The deposits were reflected in the accounts of the banks at \$64,104,543 at June 30, 2012. Of the bank balance, \$63,354,209 at June 30, 2012 was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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 \$37.6 million at June 30, 2012 in its investment portfolios primarily held by JPMorgan as the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

NOTE 9--CAPITAL ASSETS

Capital assets, net of depreciation, consist of the following as of June 30, 2012:

	Beginning Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2012</u>
Non-depreciated capital assets:				
Land	\$ 12,993,727		\$ 49,900	\$ 12,943,827
Capitalized Collections	776,819		146,373	630,446
Total non-depreciated capital assets	<u>13,770,546</u>		<u>196,273</u>	<u>13,574,273</u>
Depreciated capital assets:				
Land Improvements	23,254,755	650,113		23,904,868
Infrastructure	14,138,957			14,138,957
Buildings	537,348,825	26,080,339	323,547	563,105,617
Leasehold Improvements	95,759			95,759
Furniture and Equipment	76,730,952	5,334,417	4,440,908	77,624,461
Library Materials	67,160,902	4,032,514	25,429,135	45,764,281
Intangible Assets	924,706			924,706
	<u>719,654,856</u>	<u>36,097,383</u>	<u>30,193,590</u>	<u>725,558,649</u>
Less accumulated depreciation:				
Land Improvements	17,970,262	1,295,674		19,265,936
Infrastructure	6,092,022	662,090		6,754,112
Buildings	194,586,546	12,741,329	138,627	207,189,248
Leasehold Improvements	48,678	9,576		58,254
Furniture and Equipment	51,045,019	4,775,447	3,567,007	52,253,459
Library Materials	51,791,693	3,734,166	14,429,135	41,096,724
Intangible Assets	511,609	134,617		646,226
Total depreciated capital assets	<u>322,045,829</u>	<u>23,352,899</u>	<u>18,134,769</u>	<u>327,263,959</u>
Construction In Progress	<u>24,417,127</u>	<u>\$ 1,593,393</u>	<u>4,327,247</u>	<u>21,683,273</u>
Capital Assets, Net	<u>\$ 435,796,700</u>	<u>\$ 14,337,877</u>	<u>\$ 16,582,341</u>	<u>\$ 433,552,236</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 10--RETIREMENT PLANS

In addition to the Michigan Public School Employees' Retirement System (MPSERS), 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 8% for hourly staff. University contributions begin immediately for all employees.

Contributions and covered payroll under all plans in fiscal year 2012 are summarized as follows:

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPSERS</u>	<u>University Total</u>
University Contributions	\$ 10,980,476	\$ 2,536,254	\$ 659,519	\$ 14,176,249
Required Employee Contributions			960,280	960,280
Covered Payroll	105,349,175	25,905,820	19,274,178	150,529,173
Percent	10.4%	9.8%		
Total Payroll				183,196,109

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. Liabilities of \$2,580,158 for fiscal year 2012 related to this program are included in the university statements of net position. 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 statements of net positions. During fiscal year 2012, the university updated and recorded the expected liability for this program.

NOTE 12--LEASE COMMITMENTS

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:

2013	\$ 2,845,020
2014	2,731,227
2015	2,247,380
2016	2,088,337
2017	905,777
2018-2023	<u>255,079</u>
	<u>\$ 11,072,820</u>

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

NOTE 14--LONG-TERM DEBT, HEDGING INSTRUMENTS AND OTHER OBLIGATIONS

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2012:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Current Portion
General Revenue Bonds:					
Series 1990 Capital Appreciation	\$ 7,786,286	\$ 471,236	\$ 1,820,000	\$ 6,437,522	\$ 1,787,431
Series 2002A Term Bonds	20,900,000		20,900,000		
Series 2005:					
Series Bonds	7,530,000		710,000	6,820,000	735,000
Term Bonds	21,675,000			21,675,000	
Series 2006:					
Series Bonds	9,350,000		610,000	8,740,000	640,000
Term Bonds	17,325,000			17,325,000	
Series 2008A Series Bonds	36,255,000		2,525,000	33,730,000	2,675,000
Series 2009A Series Bonds	31,015,000		1,300,000	29,715,000	1,365,000
Series 2009A Unamortized Premium	2,623,000		172,000	2,451,000	172,000
Series 2012A Series Bonds		23,015,000		23,015,000	
Total Long-Term Debt	<u>154,459,286</u>	<u>23,486,236</u>	<u>28,037,000</u>	<u>149,908,522</u>	<u>7,374,431</u>
Hedging Instruments					
Compensated Absences	7,002,415	3,062,338		10,064,753	
Federal Portion of Perkins Loan Program	4,340,215	504,451		4,844,666	24,561
Retirement Service Award Program	6,125,666		190,489	5,935,177	
	<u>5,578,408</u>		<u>1,883,266</u>	<u>3,695,142</u>	<u>206,136</u>
	<u>23,046,704</u>	<u>3,566,789</u>	<u>2,073,755</u>	<u>24,539,738</u>	<u>230,697</u>

General Revenue Bond Series 1990 are capital appreciation bonds recorded in the following table at their accreted year-end book value. The bonds bear an interest rate between 7.30% and 7.35% and mature in fiscal years 2013 through 2016. The table, which follows, summarizes capital appreciation bonds at June 30, 2012.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2012	\$ 1,787,431	\$ 1,820,000
10-1-2013	1,662,858	1,820,000
10-1-2014	1,547,360	1,820,000
10-1-2015	1,439,873	1,820,000
Total	<u>\$ 6,437,522</u>	<u>\$ 7,280,000</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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, 2012 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
2013	\$ 7,202,431	\$ 4,573,959	\$ 1,491,349	\$ 13,267,739
2014	7,362,858	4,690,433	1,339,618	13,392,909
2015	7,452,360	4,669,039	1,183,035	13,304,434
2016	7,749,873	4,629,265	1,014,694	13,393,832
2017	4,205,000	4,087,271	953,864	9,246,135
2018-2022	24,780,000	14,160,400	4,458,876	43,399,276
2023-2027	30,960,000	12,339,082	3,813,567	47,112,649
2028-2032	39,760,000	6,429,731	1,986,871	48,176,602
2033-2036	17,985,000	1,086,588	43,535	19,115,123
Total	147,457,522	\$ 56,665,768	\$ 16,285,409	\$ 220,408,699
Unamortized Premium	2,451,000			
	\$ 149,908,522			

HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2012. 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) (0.16158% at June 30, 2012). The notional amount of the swap at June 30, 2012 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 (0.1568% at June 30, 2012). The notional amount of the swap at June 30, 2012 is \$11,495,000. 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, 2012, the swap agreements had a total notional amount of \$33,495,000 and were in a negative position of \$10,064,753 (\$8,935,518) for the 2002 swap and \$1,129,235 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 an increase to deferred outflows of \$3,062,338 for fiscal year 2012. The fair value of \$10,064,753 (\$7,002,415 at June 30, 2011) is recorded in deferred outflows at June 30, 2012.

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.

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

Credit Risk

As of June 30, 2012, 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, 2012, all of the university's interest rate swap counterparties are rated A+ or higher by Fitch or S&P, and A2 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, 2012, 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, 2012, 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, 2012, 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 4.33% and 5.38% at June 30, 2012, 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 0.13%, SIFMA is 0.15%, and 67% of 1-Month LIBOR is 0.16%.

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, 2012, the university's unenhanced, unlimited tax general obligation bonds are rated A+ by 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, 2012, the university does not believe that rollover risk is material.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Foreign Currency Risk

All hedging instruments are denominated in US dollars; 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

During fiscal year 2012, the university signed a line of credit agreement by which it can borrow up to \$20 million. The university can choose from two interest rate options based on an adjusted federal funds open rate, prime rate or LIBOR. There have been no draws on this line of credit as of June 30, 2012.

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

NOTE 24--COMMITMENTS AND CONTINGENCIES

One of the critical factors in continuing the quality of the university's academic programs, research programs and residential life is the development and renewal of its capital assets. Construction in progress at June 30, 2012 primarily consists of the construction costs for Graduate Student Housing of \$8.4 million, Anspach renovation of \$4.4 million, Biosciences building of \$0.9 million, Mesocosm Project of \$0.8 million, and other projects, including maintenance and remodeling of approximating \$7.2 million.

Funds needed to complete construction projects will be provided by current unrestricted university net assets or by future state appropriations, gifts, grants, SBA monies or bond funds. Funds required to complete the projects in progress approximate \$146.9 million as of June 30, 2012 (\$29.2 million as of June 30, 2011).

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Music Building, Dow Science II Building and the Health Professions Building. The projects were financed with SBA Revenue Bonds and state appropriations. The buildings are recorded as assets of the university.

The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan, pursuant to the lease agreement between the SBA, the State of Michigan and the university. During the lease term, the SBA will hold title to the facilities; the State of Michigan will make all annual lease payments to the SBA from operating appropriations; and the university will pay all operating and maintenance costs of the facilities. At the expiration of the leases, the SBA has agreed to sell each facility to the university for the sum of one dollar.

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.

NOTES TO THE FINANCIAL STATEMENTS

Central Michigan University

NOTE 25--RISK MANAGEMENT

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, commercial general liability, property loss and automobile liability. The university has retention amounts from which it pays losses related to errors and omissions, commercial general liability and property claims. The first layer of coverage for losses exceeding retention levels is a group risk-sharing pool and is the responsibility of MUSIC. As a second layer of coverage, MUSIC has purchased excess insurance coverage through commercial carriers for errors and omissions, commercial general liability, property and automobile liability claims. The payments made to MUSIC and premiums to excess carriers reflect the liability risk exposures and claims experience of each university.