

Central Michigan University

State of Michigan CAFR Financial Schedules

June 30, 2014

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State of Michigan CAFR Financial Schedules

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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, a component unit of the State of Michigan, and its discretely presented component unit as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Central Michigan University's basic financial statements, and have issued our report thereon dated September 18, 2014, 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 18, 2014.

The accompanying State of Michigan CAFR Financial Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements but are 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 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 27, 2014

STATE OF MICHIGAN

STATEMENT OF NET POSITION

EXHIBIT I

STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY

June 30, 2014

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 40,309,975	\$ 3,120,798		\$ 43,430,773		\$ 43,430,773	1
Accounts receivable, net	22,298,120	2,541,573	\$ (242,872)	24,596,821		24,596,821	2
State appropriations receivable, operations	13,317,428			13,317,428		13,317,428	2
State appropriations receivable, Charter Schools	38,576,345			38,576,345		38,576,345	2
Inventories	6,909,508			6,909,508		6,909,508	1
Other assets	989,542	513,862		1,503,404		1,503,404	2
Total current assets	122,400,918	6,176,233	(242,872)	128,334,279			
CURRENT ASSETS							
Cash					\$ 43,430,773		\$ 43,430,773
Amounts due from other funds							
Amounts due from primary government					52,517,344		52,517,344
Amounts due from federal government					945,538		945,538
Amounts due from local units							
Inventories					6,909,508		6,909,508
Investments (Note 8)							
Securities lending collateral							
Other Current Assets					24,531,116		24,531,116
Total Current Assets	122,400,918	6,176,233	(242,872)	128,334,279	128,334,279	128,334,279	128,334,279
NONCURRENT ASSETS:							
Endowment investments	108,025,932			108,025,932		108,025,932	3
Loans receivable, net	6,224,568			6,224,568		6,224,568	1
Medical Education Receivable, net		435,680		435,680		435,680	1
Other long-term investments	228,969,236	784,103		229,753,339		229,753,339	3
Capital assets, net	473,500,244	556,313		474,056,557		474,056,557	4
RESTRICTED ASSETS							
Mortgages and loan receivable					6,224,568		6,224,568
INVESTMENTS							
					337,779,271		337,779,271
CAPITAL ASSETS:							
Land and other non depreciable assets					13,574,273		13,574,273
Buildings, equipment and other depreciable assets					810,681,787		810,681,787
Less accumulated depreciation						371,034,375	(371,034,375)
Construction in progress					20,834,872		20,834,872
Net capital assets							474,056,557
Other noncurrent assets					435,680		435,680
Total noncurrent assets	816,719,980	1,776,096		818,496,076	1,189,530,451	1,189,530,451	818,496,076
TOTAL ASSETS	939,120,898	7,952,329	(242,872)	946,830,355	1,317,864,730	1,317,864,730	946,830,355
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated change in fair value of hedging derivatives and deferred on bond refunding	8,120,189			8,120,189			8,120,189
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,120,189			8,120,189			8,120,189

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2014

EXHIBIT I

	University	Discrete	Eliminations	Total	Adjustments and		SOMCAFR	
	Financial	Component		University	Reclassifications			
	Report	Units			Debit	Credit		Format
LIABILITIES:								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	65,391,694	2,384,969		67,776,663	67,776,663	5		
Unearned revenue	12,997,683			12,997,683	12,997,683	1		
Deposits	1,528,237			1,528,237	1,528,237	5		
Long term liabilities - current portion	24,200,600			24,200,600	24,200,600	6		
Total Current Liabilities	104,118,214	2,384,969		106,503,183				
CURRENT LIABILITIES								
Accounts payable and other liabilities							67,657,741	5 67,657,741
Amounts due to primary government							429,513	5 429,513
Bond and notes payable							24,064,016	6 24,064,016
Interest payable							1,217,646	5 1,217,646
Unearned revenue							12,997,683	1 12,997,683
Other long term obligations - current portion							136,584	6 136,584
Total Current Liabilities	104,118,214	2,384,969		106,503,183	106,503,183		106,503,183	106,503,183
Amounts due to CMU		242,872	(242,872)					
NONCURRENT LIABILITIES:								
Long-term debt, hedging instruments and other obligations	149,188,937			149,188,937	149,188,937	7		
Unearned Revenue		49,930		49,930				49,930
Bonds and notes payable							128,322,913	7 128,322,913
Noncurrent portion of other long-term obligations		393,596		393,596			20,866,024	7 21,259,620
TOTAL LIABILITIES	253,307,151	3,071,367	(242,872)	256,135,646	255,692,120		255,692,120	256,135,646
NET POSITION								
Net investment in capital assets	322,478,360			322,478,360	322,478,360	1		
Restricted for:								
Nonexpendable								
Scholarships, fellowships, and research	43,428,657			43,428,657	43,428,657	8		
Expendable								
Scholarships, fellowships, research and other	33,853,997			33,853,997	33,853,997	8		
Instructional department uses	10,814,561			10,814,561	10,814,561	8		
Loans	1,085,510			1,085,510	1,085,510	8		
Capital projects and debt service	9,043,380			9,043,380	9,043,380	1		
Temporarily Restricted		19,285		19,285	19,285	1		
Unrestricted	273,229,471	4,861,677		278,091,148	278,091,148	1		
Total net position	693,933,936	4,880,962		698,814,898	698,814,898			
NET POSITION								
Net investment in capital assets							322,478,360	1 322,478,360
Restricted for:								
Education								
Construction and debt service							19,020,205	8 19,020,205
Other Purposes							9,043,380	1 9,043,380
Funds Held as Permanent Investments							19,285	1 19,285
Nonexpendable								
Expendable							43,428,657	8 43,428,657
Unrestricted Net Position							26,733,863	8 26,733,863
							278,091,148	1 278,091,148
TOTAL NET POSITION	\$ 693,933,936	\$ 4,880,962		\$ 698,814,898	\$ 698,814,898	\$	\$ 698,814,898	\$ 698,814,898

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, 2014

EXHIBIT I

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

2) Reclassify current receivables

	Other Receivables	Due from Primary Government	Due from Federal Government
Accounts receivable, net	\$ 24,596,821		
State appropriations receivable, operations	13,317,428		
State appropriations receivable, Charter Schools	38,576,345		
State Appropriations	(13,317,428)	\$ 13,317,428	
State Appropriations - Charter Schools	(38,576,345)	38,576,345	
State Grants	(623,571)	623,571	
Federal Agencies	(945,538)		945,538
	<u>23,027,712</u>	<u>\$ 52,517,344</u>	<u>\$ 945,538</u>
Other current assets	1,503,404		
	<u>\$ 24,531,116</u>		

3) Reclassify investments

	Investments
Cash and cash equivalents	\$ 0
Endowment investments	108,025,932
Other long-term investments	229,753,339
Investments	<u>\$ 337,779,271</u>

4) Reclassify capital assets

	University Capital Assets	Discrete CU Capital Assets	Total Capital Assets
Land and other nondepreciable assets	\$ 13,574,273	\$	\$ 13,574,273
Buildings, equipment, and other depreciable assets	806,098,806	4,582,981	810,681,787
Infrastructure			
Construction in progress	20,834,872		20,834,872
Total	<u>840,507,951</u>	<u>4,582,981</u>	<u>845,090,932</u>
Less accumulated depreciation	367,007,707	4,026,668	371,034,375
Capital Assets, net	<u>\$ 473,500,244</u>	<u>\$ 556,313</u>	<u>\$ 474,056,557</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 67,776,663		
Deposits	1,528,237		
MPSERS & MPSERS - MIP	(342,981)	\$ 342,981	
Mich income tax	(68,080)	68,080	
Mich sales tax owed	(18,453)	18,453	
Interest	(1,217,646)		\$ 1,217,646
	<u>\$ 67,657,741</u>	<u>\$ 429,513</u>	<u>\$ 1,217,646</u>

6) Reclassify current portion of debt obligation

	Long Term Liab Current portion	Bonds & Notes Payable
Current portions of long term obligations	\$ 24,200,600	
Bonds and notes payable	(24,064,016)	\$ 24,064,016
	<u>\$ 136,584</u>	<u>\$ 24,064,016</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds & Notes Payable
Long-term debt and other obligations	\$ 149,188,937	
Long-term bonds and notes payable	(128,322,913)	\$ 128,322,913
	<u>\$ 20,866,024</u>	<u>\$ 128,322,913</u>

8) Combine restricted net position

	Restricted for Endowments	Restricted for Education
Restricted for:		
Nonexpendable-scholarships, fellowships, research	\$ 43,428,657	
Expendable-scholarships, fellowships, research	26,733,863	7,120,134
Instructional department uses		10,814,561
Expendable-loans		1,085,510
	<u>\$ 70,162,520</u>	<u>19,020,205</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, 2014

EXHIBIT II

	University Financial Report	Discrete Component Units	Total University	Adjustments and Reclassifications		SOMCAFR Format
				Debit	Credit	
OPERATING REVENUES						
Tuition and fees	\$ 211,061,993		\$ 211,061,993	\$ 211,061,993	1	
Federal grants and contracts	7,262,673		7,262,673	7,262,673	2	
State and local grants and contracts	2,537,676		2,537,676	2,537,676	2	
Private grants and contracts	3,780,386		3,780,386	3,780,386	2	
Sales and services of educational activities	19,309,664		19,309,664	19,309,664	1	
Auxiliary enterprises	72,066,440	\$ 32,686,606	104,753,046	104,753,046	1	
Total operating revenues	316,018,832	32,686,606	348,705,438	348,705,438		
OPERATING EXPENSES	439,118,108	32,474,997	471,593,105		\$ 471,593,105	3
NONOPERATING REVENUES (EXPENSES)						
State appropriations	73,992,797		73,992,797	73,992,797	4	
Gifts and pledges net of allowance	4,770,931		4,770,931	4,770,931	2	
Investment income net of expense	37,412,590	146,382	37,558,972	37,558,972	2,5	
Interest on capital assets related debt	(5,827,201)		(5,827,201)			3
Federal Pell grant program	28,335,829		28,335,829	28,335,829	6	
Other nonoperating revenues	150,304	(1,139,332)	(989,028)	(989,028)	6	
Net nonoperating revenues	138,835,250	(992,950)	137,842,300	143,669,501		5,827,201
OTHER						
Capital appropriations					4	
Capital grants and gifts	1,955,435		1,955,435	1,955,435	7	
Additions to permanent endowments	2,845,705		2,845,705	2,845,705	2	
Total other revenues	4,801,140		4,801,140	4,801,140		
Increase in net position	20,537,114	(781,341)	19,755,773	497,176,079		477,420,306
EXPENSES				477,420,306	3	\$ 477,420,306
PROGRAM REVENUES						
Charges for services						335,124,703 1
Operating grants/contributions						37,158,683 2
Capital grants/contributions						1,955,435 7
NET (EXPENSE) REVENUE						
Business-type activities						374,238,821
GENERAL REVENUES						
Interest and investment earnings						21,597,660 5
Payments from State of Michigan						73,992,797 4
Other						27,346,801 6
TRANSFERS						
Total general revenues and transfers						122,937,258
Change in net position	20,537,114	(781,341)	19,755,773			19,755,773
Net position -- beginning	673,396,822	5,662,303	679,059,125			679,059,125
Net position -- ending	\$ 693,933,936	\$ 4,880,962	\$ 698,814,898	\$ 974,596,385	\$ 974,596,385	\$ 698,814,898

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2014

EXHIBIT II

1) Charges for services	Charges for Services
Tuition and fees	\$ 211,061,993
Sales and services of educational activities	19,309,664
Auxiliary enterprises	104,753,046
	<u>\$ 335,124,703</u>
2) Operating grants/contributions	Operating Grants/Contributions
Federal grants and contracts	\$ 7,262,673
State and local grants and contracts	2,537,676
Private grants and contracts	3,780,386
Gifts and pledges net of allowance	4,770,931
Additions to permanent endowments	2,845,705
Investment Income - Exp Rest Fund	4,972
Investment Income - Student Loan Fund	56,286
Investment Income - Endowment Fund	15,900,054
	<u>\$ 37,158,683</u>
3) Expenses	Expenses
Operating expenses	\$ 471,593,105
Interest on capital assets, net of related debt	5,827,201
	<u>\$ 477,420,306</u>
4) Payments from State of Michigan	Payments from State of Michigan
State appropriations	\$ 73,456,900
Capital appropriations	0
Section 236(4) retirement contribution	535,897
	<u>\$ 73,992,797</u>
5) Interest and investment earnings	Investment Income
Investment Income - Exp Rest Fund	\$ 37,558,972
Investment Income - Student Loan Fund	(4,972)
Investment Income - Endowment Fund	(56,286)
	(15,900,054)
	<u>\$ 21,597,660</u>
6) Other Revenues	Other Revenues
Federal Pell Grant Program	\$ 28,335,829
Other nonoperating revenues	(989,028)
	<u>\$ 27,346,801</u>
7) Reclassify financial data into the specified format to be used in the State's CAFR Statement.	

See notes to supplemental financial statements.

NOTES TO THE STATE OF MICHIGAN CAFR

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

The financial statements of the university's discretely presented component unit, Central Health Advancement Solutions (CHAS) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For this financial report the aggregated total of the university and CHAS are presented.

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:

<u>Classification</u>	<u>Life</u>
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

For CHAS leasehold improvements, furniture, and equipment are stated at cost. Leasehold improvements, furniture, and equipment purchases in excess of \$500 are depreciated over their estimated useful lives using the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the estimated useful lives of the related assets. Such amortization is included in depreciation in the financial statements.

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 for hedging instruments (noncurrent liabilities) of \$6,755,144 at June 30, 2014. Also included in deferred outflows is the gain on the defeasance of the General Revenue bonds Series 2002A valued at \$1,365,045, net of amortization, at June 30, 2014.

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 STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 8--DEPOSITS AND INVESTMENTS

The university and its component units 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	\$ 48,271,850	\$ 48,271,850				
Government money market accounts						
Investments:						
Commercial paper						
Short-term notes						
Repurchase agreements						
Government securities						
Insured mortgage backed securities						
Government backed securities						
Investment agreements						
Corporate bonds and notes						
Preferred stock						
Equities	55,559,292	55,559,292				
Real estate	30,870	30,870				
Venture capital & leveraged buyouts						
Government money market funds						
Mutual bond/equity funds	248,916,755					\$ 248,916,755
Guaranteed investment contracts						
Pooled investment funds						
Other Investments	28,431,277		\$ 28,431,277			
Total Investments	<u>381,210,044</u>	<u>103,862,012</u>	<u>28,431,277</u>			<u>248,916,755</u>
Less Investments Reported as "Cash" on Statement of Net Position	<u>43,430,773</u>					
Total Investments	<u>\$ 337,779,271</u>					

As Reported on the Statement of Net Position

Current investments	
Noncurrent restricted investments	\$ 70,162,520
Noncurrent investments	<u>267,616,751</u>
Total Investments	<u>\$ 337,779,271</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, 2014, that mature by June 30, 2015, 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, 2014.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Foreign Currency Risk

The university's holding in foreign investments was made primarily in equities, which approximated \$52.9 million at June 30, 2014.

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 \$29,408,795 at June 30, 2014. The deposits were reflected in the accounts of the banks at \$36,514,976 at June 30, 2014. Of the bank balance, \$35,764,976 at June 30, 2014 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 \$29.7 million at June 30, 2014, in its investment portfolios held by various investment managers as the counterparty.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 9--CAPITAL ASSETS

Capital assets, net of depreciation, for the university and its component units consist of the following as of June 30, 2014:

	Beginning Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2014</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	24,626,437	1,286,199		25,912,636
Infrastructure	14,511,166	398,144		14,909,310
Buildings	589,737,933	43,430,416		633,168,349
Leasehold Improvements	95,759			95,759
Furniture and Equipment	81,848,480	4,965,418	1,896,993	84,916,905
Library Materials	45,302,798	1,258,627	390,284	46,171,141
Intangible Assets	924,706			924,706
CHAS Leasehold Imp, Furniture, Equip	4,337,729	245,252		4,582,981
	<u>761,385,008</u>	<u>51,584,056</u>	<u>2,287,277</u>	<u>810,681,787</u>
Less accumulated depreciation:				
Land Improvements	20,471,999	1,348,164		21,820,163
Infrastructure	7,433,436	700,438		8,133,874
Buildings	220,890,589	14,573,378		235,463,967
Leasehold Improvements	67,830	9,576		77,406
Furniture and Equipment	55,520,229	5,206,674	1,635,256	59,091,647
Library Materials	40,859,807	1,174,725	390,284	41,644,248
Intangible Assets	754,553	21,849		776,402
CHAS Leasehold Imp, Furniture, Equip	3,731,363	295,305		4,026,668
Total depreciated capital assets	<u>349,729,806</u>	<u>23,330,109</u>	<u>2,025,540</u>	<u>371,034,375</u>
Construction In Progress	<u>41,093,229</u>	\$ 11,619,299	<u>31,877,656</u>	<u>20,834,872</u>
Capital Assets, Net	<u>\$ 466,322,704</u>	<u>\$ 39,873,246</u>	<u>\$ 32,139,393</u>	<u>\$ 474,056,557</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%-10% for hourly staff. University contributions begin immediately for all employees.

Contributions and covered payroll under all plans in fiscal year 2014 are summarized as follows:

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPERS</u>	<u>University Total</u>
University Contributions	\$ 12,361,695	\$ 2,570,465	\$ 562,591	\$ 15,494,751
Required Employee Contributions			526,231	526,231
University Health Contributions			16,514	16,514
Employee Health Contributions			540,957	540,957
Covered Payroll	119,338,741	26,100,456	18,306,666	163,745,863

The university also contributes to MPERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. The university's contribution rate was 16.61% for June 30, 2014. The university's contributions to MPERS, which are not included in the table above, totaled \$7,134,918 in fiscal year 2014.

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 \$2,488,086 for fiscal year 2014 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 2014, 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 Global Campus degree program facilities, technology equipment and College of Medicine office space. CHAS has entered into various leases primarily for clinical and office space. The following is a schedule of the aggregate minimum commitments for leases for each of the succeeding five years ending June 30 and thereafter:

2015	\$ 3,675,361
2016	3,469,902
2017	2,631,532
2018	1,915,460
2019	912,880
2020-2024	2,528,560
2025-2029	795,648
	<u>\$ 15,929,343</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

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, 2014:

	Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014	Current Portion
General Revenue Bonds:					
Series 1990 Capital Appreciation	\$ 4,997,235	\$ 272,694	\$ 1,820,000	\$ 3,449,929	\$ 1,787,016
Series 2005:					
Series Bonds	6,085,000		760,000	5,325,000	790,000
Term Bonds	21,675,000			21,675,000	
Series 2006:					
Series Bonds	8,100,000		670,000	7,430,000	700,000
Term Bonds	17,325,000			17,325,000	
Series 2008A Series Bonds	31,055,000		2,840,000	28,215,000	2,905,000
Series 2009A Series Bonds	28,350,000		1,430,000	26,920,000	1,510,000
Series 2009A Unamortized Premium	2,279,000		172,000	2,107,000	172,000
Series 2012A Series Bonds	23,015,000			23,015,000	
Total Long-Term Debt	142,881,235	272,694	7,692,000	135,461,929	7,864,016
Note Payable	925,000		100,000	825,000	100,000
Line of Credit	13,200,000	2,900,000		16,100,000	16,100,000
Hedging Instruments	7,074,607		319,463	6,755,144	
Compensated Absences	5,090,060	501,310		5,591,370	96,221
Federal Portion of Perkins Loan Program	5,726,469		246,261	5,480,208	
Retirement Service Award Program	3,233,935		58,049	3,175,886	40,363
	35,250,071	3,401,310	723,773	37,927,608	16,336,584
Total	\$ 178,131,306	\$ 3,674,004	\$ 8,415,773	\$ 173,389,537	\$ 24,200,600

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 2015 through 2016. The table, which follows, summarizes capital appreciation bonds at June 30, 2014.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2014	1,787,016	1,820,000
10-1-2015	1,662,913	1,820,000
Total	\$ 3,449,929	\$ 3,640,000

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, 2014 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
2015	7,692,016	4,396,444	1,202,610	13,291,070
2016	7,972,913	4,380,120	1,030,063	13,383,096
2017	4,205,000	4,063,105	975,413	9,243,518
2018	4,645,000	3,893,650	966,532	9,505,182
2019	4,810,000	3,719,907	955,326	9,485,233
2020-2024	26,820,000	15,650,287	4,592,538	47,062,825
2025-2029	34,080,000	9,843,822	3,932,055	47,855,877
2030-2034	37,780,000	4,035,118	1,357,495	43,172,613
2035-2036	5,350,000	202,738		5,552,738
Total	133,354,929	\$ 50,185,191	\$ 15,012,032	\$ 198,552,152
Unamortized Premium	2,107,000			
	\$ 135,461,929			

HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2014. 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) (0.10098% at June 30, 2014). The notional amount of the swap at June 30, 2014 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 (0.0980% at June 30, 2014). The notional amount of the swap at June 30, 2014 is \$6,025,000. 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 JPMorgan, Michigan. The swap provisions and termination date remain unchanged.

As of June 30, 2014, the swap agreements had a total notional amount of \$28,025,000 and were in a negative position of \$6,755,144 (\$6,479,648 for the 2002 swap and \$275,496 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 \$319,462 for fiscal year 2014. The fair value of \$6,755,144 (\$7,074,607 at June 30, 2013) is recorded in deferred outflows at June 30, 2014.

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 STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Credit Risk

As of June 30, 2014, all hedging instruments are liabilities; therefore the university is not exposed to the credit risk of its swap counterparties. 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, 2014, all of the university's interest rate swap counterparties are rated A or higher which suggests a strong capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparties from complying with the terms of the derivative agreements. The university monitors counterparty credit risk on an ongoing basis for any significant adverse changes.

Interest Rate Risk

Interest payments on the hedged variable-rate debt are generally expected to increase (decrease) as SIFMA rates increase (decrease). The university believes it has effectively hedged interest rate risk on the hedged portion of its variable-rate debt by entering into interest rate swaps.

Basis Risk

The variable rate debts hedged by the university's interest rate 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. For the period the weighted average interest rate on the hedged debt was 0.07%, SIFMA was 0.07%, and 67% of 1-Month LIBOR was 0.11%.

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, 2014, the university's unenhanced, unlimited tax general obligation bonds are rated A+ by S&P and Aa3 or A1 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, 2014, the university does not believe that rollover risk is significant.

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.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 \$1,365,045 at June 30, 2014.

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, 2014 primarily consists of the construction costs for CMED East Campus of \$5.6 million, Biosciences building of \$4.8 million, East Utility Loop of \$2.5 million, South Quad Improvements of \$2.2 million and other projects, including maintenance and remodeling approximating \$5.0 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 \$107.3 million as of June 30, 2014 (\$114.7 million as of June 30, 2013).

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.

NOTE 25--RISK MANAGEMENT

The university participates with other Michigan public universities in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.). 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 reserve accounts from which it pays its retention amounts for losses related to errors and omissions, commercial general liability, auto and property claims. The first layer of coverage for losses exceeding retention levels is a group risk-sharing pool and is the responsibility of M.U.S.I.C. As a second layer of coverage M.U.S.I.C. has purchased excess insurance coverage through commercial carriers for errors and omissions, commercial general liability, property and automobile liability claims. The payments made to M.U.S.I.C. and premiums to excess carriers reflect the liability risk exposures and claims experience of each university.

Professional Liability Insurance

CHAS was self-insured for professional medical malpractice through December 31, 2010 for claims based on occurrences on or before December 31, 2010. In connection with the self-insurance program, the CHAS has:

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

- Determined aggregate limits of \$100,000/\$300,000 for residents and \$200,000/\$600,000 for doctors.
- Established a trust fund and placed the management of the fund in the hands of an independent fiduciary who has legal title to it and is responsible for its proper administration and control.

	June 30	
	2014	2013
Estimated professional liability under self-insurance	\$ 393,596	\$ 557,346
Total malpractice assets:		
Investments under professional liability funding arrangement – held by the trustee, at fair value	614,345	1,611,054
Over funding of liability	\$ (220,749)	\$ (1,053,708)

Claim losses based upon occurrences prior to July 1, 1986 remain insured under prior insurance policies subject to the policy limits.

Effective January 1, 2011, CHAS purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$1,000,000 per occurrence with annual aggregates ranging from \$3,000,000 to \$9,000,000.

Effective April 1, 2012, CHAS purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$1,000,000 per occurrence with annual aggregates ranging from \$3,000,000 to \$8,500,000.

Malpractice and other claims have been asserted against CHAS by various claimants. Such claims are in various stages of processing and some may be litigated. Accordingly, 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 the Self-Insurance Trust Fund.

Managed Care Risk Pool Liability

CHAS also entered into an agreement with Great Lakes Health Plan, Inc. (GLHP) for Medicaid covered services on October 1, 2000. The agreement is effective for one year and is automatically renewable for yearly terms unless terminated by CHAS or GLHP. Under the agreement, CHAS receives capitated and covered services compensation. Covered services are reimbursed according to GLHP's fee schedule. CHAS agrees to bear the risk for the cost of the covered services which exceeds the covered service compensation. Since CHAS bears the risk of loss, there is no risk pool liability associated with their plan.

NOTE 26--SUBSEQUENT EVENTS

Subsequent to June 30, 2014, the university issued general revenue and refunding bonds in the amount of \$66,770,000. The proceeds from the sale of the bonds will be used to pay a portion of the cost of the constructing, furnishing and equipping a new four-story, approximately 169,000 square foot Biosciences Building on the main campus of the university, the cost of refunding a portion of the university's Series 2005 bonds and certain expenses related to the issuance of the bonds. It is expected that the bonds will be available for delivery on or about October 30, 2014.