

Central Michigan University

State of Michigan CAFR Financial Schedules

June 30, 2013

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Independent Auditor's Report

To the Board of Trustees
Central Michigan University

We have audited the financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component unit as of and for the year ended June 30, 2013, which collectively comprise the Central Michigan University's basic financial statements, and have issued our report thereon dated September 19, 2013, which contained unmodified opinions on the financial statements of Central Michigan University. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) which represents all the balances of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHAS, is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to September 19, 2013.

The accompanying State of Michigan CAFR Financial Schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements but is presented for the purpose of conforming the Institution'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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Restriction on Use

Our 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 by anyone other than these specified parties.

Plante & Moran, PLLC

October 8, 2013

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2013

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 64,853,045		\$ 64,853,045	1
Accounts receivable, net	24,327,998		24,327,998	2
State appropriations receivable, operations	12,973,149		12,973,149	2
State appropriations receivable, Charter Schools	36,843,012		36,843,012	2
Inventories	6,853,134		6,853,134	1
Other assets	3,430,263		3,430,263	2
Total current assets	149,280,601			
CURRENT ASSETS				
Cash		\$ 64,853,045		\$ 64,853,045
Amounts due from other funds				
Amounts due from component units				
Amounts due from primary government		50,160,236	2,5	50,160,236
Amounts due from federal government		787,068	2	787,068
Amounts due from local units				
Inventories		6,853,134	1	6,853,134
Investments (Note 8)				
Securities lending collateral				
Other current assets		26,627,118	2	26,627,118
Total Current Assets	149,280,601	149,280,601		149,280,601
NONCURRENT ASSETS:				
Endowment investments	92,656,696		92,656,696	3
Loans receivable, net	6,556,731		6,556,731	1
Other long-term investments	201,110,527		201,110,527	3
Capital assets, net	465,716,338		465,716,338	4
RESTRICTED ASSETS				
Mortgages and loan receivable		6,556,731	1	6,556,731
Investments		59,032,141	3	59,032,141
INVESTMENTS		234,735,082	3	234,735,082
CAPITAL ASSETS:				
Land and other non depreciable assets		13,574,273	4	13,574,273
Buildings, equipment and other depreciable assets		757,047,279	4	757,047,279
Less accumulated depreciation			345,998,443	4
Constructions in progress		41,093,229	4	41,093,229
Net capital assets				465,716,338
Total noncurrent assets	766,040,292	1,112,038,735		766,040,292
TOTAL ASSETS	915,320,893	1,261,319,336		915,320,893
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated change in fair value of hedging derivatives	7,074,606			7,074,606
Gain/loss on defeased debt	1,439,842		1,439,842	7
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,514,448		1,439,842	7,074,606

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2013

EXHIBIT I

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
LIABILITIES:				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	59,502,906	59,502,906	5	
Unearned revenue	11,123,837	11,123,837	1	
Deposits	1,680,470	1,680,470	5	
Long term liabilities - current portion	21,050,194	21,050,194	6	
Total Current Liabilities	93,357,407			
CURRENT LIABILITIES				
Accounts payable and other liabilities				59,056,202
Amounts due to primary government				894,704
Bond and notes payable				20,958,979
Interest payable				1,232,470
Deferred revenue				11,123,837
Other long term obligations - current portion				91,215
Total Current Liabilities	93,357,407	93,357,407		93,357,407
NONCURRENT LIABILITIES:				
Long-term debt, hedging instruments and other obligations	157,081,112	157,081,112	7	
Bonds and notes payable				136,047,256
Noncurrent portion of other long-term obligations				19,594,014
TOTAL LIABILITIES	250,438,519	250,438,519		248,998,677
NET POSITION				
Net investment in capital assets	310,149,946	310,149,946	1	
Restricted for:				
Nonexpendable				
Scholarships, fellowships, and research	40,311,547	40,311,547	1	
Expendable				
Scholarships, fellowships, research and other	25,845,777	25,845,777	8	
Instructional department uses	10,644,266	10,644,266	8	
Loans	1,119,519	1,119,519	8	
Capital projects and debt service	9,221,133	9,221,133	1	
Unrestricted	276,104,634	276,104,634	1	
Total net position	673,396,822	673,396,822		
NET POSITION				
Net investment in capital assets				310,149,946
Restricted for:				
Education				37,609,562
Public safety and corrections				
Construction and debt service				9,221,133
Permanent fund and endowments				40,311,547
Unrestricted Net Position				276,104,634
TOTAL NET POSITION	\$ 673,396,822	\$ 673,396,822		\$ 673,396,822

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2013

EXHIBIT I

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	\$ 24,327,998			
State appropriations receivable, operations	12,973,149			
State appropriations receivable, Charter Schools	36,843,012			
State appropriations receivable, SBA	0			
State Appropriations	(12,973,149)	\$ 12,973,149		
State Appropriations - Charter Schools	(36,843,012)	36,843,012		
State Appropriations - SBA		0		
State Grants	(344,075)	344,075		
Federal Agencies	<u>(787,068)</u>			<u>\$ 787,068</u>
	23,196,855	<u>\$ 50,160,236</u>		<u>\$ 787,068</u>
Other current assets	<u>3,430,263</u>			
	<u>\$ 26,627,118</u>			

3) Reclassify investments

	<u>Investments</u>	<u>Restricted</u>	<u>Other</u>
Cash and cash equivalents	\$ 0	0	
Endowment investments	92,656,696	59,032,141	33,624,555
Other long-term investments	201,110,527		201,110,527
Investments	<u>\$ 293,767,223</u>	<u>\$ 59,032,141</u>	<u>\$ 234,735,082</u>

4) Reclassify capital assets

	<u>Capital Assets</u>
Land and other nondepreciable assets	\$ 13,574,273
Buildings, equipment, and other depreciable assets	757,047,279
Infrastructure	
Construction in progress	<u>41,093,229</u>
Total	811,714,781
Less accumulated depreciation	<u>345,998,443</u>
Capital Assets, net	<u>\$ 465,716,338</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	\$ 59,502,906		
Deposits	1,680,470		
MPSERS & MPSERS - MIP	(820,409)	\$ 820,409	
Mich income tax	(68,065)	68,065	
Mich sales tax owed	(6,230)	6,230	
Interest	<u>(1,232,470)</u>		<u>\$ 1,232,470</u>
	<u>\$ 59,056,202</u>	<u>\$ 894,704</u>	<u>\$ 1,232,470</u>

6) Reclassify current portion of debt obligation

	<u>Long Term Liab Current portion</u>	<u>Bonds and Notes Payable</u>
Current portions of long term obligations	\$ 21,050,194	
Bonds and notes payable	<u>(20,958,979)</u>	<u>\$ 20,958,979</u>
	<u>\$ 91,215</u>	<u>\$ 20,958,979</u>

7) Reclassify noncurrent liabilities

	<u>Other Long-Term Liabilities</u>	<u>Bonds & Notes Payable</u>
Long-term debt and other obligations	\$ 157,081,112	
Long-term bonds and notes payable	<u>(136,047,256)</u>	<u>\$ 136,047,256</u>
Gain/loss on defeasance of debt	<u>(1,439,842)</u>	
	<u>\$ 19,594,014</u>	<u>\$ 136,047,256</u>

8) Combine restricted net position

	<u>Restricted for Education</u>
Restricted for:	
Expendable-scholarships, fellowships, research	\$ 25,845,777
Instructional department uses	10,644,266
Expendable-loans	<u>1,119,519</u>
	<u>\$ 37,609,562</u>

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2013

EXHIBIT II

	University Financial Report	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
OPERATING REVENUES				
Tuition and fees	\$ 214,482,392	\$ 214,482,392	1	
Federal grants and contracts	6,996,799	6,996,799	2	
State and local grants and contracts	2,715,281	2,715,281	2	
Private grants and contracts	3,292,937	3,292,937	2	
Sales and services of educational activities	16,285,977	16,285,977	1	
Auxiliary enterprises	75,727,907	75,727,907	1	
Total operating revenues	319,501,293	319,501,293		
OPERATING EXPENSES	417,674,555			\$ 417,674,555 3
NONOPERATING REVENUES (EXPENSES)				
State appropriations	71,322,600	71,322,600	4	
Gifts and pledges net of allowance	7,783,082	7,783,082	2	
Investment income net of expense	24,018,951	24,018,951	5	
Interest on capital assets related debt	(5,226,625)			5,226,625 3
Federal Pell grant program	28,185,856	28,185,856	6	
Other nonoperating revenues	51,911	51,911	5	
Net nonoperating revenues	126,135,775	131,362,400		5,226,625
OTHER				
Capital appropriations			4	
Capital grants and gifts	2,005,958	2,005,958	7	
Additions to permanent endowments	2,295,150	2,295,150	2	
Total other revenues	4,301,108	4,301,108		
Increase in net position	32,263,621	455,164,801		422,901,180
EXPENSES		422,999,268	3	\$ 422,999,268
PROGRAM REVENUES				
Charges for services				306,496,276 1
Operating grants/contributions				23,083,249 2
Capital grants/contributions				2,005,958 7
NET (EXPENSE) REVENUE				
Governmental activities				
Business-type activities				331,585,483
GENERAL REVENUES				
Interest and investment earnings				24,018,951 5
Payments from State of Michigan				71,420,688 4
Other				28,185,856 6
TRANSFERS				
Total general revenues and transfers				51,911 5
				123,677,406
Change in net position	32,263,621			32,263,621
Net position -- beginning	641,133,201			641,133,201
Net position -- ending	\$ 673,396,822	\$ 878,164,069		\$ 878,164,069 \$ 673,396,822

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2013

EXHIBIT II

1) Charges for services	<u>Charges for Services</u>
Tuition and fees	\$ 214,482,392
Sales and services of educational activities	16,285,977
Auxiliary enterprises	<u>75,727,907</u>
	<u>\$ 306,496,276</u>
2) Operating grants/contributions	<u>Operating Grants/Contributions</u>
Federal grants and contracts	\$ 6,996,799
State and local grants and contracts	2,715,281
Private grants and contracts	3,292,937
Gifts and pledges net of allowance	7,783,082
Additions to permanent endowments	<u>2,295,150</u>
	<u>\$ 23,083,249</u>
3) Expenses	<u>Expenses</u>
Operating expenses	\$ 417,674,555
Section 236(4) retirement contribution (see 4 below)	98,088
Interest on capital assets, net of related debt	<u>5,226,625</u>
	<u>\$ 422,999,268</u>
4) Payments from State of Michigan	<u>Payments from State of Michigan</u>
State appropriations	\$ 71,322,600
Capital appropriations	0
Section 236(4) retirement contribution (see 3 above)	<u>98,088</u>
	<u>\$ 71,420,688</u>

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

See notes to supplemental financial statements.

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 reports under 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. 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 \$7,074,607 at June 30, 2013.

Operating and Non-operating 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 non-operating 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.

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	\$ 70,268,502	\$ 70,268,502	\$ -	\$ -	\$ -	\$ -
Government money market accounts						
Investments:						
Commercial paper						
Short-term notes						
Repurchase agreements						
Government securities	3,999,907	3,999,907				
Insured mortgage backed securities						
Government backed securities						
Investment agreements						
Corporate bonds and notes						
Preferred stock						
Equities	36,082,428	36,082,428				
Real estate	28,565	28,565				
Venture capital & leveraged buyouts						
Government money market funds						
Mutual bond/equity funds	232,029,404					232,029,404
Guaranteed investment contracts						
Pooled investment funds						
Other Investments	16,211,462		16,211,462			
Total Investments	<u>358,620,268</u>	<u>110,379,402</u>	<u>16,211,462</u>			<u>232,029,404</u>
Less Investments Reported as						
"Cash" on Statement of Net Assets	<u>64,853,045</u>					
Total Investments	<u>\$ 293,767,223</u>					
As Reported on the Statement of Net Assets						
Current investments	\$ -					
Noncurrent restricted investments	59,032,141					
Noncurrent investments	<u>234,735,082</u>					
Total Investments	<u>\$ 293,767,223</u>					

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, 2013, that mature by June 30, 2014, 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.

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, 2013.

Foreign Currency Risk

The university's holding in foreign investments was made primarily in equities, which approximated \$33.8 million at June 30, 2013.

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 \$56,111,844 at June 30, 2013. The deposits were reflected in the accounts of the banks at \$65,375,717 at June 30, 2013. Of the bank balance, \$64,625,717 at June 30, 2013 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 \$21.3 million at June 30, 2013, 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, 2013:

	Beginning Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2013</u>
Non-depreciated capital assets:				
Land	\$ 12,943,827		\$	\$ 12,943,827
Capitalized Collections	630,446			630,446
Total non-depreciated capital assets	<u>13,574,273</u>			<u>13,574,273</u>
Depreciated capital assets:				
Land Improvements	23,904,868	721,569		24,626,437
Infrastructure	14,138,957	372,209		14,511,166
Buildings	563,105,617	26,632,316		589,737,933
Leasehold Improvements	95,759			95,759
Furniture and Equipment	77,624,461	6,321,601	2,097,582	81,848,480
Library Materials	45,764,281	1,159,449	1,620,932	45,302,798
Intangible Assets	924,706			924,706
	<u>725,558,649</u>	<u>35,207,144</u>	<u>3,718,514</u>	<u>757,047,279</u>
Less accumulated depreciation:				
Land Improvements	19,265,936	1,206,063		20,471,999
Infrastructure	6,754,112	679,324		7,433,436
Buildings	207,189,248	13,701,341		220,890,589
Leasehold Improvements	58,254	9,576		67,830
Furniture and Equipment	52,253,459	5,212,842	1,946,072	55,520,229
Library Materials	41,096,724	1,211,802	1,448,719	40,859,807
Intangible Assets	646,226	108,327		754,553
Total depreciated capital assets	<u>327,263,959</u>	<u>22,129,275</u>	<u>3,394,791</u>	<u>345,998,443</u>
Construction In Progress	<u>21,683,273</u>	\$ <u>27,851,002</u>	<u>8,441,046</u>	<u>41,093,229</u>
Capital Assets, Net	<u>\$ 433,552,236</u>	<u>\$ 40,928,871</u>	<u>\$ 8,764,769</u>	<u>\$ 465,716,338</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 (MPERS), 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 2013 are summarized as follows:

	TIAA-CREF	Fidelity	MPERS	University Total
University Contributions	\$ 11,416,248	\$ 2,510,536	\$ 606,125	\$ 14,532,909
Required Employee Contributions			776,385	776,385
University Health Contributions			6,895	6,895
Employee Health Contributions			229,951	229,951
Covered Payroll	109,995,896	25,600,643	18,671,494	154,268,033

The university also contributes to MPERS a percentage, which is actuarially determined by the plan's actuaries, of member and non-member payrolls. The university's contribution rate was 16.61% for June 30, 2013. The university's contributions to MPERS, which are not included in the table above, totaled \$6,081,839 in fiscal year 2013.

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 \$2,417,701 for fiscal year 2013 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 2013, 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:

2014	\$ 2,659,558
2015	2,078,249
2016	1,944,248
2017	918,477
2018	252,074
2019-2023	93,340
2024-2028	57,340
	<u>\$ 8,003,286</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, 2013:

	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Current Portion
General Revenue Bonds:					
Series 1990 Capital Appreciation	\$ 6,437,522	\$ 379,713	\$ 1,820,000	\$ 4,997,235	\$ 1,786,979
Series 2005:					
Series Bonds	6,820,000		735,000	6,085,000	760,000
Term Bonds	21,675,000			21,675,000	
Series 2006:					
Series Bonds	8,740,000		640,000	8,100,000	670,000
Term Bonds	17,325,000			17,325,000	
Series 2008A Series Bonds	33,730,000		2,675,000	31,055,000	2,840,000
Series 2009A Series Bonds	29,715,000		1,365,000	28,350,000	1,430,000
Series 2009A Unamortized Premium	2,451,000		172,000	2,279,000	172,000
Series 2012A Series Bonds	23,015,000			23,015,000	
Total Long-Term Debt	149,908,522	379,713	7,407,000	142,881,235	7,658,979
Note Payable		1,000,000	75,000	925,000	100,000
Line of Credit		13,200,000		13,200,000	13,200,000
Hedging Instruments	10,064,753		2,990,146	7,074,607	
Loss on defeasance	(1,514,639)		74,797	(1,439,842)	
Compensated Absences	4,844,666	245,394		5,090,060	45,356
Federal Portion of Perkins Loan Program	5,935,177		208,708	5,726,469	
Retirement Service Award Program	3,695,142		461,207	3,233,935	45,859
	<u>23,025,099</u>	<u>14,445,394</u>	<u>3,809,858</u>	<u>33,810,229</u>	<u>13,391,215</u>
Total	\$ <u>172,933,621</u>	\$ <u>14,825,107</u>	\$ <u>11,216,858</u>	\$ <u>176,691,464</u>	\$ <u>21,050,194</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, 2013.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2013	1,786,979	1,820,000
10-1-2014	1,662,877	1,820,000
10-1-2015	1,547,379	1,820,000
Total	\$ <u>4,997,235</u>	\$ <u>5,460,000</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

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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, 2013 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
2014	7,486,979	4,534,253	1,105,061	13,126,293
2015	7,567,877	4,529,433	1,322,446	13,419,756
2016	7,857,379	4,500,410	1,412,617	13,770,406
2017	4,205,000	4,067,512	971,973	9,244,485
2018	4,645,000	3,149,887	961,686	8,756,573
2019-2023	25,830,000	13,846,906	4,633,331	44,310,237
2024-2028	32,315,000	11,048,895	4,113,712	47,477,607
2029-2033	41,885,000	5,217,649	1,821,435	48,924,084
2034-2036	8,810,000	535,988		9,345,988
Total	140,602,235	\$ 51,430,933	\$ 16,342,261	\$ 208,375,429
Unamortized Premium	2,279,000			
	\$ 142,881,235			

HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2013. 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) (0.13122% at June 30, 2013). The notional amount of the swap at June 30, 2013 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 (0.1273% at June 30, 2013). The notional amount of the swap at June 30, 2013 is \$8,840,000. 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, 2013, the swap agreements had a total notional amount of \$30,840,000 and were in a negative position of \$7,074,607 (\$6,442,323) for the 2002 swap and \$632,284 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 \$2,990,146 for fiscal year 2013. The fair value of \$7,074,607 (\$10,064,753 at June 30, 2012) is recorded in deferred outflows at June 30, 2013.

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.

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Credit Risk

As of June 30, 2013, 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, 2013, 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, 2013, 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, 2013, 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, 2013, 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 4.38% and 5.43% at June 30, 2013, 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, 2013, 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, 2013, 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 and therefore the university is not exposed to foreign currency risk.

Market Access Risk

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

OTHER OBLIGATIONS

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

Also included in other obligations is the gain on the defeasance of the General Revenue Bonds Series 2002A valued at \$1,439,842 at June 30, 2013.

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, 2013 primarily consists of the construction costs for Graduate Student Housing of \$16.4 million, Research Lab of \$5.8 million, Data Center of \$5.0 million, Anspach renovation of \$3.9 million, CMED East Campus of \$2.1 million, Biosciences building of \$1.2 million, and other projects, including maintenance and remodeling approximating \$6.7 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 process approximate \$114.7 million as of June 30, 2013 (\$146.9 million as of June 30, 2012).

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Health Professions Building and Education 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

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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.