Fiscal Year 2019 Financial Report

As of and for Years Ended June 30, 2019 and 2018

Advancing the Campus Identity Plan:
Pedestrian Gateway and Central Avenue

CMU
CENTRAL MICHIGAN
UNIVERSITY

CENTRAL MICHIGAN UNIVERSITY

August 2019

To the People of the State of Michigan:

I am pleased to share the story of Central Michigan University's financial performance for the fiscal year ending June 30, 2019. The report that follows details CMU's strong financial position, the result of conservative fiscal management, cost cutting and a profound sense of fiduciary responsibility to you, Michigan's taxpayers.

Central is a partner to the state of Michigan — to its residents, its communities and its businesses. Nearly 85 percent of our more than 21,000 students are from Michigan, and they represent all 83 counties. And, after they graduate, more than 80 percent of CMU's graduates stay here to work.

We are preparing Michigan students to become valuable and impactful members of our state's economy, and our students and graduates have enormous impact on the economy and civic engagement within our communities. Thus, it is essential that we continue working to make higher education accessible and affordable to those determined to better themselves and the world around them.

State funding accounts for 18 percent of our operating budget and covers just 66 days of operation — placing a massive burden on students and families. In addition, per-student funding at Michigan's 15 public universities ranges widely. Central receives $4,327 per student — the sixth-lowest in the state.

Yet, Central maintains the lowest cumulative tuition increase among Michigan's 15 public institutions over the past decade. Our increase is less than half that of the Michigan university with the largest increase.

Central was established more than 125 years ago to meet the state's need for teachers and business leaders. Today, we continue meeting Michigan's needs through more than 300 high-quality academic programs designed to address talent gaps in critical areas, including health care, education and business. Consider these points of pride:

- The university's Center for Integrated Health Studies, which will advance interdisciplinary learning for students in health professions programs, is on track to begin serving students next academic year.
- CMU is leading its second $10 million grant from the U.S. Environmental Protection Agency to monitor Great Lakes coastal wetlands.
- The CMU College of Medicine just graduated its third class of doctors, trained to serve in rural and medically underserved areas of the state.
- Through its Sarah R. Opperman Leadership Institute, CMU offers more leadership development programming than any other college or university in the country.
- CMU is a leader in flexible learning options through its online programs and satellite locations throughout North America.

At Central Michigan University, we know that higher education is an investment in the present and the future of our students. Thus, despite challenges, we continue to be mindful of students' needs and financial burdens. Through the combined efforts of our faculty, staff, alumni and the citizens of Michigan, CMU will move forward with a focus on innovation and excellence, while continuing to provide world-class instruction, research and public service to continue paving the path to a successful and prosperous future.

Sincerely,

Barrie J. Wilkes
Vice President for Finance and Administrative Services

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Financial Statements

Central Michigan University

June 30, 2019

Report of Independent Auditors 1-2

Management's Discussion and Analysis 3-16

Statements of Net Position – Central Michigan University 17

Statements of Revenues, Expenses and Changes in Net Position – Central Michigan University 18

Statements of Cash Flows-Direct Method – Central Michigan University 19-20

Statements of Net Assets – Central Health Advancement Solutions 21

Statements of Activities and Changes in Net Assets – Central Health Advancement Solutions 22

Statements of Net Assets – Institute for Excellence in Education 23

Statements of Activities and Changes in Net Assets – Institute for Excellence in Education 24

Notes to the Financial Statements 25-55

Required Supplemental Information 56

- Schedule of the Institution's Proportionate Share of the Net Pension Liability 57
- Schedule of Institution Pension Contributions 57
- Notes to Required Supplemental Information 57
- Schedule of the Institution's Proportionate Share of the Net OPEB Liability 58
- Schedule of Institutional OPEB Contributions 58
- Notes to Required Supplemental Information 58

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Independent Auditor's Report

To the Board of Trustees
Central Michigan University

Report on the Financial Statements

We have audited the accompanying financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component units as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Central Michigan University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) or the Institute of Excellence in Education (IEE), which represent all of the balances of the assets, net assets, and revenues of the discretely presented component units. 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 and IEE, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of CHAS and IEE were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Central Michigan University and its discretely presented component units as of June 30, 2019 and 2018 and the changes in its financial position and cash flows, where applicable, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Central Michigan University

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion & analysis, schedule of the university's proportionate share of the net pension liability and schedule of university pension contributions, and schedule of the university's proportionate share of the net OPEB liability and schedule of university OPEB contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The listing of board of trustees, president and vice presidents, and financial administrative staff and introductory letter are presented for purposes of additional analysis and are not a required part of the basic financial statements. The listing of board of trustees, president and vice presidents, and financial administrative staff and introductory letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2019 on our consideration of the Central Michigan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Michigan University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 19, 2019

INTRODUCTION

This section of the Central Michigan University (the university or CMU) annual financial report presents a discussion and analysis of the financial performance of the university for the fiscal year ended June 30, 2019, with selected comparative information for the years ended June 30, 2018, and 2017. For accurate contextual understanding, read this discussion prepared by management, along with the financial statements and related note disclosures, in its entirety. The discussion and analysis focus is on current activities, resulting changes and currently known facts.

REPORTING ENTITY

Central Michigan University is an institution of higher education and a component unit of the State of Michigan. The financial reporting entity consists of the university and other organizations for which the university is financially accountable.

Under the provision of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus,* Central Michigan University College of Business Administration Foundation (CBAF) and the Central Michigan University Foundation have been determined to be component units. Their activity has been blended into the university's financial statements.

Under the same GASB Statement No. 61, Central Health Advancement Solutions (CHAS) and the Institute for Excellence in Education (IEE) have been determined to be significant component units. Accordingly, CHAS and IEE are discretely presented in the university's financial statements. Refer to Note 1 to the financial statements for more information regarding these component units and other affiliated entities.

FACTORS INFLUENCING FUTURE PERIODS

Central Michigan University, while facing external factors beyond our control, is committed to keeping higher education affordable and accessible to students and families. The university continues to expand programs, undertake new initiatives, and meet its core mission and ongoing operating needs through effectively managing finances and streamlining processes. However, declining population in the high school cohort in Michigan may have an adverse effect on the university's ability to meet its goals. The level of enrollment, state support, and potential compensation and benefit increases are major impact factors on student tuition and fee increases.

The university's state appropriations for fiscal year 2019 were $1.3 million below its peak appropriations of seventeen years ago. In fiscal year 2019, state appropriations contributed approximately 19.0% of university revenues. In fiscal year 2002, state appropriations contributed approximately 31.5% of university revenues.

The university has a required supplemental contribution to the Michigan Public School Employees' Retirement System (MPSERS) for retiree pension and health care benefits that additionally reduces the revenue available for operations. The required contribution was $15.5 million for fiscal year 2019 compared to $6.2 million for fiscal year 2002.

The university is committed to preserving academic quality, providing excellent service to our students, and not dramatically increasing tuition and fees for our students and their families. The university is adamant about holding the line related to tuition and fee increases even though state appropriations are less than what they were seventeen years ago. Significant efforts, such as the newly created student financial wellness collaborative, will allow us to better educate and assist students with financial needs while we continue to identify and implement efficient and effective cost-saving measures. Recognizing the continued financial challenges of our students and their families, the university has increased total CMU aid from approximately $31.2 million in 2008 to $70.9 million in 2019, making degrees possible for many students who otherwise could not pursue their dream of higher education. Central Michigan University continues to be committed to addressing the financial needs of our students and their families.

Operating Budget and Deferred Maintenance

The university's Board of Trustees approved the operating budget for fiscal year 2020 of $462 million. The balanced budget includes increases for employee compensation and other necessary costs.

The university models a five-year forecast of its revenue and expense budget. This model is significantly impacted by unpredictable future state appropriations funding, declining levels of Michigan high school graduates causing potential declining enrollment, and modest increases in salary, benefits, and equipment costs. The university remains steadfast in its commitment to achieve operational efficiencies, implement additional cost-saving measures where appropriate, and increase financial aid for our students. With these economic factors in sight, the university is continuing its fiscally conservative approach as good stewards of its available resources.

The formal budget and modeling process includes the university's annual review of the priority needs and requirements for deferred maintenance, technology, renovations, and new construction projects. This comprehensive review allows for systematic prioritization on an institutional basis. Priorities are set based on anticipated future funding, with maintenance related projects having priority over new initiatives.

The campus has many deferred maintenance needs as documented in a detailed audit of each building. The current estimate of existing deferred maintenance needs, adjusted for inflation, is $262 million, $87.2 million of that is for general fund supported facilities. Starting with fiscal year 1999, the university has dedicated between $4.5 to $7.9 million per year toward addressing these needs annually, with an average allocation of approximately $5.4 million per year for the past 21 years.

During fiscal year 2019, the university expended approximately $37.5 million on plant related projects. Funding sources included State Building Authority appropriations, gifts, and other university funds.

Academic Priorities

The university has a longstanding tradition of enhancing student learning and success as well as contributing to the discovery and dissemination of knowledge. Dedicated faculty, committed to leading-edge research and active teaching methodologies, work to grow the wisdom, technological sophistication and creativity of CMU students. As part of our commitment to enhance student success and elevate academic excellence, periodic reviews are conducted in areas of academic structure, academic support services, and academic responsibility centered management budgeting, focused on enhancing the delivery of education.

College of Medicine

The Central Michigan University College of Medicine (CMED) is the nation's 137th medical school and was founded to produce high-quality physicians for underserved communities in Michigan. In the 2018-2019 academic year, CMED focused on solidifying and strengthening existing relationships while exploring additional educational opportunities for our students.

The number of applicants to CMED continues to expand showing great interest in the program. The matriculating class of 2018 was selected from over 7200 applicants. 12% of the students in the 2018 class are underrepresented in medicine (10% is the national average) and 77% of the 2018 class call Michigan home. CMED continued to be successful with their 2018-19 Match. Match statistics provide evidence that CMED is advancing the mission of the medical school. 71% matched to primary care and 44% matched to a residency program in Michigan.

The Accreditation Council of Graduate Medical Education (ACGME) is the body responsible for reviewing and accrediting residency programs (GME). The CMU College of Medicine is the academic sponsor of seven residency programs based at CMU Medical Education Partners (CMEP) in Saginaw. CMEP is a GME consortium and partnership between CMU, Covenant HealthCare and Ascension St. Mary's. All residency programs including family medicine, internal medicine, emergency medicine, emergency medical services, psychiatry, podiatry, and general surgery are accredited.

Leadership from CMEP, CMU, Covenant HealthCare and Ascension St. Mary's, are engaged with a national consultant to redesign the governance and operational structure of CMEP. As CMEP is the employer of the majority of CMU's clinical faculty, and represents over two thirds of the College's budget, the approach toward the reorganization has been thoughtful and strategic.

CMED's continuing medical education (CME) program obtained "Accreditation with Commendation" from the Accreditation Committee for Continuing Medical Education (ACCME) and is the Great Lakes Bay Region's provider of educational programs for physicians and other healthcare.

During the 2018-2019 academic year, the College has worked to engage in strategic clinical affiliations to meet long-term educational and financial needs. The College's learning and working environment remains strong and the focus has shifted to building ongoing curricular continuous quality improvement that sustains the College's ability to attract the best students, to recruit and retain faculty, and engage support staff.

At their meeting in June 2019, the CMU Board of Trustees approved a 25-year agreement with Covenant Healthcare in Saginaw. The agreement builds on existing relationships between the College of Medicine and Covenant and will be a model for affiliation with other clinical partners in Michigan. To address a gap in educational offerings, CMED affiliated with Children's Hospital of Michigan and University Pediatrics in Detroit to provide clinical training in Pediatrics and its subspecialties for our students. It is our hope that the relationship can expand to include research and other academic collaborations.

Enrollment Management

The Enrollment and Student Services (ESS) Division provides strategic leadership for the university's recruitment and retention efforts in support of fulfilling CMU's vision and strategic priorities. Specifically, ESS fosters the overall health, wellness, and co-curricular engagement of students through applied learning experiences and resource positioning to improve retention, progression, and graduation rates among an increasingly smaller and diverse student population. With a focus on the university's exceptional academic programs, innovative delivery modalities, and rich student engagement opportunities, ESS helps to articulate and communicate the university's strong value proposition and competitive advantage.

Enrollment management is an iterative process that includes active participation by the Board of Trustees, Cabinet, faculty, administration, staff, students, and alumni. The Strategic Enrollment Management (SEM) Plan is developed and updated regularly to coincide with the timing and goals of the university's Strategic Plan. The SEM Plan provides a roadmap for intentional efforts and initiatives to both strategically and tactically achieve enrollment goals. Continuous input is used from a broad contingent across the university to assess the appropriateness and effectiveness of the Plan's goals and objectives.

Several enrollment management efforts are underway through collaborations with national organizations and academic colleagues. CMU is organizing projects to reinvent the early college experience, increase student engagement, and reduce the time to degree attainment. Centralizing all student advising and implementing mandatory annual advising, will positively impact retention and student credit hour production as students will receive more frequent and timelier advising to decrease their time to degree completion. New Student Orientation moved to the Office of Student Success as part of the academic organizational review. A new program and staffing model were implemented to increase student (participant) engagement and belongingness. The team has served a total of 6110 participants, comprised of both student and parents/supports. Evaluative feedback has been overwhelmingly positive.

University recruitment efforts for main campus have consolidated into a single department within the ESS Division offering new opportunities for increased visibility and efficiencies. CMU is changing the following recruitment strategy and tactics: implementing territory management, reaching out to students earlier in high school to build affinity, and expanding national and international reach by becoming a member of The Common Application for the 2020 cycle. These efforts and the continuing partnership between ESS and University Communications will ensure that CMU's message resonates with prospective students and families.

The university has also made strategic investments in staffing and resources to cultivate and foster strategic partnerships that create enrollment opportunities as well as promote student success. In FY19, formal partnerships were established with Blue Cross Blue Shield, Chemical Bank, Fiat-Chrysler Automobiles, DTE Energy, Oakland County and others.

The university continues to evaluate opportunities to diversify its revenue streams by identifying audiences for traditional programming and alternative professional development/training, revising pricing strategies, and leveraging auxiliary enterprises. These efforts help to make sure that the university remains solvent and is well positioned to proactively respond to trends, environmental influences, and the continued shift within the university's target audiences.

Campus Master Plan and Campus Identity Project

The Campus Master Plan ensures that CMU's campus and facilities align with the Imperatives, Strategies and Targets updated by the 2017- 2022 Strategic Planning Team, accelerating learning and enhancing the success of CMU students. The Campus Master Plan includes a facilities condition assessment, infrastructure assessment, and land use plan. It also includes a space utilization study, bench marked against similar universities. This comprehensive evaluation of the campus and facilities provides information that guides our investment in new facilities, major renovations, and deferred maintenance.

The goal of the Campus Identity Project was to create a campus with an engaging outdoor environment, clear borders, effective signage, and simplified yet strategic landscaping. The landscape will reflect a strong sense of academic impact, with walkways and open spaces that inspire and connect all who visit, study, work, and live here. Phase three of a multiyear implementation of wayfinding and gateways developed as part of this project will be complete at the end of the 2019 summer.

The Campus Master Plan and Campus Identity Project provides strategic guidance identifying and prioritizing capital and deferred maintenance projects across campus. Together the two initiatives have guided decision making on capital project placement including pedestrian and motorized vehicle access. The Capital Plan, created in 2013, was updated in 2017 to continue the alignment of CMU's investment in facilities with the Strategic Plan.

CMU Research Corporation

Central Michigan University Research Corporation (CMURC) is a professional coworking space with accelerator programs focused on product and strategic development for entrepreneurs to positively impact the economy in the Great Lakes Bay Region. The organization is a single point of contact for startups and established businesses who want to harness the intellectual, technological, and material resources of Central Michigan University to grow their ideas and businesses. Created nearly two decades ago, it brings together local, regional and statewide partners to accelerate the success of entrepreneurs, growing businesses, and jobs by leveraging the resources of Central Michigan University, the Mount Pleasant SmartZone, and the Michigan Economic Development Corporation's 21st Century Jobs Trust Fund.

Recognized as one of the top Michigan SmartZones, CMURC expanded from the Mount Pleasant location to open two new facilities in Uptown Bay City in March 2017 and Riverfront Saginaw in September 2018. This venture demonstrates that CMU is a community partner in spurring economic development activities to graduate and retain more Michigan residents and improve our state's economy and future development.

USING THE ANNUAL REPORT

The university's financial report includes three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements.

STATEMENTS OF NET POSITION

The Statements of Net Position include all assets and liabilities. The Statements of Net Position are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services or goods/products are provided and expenses and liabilities are recognized when others provide the service or product, regardless of when cash is exchanged. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. Investments are stated at fair value or amortized cost, and capital assets are stated at historical cost less an allowance for depreciation.

A three year summarized comparison of the university's assets, liabilities and net position (shown in millions) at June 30 is as follows:

	2019	2018	2017
Current assets	$ 117.8	$ 116.6	$ 134.5
Noncurrent assets			
Capital assets, net	557.8	546.0	551.6
Other	411.2	407.1	362.2
TOTAL ASSETS	1,086.8	1,069.7	1,048.3
DEFERRED OUTFLOWS	22.2	19.8	19.1
Current liabilities	93.4	87.4	90.0
Noncurrent liabilities	344.0	339.9	308.6
TOTAL LIABILITIES	437.4	427.3	398.6
DEFERRED INFLOWS	15.7	8.7	1.0
TOTAL NET POSITION	$ 655.9	$ 653.5	$ 667.8

ASSETS

Current assets consist of cash and cash equivalents, receivables net of the allowance for doubtful accounts, inventories, and prepaid expenses. Noncurrent assets include restricted cash and cash equivalents, pledges receivable, endowment investments at fair value, long-term investments, and capital assets. During 2019, total assets increased $17.1 million. Significant changes in assets occurred in the following areas:

- Cash and cash equivalents decreased $8.9 million primarily due to use of cash for construction cash flow needs.
- Accounts receivable increased $1.0 million due primarily to an increase in receivables related to the College of Medicine's participation in the Physician Payment Adjuster Program and Specialty Network Access Fees program.
- State appropriations receivable increased $7.9 million due primarily to a $6.4 million receivable for state appropriations from the State Building Authority for the Center for Integrated Health Studies building project and an increase in the number of charter schools to which CMU provides oversight and whose state appropriations flow through the university.
- Endowment Investments increased $7.4 million due primarily to a result of investment appreciation due to favorable market conditions and donor gifts.
- Other Long-Term Investments decreased $4.2 million due primarily to capital needs net of favorable market conditions.
- Net capital assets increased $11.8 million due primarily to construction in progress on the Center for Health Studies building project, Chippewa Champions Center and Residence Life facilities improvements.

In 2018, total assets increased $21.4 million due primarily to the combined effect of a decrease of $4.2 million in cash and cash equivalents related to use of cash for construction cash flow needs; a decrease of $10.5 million in accounts receivable due primarily to the receipt of funds related to the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast; a decrease in state appropriations receivables of $2.5 million due primarily to a decrease in the number of charter schools to which CMU provides oversight and whose state appropriations flow through the university; an increase of $26.2 million in Endowment Investments due primarily to favorable market conditions and investment of proceeds in a new quasi-endowment (the proceeds came from the sale, in the FCC spectrum auction, of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV was previously broadcast); an increase of $17.7 million in other Long-Term Investments due primarily to favorable market conditions and recording of $2.6 million in split interest agreements for the first time; and a decrease of $5.6 million in net capital assets due to a higher depreciation than new asset additions.

Capital Assets

At June 30, 2019, the university had $1.0 billion invested in capital assets and accumulated depreciation of $452.8 million. Depreciation totaled $26.9 million for the current fiscal year compared to $26.4 million last year. Refer to Note 5 to the financial statements for details regarding capital assets.

The university had three significant projects in progress as of June 30, 2019:

- Center for Integrated Health Studies ($16.9 million of construction in progress). The $26.5 million project will include approximately 62,000 square feet of space and will be located in the university's health professions corridor. Students in the program will be part of a patient-centered medical home model that emphasizes the teamwork needed among all health care professionals.
- Chippewa Champions Center ($4.5 million of construction in progress). The $32.5 million project includes the design and construction of a new facility at the north end of Kelly/Shorts Stadium and the design and installation of a new video board at the south end of Kelly/Shorts Stadium. The new facility will house football operations, a weight room and locker rooms, and will provide student training opportunities with sports medicine, strength and conditioning labs, a nutrition and fueling station and a hydrotherapy center.
- Residence Life Facilities Infrastructure Improvements ($4.3 million of construction in progress). The project includes the demolition of a residence hall and the redevelopment of the site as green space, upgrades and improvements to the North Community Residence Halls, including electrical and life safety infrastructure upgrades and interior and exterior renovations, and East, South and Towers Residence Halls infrastructure upgrades and improvements.

The university had several smaller projects that were placed in-service and capitalized as of June 30, 2019 including the replacement of parking lot 62 which accounted for $1.8 million in capitalized expenditures and the replacement of the Field Hockey Turf which accounted for $1.7 million in capitalized expenditures. All other projects placed in-service during the fiscal year had total capitalized project costs less than one million dollars.

In 2018, capital assets decreased $5.6 million due to a net increase of $20.8 million in capitalized construction project costs, land improvements, and equipment less $26.4 million in depreciation.

Endowment and Pooled Operating Investments

During 2019, endowment investments increased $7.4 million, and pooled operating investments decreased by $4.2 million. The endowment increases are a result of investment appreciation due to favorable market conditions and donor gifts. The pooled operating decrease is a result of capital needs net of favorable market conditions. Investment income for 2019 within both investment portfolios is comprised of a $3.6 million increase in market value, $7.5 million of investment income net of financial fees, and $8.5 million realized gain from the sale of long-term investments. Earnings distributed from endowments for scholarships and fellowships totaled $6.5 million. This spending distribution was offset by gifts received for endowments of $3.4 million and a change in cash on hand in the endowment of $0.3 million.

During 2018, endowment investments increased $26.2 million, and pooled operating investments increased by $17.7 million. These increases are a result of investment appreciation due to favorable market conditions, donor gifts, and the Board of Trustees' decision to invest the $14.1 million in proceeds from the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV was broadcast into a quasi-endowment. Investment income for 2018 within both investment portfolios is comprised of a $15.3 million increase in market value, $4.7 million of investment income net of financial fees, and $9.5 million realized gain from the sale of several long-term investments. Earnings distributed from endowments and annuities for scholarships and fellowships, adjusted for present value, totaled $6.0 million. This spending distribution was offset by gifts received for endowments of $2.6 million and a change in cash on hand in the endowment of $(0.5) million.

DEFERRED OUTFLOWS

During 2019, deferred outflows increased by $2.4 million due primarily to a $1.0 million change in market value position of hedging derivatives on variable rate debt reducing the deferral of expense and an increase of $1.3 million deferral of expense related to changes in assumptions to the Michigan Public School Employee's Retirement System (MPSERS) plan net OPEB liability.

During 2018, deferred outflows increased by $0.7 million due primarily to a $1.3 million change in market value position of hedging derivatives on variable rate debt reducing the deferral of expense, offset by recording for the first time a $2.4 million deferral of expense related to statutorily required contributions to the Michigan Public School Employee's Retirement System (MPSERS) plan net OPEB liability.

Refer to Note 9 to the financial statements for detail regarding the MPSERS plan.

LIABILITIES

Current liabilities consist of accounts payable, unearned revenue, deposits, and the current portion of the long-term obligations payable within the next twelve months. During 2019, current liabilities increased $6.0 million. Significant changes in current liabilities occurred in the following areas as of June 30, 2019:

- Accrued payables to vendors increased $5.2 million due to the construction project related payables primarily for the Center for Integrated Health Studies, Chippewa Champion Center and Residence Life Facilities improvements.
- Accrued payables to charter schools increased $1.2 million due to an increase in the number of charter schools to which CMU provides oversight and related increases in state aid.

During 2018, current liabilities decreased $2.6 million primarily due to accrued wages and benefits increasing by $1.4 million due primarily to the re-classification of taxes and retirement contributions for faculty on deferred pay as accrued wages and benefits instead of a payable; accrued payables to charter schools decreasing by $2.5 million due to a decrease in the number of charter schools to which CMU provides oversight and related decreases in state aid; and accrued payables to vendors decreasing by $1.7 million primarily due to the re-classification of taxes and retirement contributions for faculty on deferred pay as accrued wages and benefits instead of a payable.

Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the balance sheet date and net pension and OPEB obligation for the MPSERS retirement plan. Included is the Retirement Service Award program, accrued compensated absences, and bonded debt. Refer to Note 7 to the financial statements for the detail regarding the change in long-term debt, hedging instruments, and other obligations. During 2019, noncurrent liabilities increased $4.1 million. Significant changes in noncurrent liabilities occurred in the following areas as of June 30, 2019:

- Debt service of $6.1 million was recorded on outstanding bond and note principal, and premium amortization.
- Market value of hedging derivatives increased by $1.0 million.
- Recorded $15.3 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan.
- Recorded $5.7 million decrease in net OPEB liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan.

During 2018, noncurrent liabilities increased $31.3 million primarily due to a debt service of $5.9 million being recorded on outstanding bond and note principal, and premium amortization; market value of hedging derivatives decreasing by $1.3 million; recording of $4.0 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan; and recording $35.1 million in net OPEB liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan.

DEFERRED INFLOWS

During 2019, deferred inflows increased $7.0 million due primarily to a $2.1 million increase in the deferral of revenues resulting from recording the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan, $2.5 million in deferral of revenues resulting from recording the university's proportionate share of the net OPEB liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan and the recording of $2.4 million in the deferral of revenues resulting from split interest agreements.

During 2018, deferred inflows increased by $7.7 million due primarily to a $3.3 million increase in the deferral of revenues resulting from recording the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan, $1.5 million in deferral of revenues resulting from recording the university's proportionate share of the net OPEB liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan and the recording of $2.7 million in the deferral of revenues resulting from split interest agreements.

Refer to Note 9 to the financial statements for detail regarding the MPSERS plan.

NET POSITION

Net position represents the difference between the total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. The university's net position (shown in millions) at June 30 are summarized as follows:

	2019	2018	2017
Invested in capital assets	$ 557.8	$ 546.0	$ 551.6
Debt related to capital assets	(152.2)	(158.3)	(164.2)
Deferred outflow on defeased debt	2.1	2.2	2.4
Net invested in capital assets	407.7	389.9	389.8
Restricted for:			
Nonexpendable	62.8	59.8	57.0
Expendable	72.2	63.3	53.3
Unrestricted	113.2	140.5	167.7
TOTAL NET POSITION	$ 655.9	$ 653.5	$ 667.8

Net invested in capital assets represents the university's capital assets, net of accumulated depreciation, and outstanding principal balances of debt, attributable to the acquisition, construction, or improvement of those assets. Net invested in capital assets increased $17.8 million in 2019 due primarily to construction in progress related to the Center for Integrated Health Studies, Chippewa Champion Center and Residence Life Facilities improvements. During 2018, net invested in capital assets increased $0.1 million due primarily to a reduction in debt due to annual debt service payments

Restricted nonexpendable net position represents the historical value of gifts to the university's permanent endowment funds. Increases in restricted nonexpendable net position are primarily due to additions to permanent endowment funds.

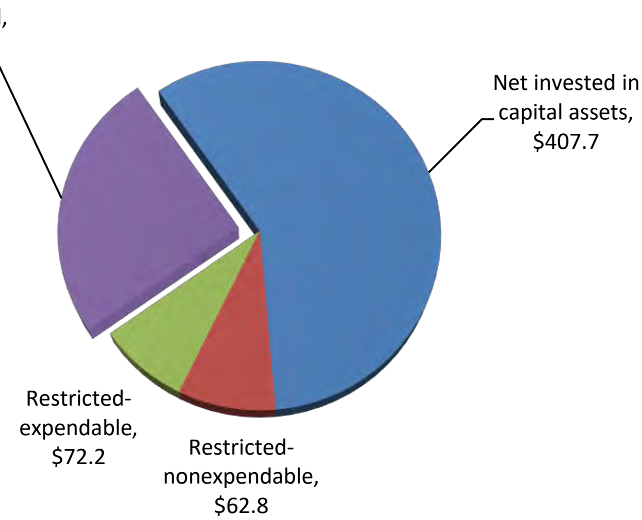
Restricted expendable net position are funds restricted by outside parties or law. This includes net appreciation of permanent endowments and funds received that are restricted for operations, grants and contracts, and facilities. During 2019 and 2018, restricted expendable net position increased $8.9 million and $10.0 million, respectively due to an increase in grant funding and favorable market conditions.

Unrestricted net position represents those balances from operational activities that have not been restricted by parties external to the university, such as donors or grant agencies. This includes funds that have been designated by the governing board for specific purposes, including funds functioning as endowment, as well as amounts that have been contractually committed for goods and services, not yet received.

During 2019 unrestricted net position decreased primarily due to use of unrestricted funds for capital projects and an increase in the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan. During 2018 unrestricted net position decreased primarily due to recording for the first time the university's proportionate share of the net OPEB liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan.

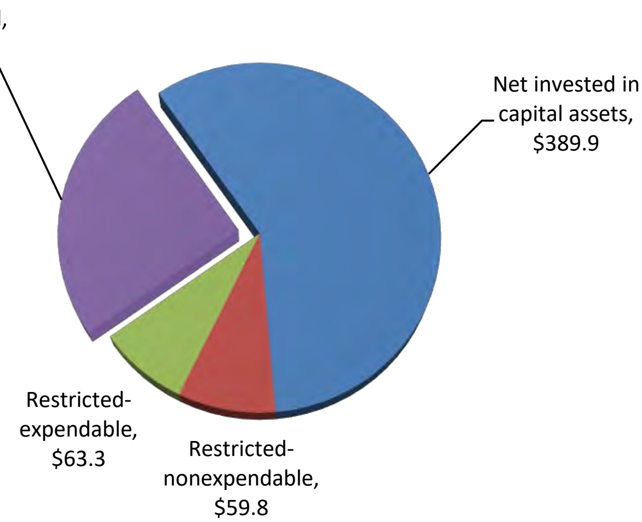
The following is a breakdown of net position at June 30, 2019 (shown in millions).

Unrestricted Net Position	
Capital projects	$ 47.3
Debt stabilization, pension & OPEB obligation & insurance reserves	$ (161.8)
Unrealized gains (loss)	$ 19.4
Contractual commitments	$ 37.9
Working capital balances for departmental & auxiliary	$ 84.6
Quasi endowment funds	$ 85.8



The following is a breakdown of net position at June 30, 2018 (shown in millions).

Unrestricted Net Position	
Capital projects	$ 60.3
Debt stabilization, pension & OPEB obligation & insurance reserves	$ (148.7)
Unrealized gains (loss)	$ 17.2
Contractual commitments	$ 43.3
Working capital balances for departmental & auxiliary	$ 77.0
Quasi endowment funds	$ 91.4



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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position present the revenues earned and the expenses incurred during the year. Activities are reported as operating or non-operating. The financial reporting model classifies state appropriations and gifts as non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation. Depreciation amortizes the cost of an asset over its expected useful life. A summarized comparison of the university's revenues, expenses, and changes in net position (shown in millions) for the years ended June 30 is as follows:

	2019	2018	2017
OPERATING REVENUES			
Tuition, net	$ 206.4	$ 215.8	$ 218.9
Grants and contracts	14.5	13.6	13.0
Auxiliary enterprises, net	73.3	78.6	81.9
Other operating revenues	20.1	20.1	19.7
TOTAL OPERATING REVENUES	314.3	328.1	333.5
OPERATING EXPENSES	459.5	460.6	470.7
OPERATING LOSS	(145.2)	(132.5)	(137.2)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	88.7	87.1	85.1
Other nonoperating revenues	50.3	64.4	86.9
Interest on debt	(6.2)	(6.0)	(6.0)
NET NONOPERATING REVENUES	132.8	145.5	166.0
INCOME (LOSS) BEFORE OTHER REVENUES	(12.4)	13.0	28.8
OTHER REVENUES			
Capital appropriations	7.9	1.3	21.2
Capital grants and gifts	4.0	4.6	1.9
Additions to permanent endowments	2.9	2.6	3.7
TOTAL OTHER REVENUES	14.8	8.5	26.8
INCREASE IN NET POSITION	2.4	21.5	55.6
NET POSITION			
NET POSITION AT BEGINNING OF YEAR	653.5	667.8	612.2
ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE		(35.8)	
NET POSITION AT END OF YEAR	$ 655.9	$ 653.5	$ 667.8

OPERATING REVENUES

Operating revenues for fiscal year ending June 30, 2019 decreased compared to fiscal year 2018. Gross tuition for fiscal years ended June 30, 2019, 2018, and 2017 were $267.2 million, $273.9 million, and $273.6 million, respectively. Scholarship allowances for fiscal years ended June 30, 2019, 2018, and 2017 were $60.8 million, $58.1 million, and $54.7 million, respectively. Auxiliary enterprises include residence halls, apartments, food services, intercollegiate athletics, university bookstore, university press, parking services, energy facility, telecommunications, information technology, university recreation, events activities, events center and clinics. Auxiliary enterprise operations are intended to be self-supporting. Grants and contracts include all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when an eligibility criterion has been met. During 2019, operating revenues decreased $13.8 million. Significant changes in operating revenues occurred in the following areas as of June 30, 2019:

- Tuition before scholarship allowance decreased by $6.7 million due to lower enrollment and a student services fee increase, however a $2.7 million increase in scholarship allowances resulted in a decrease in net tuition of $9.4 million.
- Grants and contracts operating revenues increased $0.9 million.
- Auxiliary enterprise operating revenues, before room and board discount, decreased $6.5 million primarily due to fewer incoming students in the residence halls. A decrease in room and board allowance resulted in an overall decrease of $5.3 million.

During 2018, tuition before scholarship allowance increased slightly by $0.3 million due to lower enrollment and a modest tuition rate increase, however a $3.4 million increase in scholarship allowances resulted in a decrease in net tuition of $3.1 million. Grants and contracts operating revenues increased $0.6 million. Auxiliary enterprise operating revenues, before room and board discount, decreased $1.7 million primarily due to fewer incoming students in the residence halls. An increase in room and board allowance resulted in an overall decrease of $3.3 million

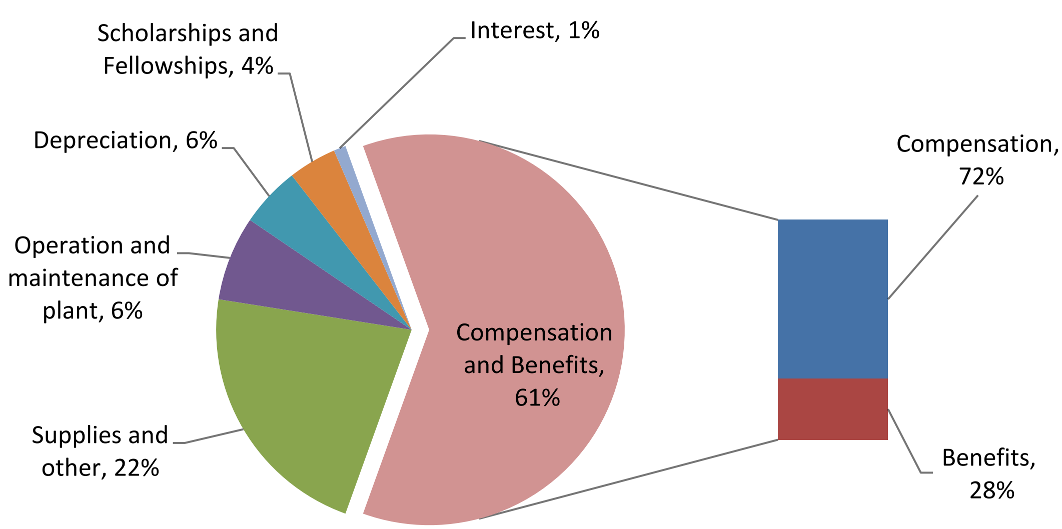
OPERATING EXPENSES

Operating expenses include compensation and benefits, scholarships and fellowships, utilities, supplies, operation and maintenance of plant expenses, and depreciation. Interest expense is classified as a non-operating expense.

A comparative summary of the expenses (shown in millions) for the years ended June 30 is as follows:

	2019	2018	2017
Operating			
Compensation and benefits	$ 283.7	$ 288.3	$ 292.2
Supplies and other	104.5	102.4	102.4
Operation and maintenance of plant	27.8	26.4	33.7
Depreciation	26.9	26.4	25.7
Scholarships and fellowships	16.6	17.1	16.7
TOTAL OPERATING EXPENSES	459.5	460.6	470.7
Nonoperating			
Interest	6.2	6.0	6.0
TOTAL EXPENSES	$ 465.7	$ 466.6	$ 476.7

A summary of the expenses by natural classification for the year ended June 30, 2019, excluding component unit expenses is as follows:



Significant changes in operating expenses occurred in the following areas as of June 30, 2019:

- Compensation and benefit expenses decreased $4.5 million. Of this decrease, the university compensation decreased 0.9% and benefits decreased 3.3%. The change in compensation and benefits primarily resulted from a decrease in the number of filled faculty, staff and student positions offset by a modest compensation increase and the effect of the university's contribution to the employee health care premium cost share remaining flat compared to prior year.
- Supplies and Other increased $2.1 million due primarily to a $6.4 million net increase in expense to support the unfunded portion of the Michigan Public School Employee's Retirement System (MPSERS) pension and OPEB plan, offset by recording an increase of $2.6 million in prepaid expenses primarily driven by timing of library acquisitions and overall planned expense reductions due to budget constraints caused by lower enrollment.
- Operation and maintenance of plant expenses increased $1.4 million due primarily to expensing the residual asset balance related to the demolition of Barnes Hall and the scoreboard structure in Kelly Shorts stadium.

During 2018, compensation and benefit expenses decreased $3.9 million. Of this decrease, the university compensation decreased 2.4% and benefits increased 1.5% primarily as a result of a decrease in the number of filled faculty and staff positions and an increase in benefit cost payments for the Michigan Public School Employee's Retirement System (MPSERS) plan and the university's self-funded plan in addition to a re-classification of taxes and retirement contributions for faculty on deferred pay as benefit expense. Operation and maintenance of plant expenses decreased $7.3 million due primarily to fewer furnishings, equipment and technology expenses related to buildings placed in service in the current fiscal year as compared to the prior fiscal year. Depreciation increased 2.5% primarily due to additional depreciation for the Grawn Renovation building that was placed in service during fiscal year 2018.

A comparative summary of the expenses by functional classification (shown in millions) for the years ended June 30 is as follows:

	2019		2018		2017	
Instruction	$ 145.6	31 %	$ 149.2	32 %	$ 153.6	32 %
Research	15.6	3	14.4	3	13.5	3
Public Service	16.9	4	17.5	4	17.3	4
Academic Support	48.8	10	50.0	11	50.8	11
Student Services	24.3	5	25.8	5	27.5	6
Institutional Support	35.9	8	35.6	8	36.7	8
Scholarships and Fellowships	12.7	3	16.9	3	15.8	3
Operation and Maintenance of Plant	27.8	6	26.4	6	33.7	7
Auxiliary Services	92.6	20	92.2	20	89.9	19
Depreciation	26.9	6	26.4	6	25.7	5
Other	12.4	3	6.2	1	6.2	1
Interest Expense	6.2	1	6.0	1	6.0	1
Total Expenses by Function	$ 465.7	100 %	$ 466.6	100 %	$ 476.7	100 %

Note: Component unit expenses are not shown on the above report.

Significant changes in functional expenses occurred in the following areas as of June 30, 2019:

- Instructional expenses decreased $3.6 million due primarily to planned cost reductions related to lower enrollment including a decrease in the number of filled faculty positions and a corresponding decrease in instructional supplies and equipment spending.
- Research expenses increased $1.2 million primarily due to increased compensation and supplies and equipment expense on sponsored projects.

- Academic Support decreased $1.2 million due primarily to recognizing a sizeable amount of prepaid expense for library subscription and publication materials.
- Scholarships and Fellowship expenses decreased $4.2 million primarily due to student aid expenses being supported by auxiliary units and other functional categories.

During 2018, instructional expenses decreased $4.4 million due primarily to planned cost reductions related to lower enrollment, a decrease in the number of filled faculty positions and a decrease in instructional expenses on grants and contracts. Scholarships and Fellowship expenses increased $1.1 million. Operation and maintenance of plant expenses decreased $7.3 million due primarily to fewer furnishings, equipment and technology expenses related to buildings placed in service in the current fiscal year as compared to the prior fiscal year.

NON-OPERATING REVENUES (EXPENSES)

Non-operating revenues (expenses) consist of state appropriations, gifts and pledges (net of allowance), investment income including realized gains and losses, Federal Pell grant program, and other non-operating revenues less interest on debt-financed capital assets.

Significant changes in non-operating revenues (expenses) occurred in the following areas as of June 30, 2019:

- Gifts and pledges (net of allowance) decreased $2.6 million primarily due to fewer donations towards operating initiatives.
- Investment income decreased $9.9 million due to less favorable market conditions than the prior year.

During 2018, gifts and pledges (net of allowance) increased $0.8 million primarily due to donations towards operating initiatives. Investment income decreased $10.7 million due to less favorable market conditions than the prior year. Other non-operating revenues decreased $13.5 million due to prior fiscal year sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast.

OTHER REVENUES

Other revenues consist of capital appropriations and capital grants and gifts, including pledges and additions to permanent endowments. A gift received by the university, where a donor has specified that only the investment earnings from that gift can be expended for the purpose designated by the donor, is classified as a permanent endowment. The principal cannot be expended. Endowment gifts do not include pledges. Other revenue in 2019 increased $6.3 million primarily due to an increase in capital appropriations from the State Building Authority related to the Center for Integrated Health Studies building as construction on the project advanced significantly during the fiscal year toward a target date for substantial completion of fall 2019.

During 2018, other revenue decreased $18.3 million primarily due to a decrease in capital appropriations from the State Building Authority related to the Biosciences Building as the building was completed and placed into service in 2017.

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STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the university during the year. A comparative summary of the statements of cash flows (shown in millions) for the years ended June 30 is as follows:

	2019	2018	2017
Cash received from operations	$ 311.8	$ 324.6	$ 330.6
Cash expended for operations	(414.0)	(428.0)	(445.4)
NET CASH USED BY OPERATING ACTIVITIES	(102.2)	(103.4)	(114.8)
Net cash provided by noncapital financing activities	122.6	138.1	121.7
Net cash used by capital financing activities	(48.2)	(27.2)	(14.4)
Net cash provided (used) by investing activities	18.9	(11.7)	15.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8.9)	(4.2)	8.1
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	35.7	39.9	31.8
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 26.8	$ 35.7	$ 39.9

The most significant components of cash flows used from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities was $102.2 million ($103.4 million at June 30, 2018). To offset this, the net cash provided from noncapital financing activities, consisting primarily of state appropriations, was $122.6 million ($138.1 million at June 30, 2018).

Cash used by capital financing activities was $48.2 million ($27.2 million at June 30, 2018), primarily the result of the investment in major capital construction projects offset by capital appropriations received.

Cash provided by investing activities was $18.9 million ($11.7 million used by investment activities at June 30, 2018) due to favorable market conditions and a decrease in investment purchases resulting from increased cash needs for capital expenditures compared to the prior year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the Management's Discussion and Analysis or other required supplemental information, financial statements and notes thereto, or requests for additional financial information should be addressed to Central Michigan University, Warriner 104, Mount Pleasant, Michigan 48859.

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STATEMENTS OF NET POSITION

Central Michigan University

	YEAR ENDED JUNE 30 2019	YEAR ENDED JUNE 30 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,800,207	$ 35,696,142
Accounts and pledges receivable, net	20,278,095	20,163,214
State appropriations receivable, SBA	6,398,547	3,132
State appropriations receivable, operations	16,112,998	15,779,584
State appropriations receivable, Charter Schools	38,936,835	37,738,796
Inventories	3,629,509	4,208,102
Other assets	5,651,048	3,062,764
TOTAL CURRENT ASSETS	117,807,239	116,651,734
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	1,213	793
Pledges receivable, net	5,178,387	4,298,573
Endowment investments	189,791,919	182,388,106
Other long-term investments	216,260,667	220,438,632
Capital assets, net	557,791,096	545,949,525
TOTAL NONCURRENT ASSETS	969,023,282	953,075,629
TOTAL ASSETS	1,086,830,521	1,069,727,363
DEFERRED OUTFLOWS		
Deferred Outflows of Resources	22,207,283	19,786,115
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	74,928,448	66,240,525
Unearned revenue	11,116,798	12,299,418
Deposits	1,244,319	2,503,641
Current portion of long-term debt and other obligations	6,151,291	6,328,517
TOTAL CURRENT LIABILITIES	93,440,856	87,372,101
NONCURRENT LIABILITIES:		
Long-term debt, hedging instruments, and other obligations	158,059,187	163,676,989
Net pension liability	156,499,530	141,154,617
Net OPEB liability	29,395,383	35,090,380
TOTAL NONCURRENT LIABILITIES	343,954,100	339,921,986
TOTAL LIABILITIES	437,394,956	427,294,087
DEFERRED INFLOWS		
Deferred Inflows of Resources	15,743,070	8,664,886
NET POSITION		
Net investment in capital assets	407,670,008	389,888,797
Restricted for:		
Nonexpendable		
Scholarships, fellowships and research	62,859,698	59,762,676
Expendable		
Scholarships, fellowships and research	45,574,932	37,553,382
Instructional department uses	17,872,409	19,454,618
Capital projects	8,739,620	6,327,707
Unrestricted	113,183,111	140,567,325
TOTAL NET POSITION	$ 655,899,778	$ 653,554,505

See notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Central Michigan University

	YEAR ENDED JUNE 30	
	2019	**2018**
REVENUES		
OPERATING REVENUES:		
Tuition	$ 267,186,867	$ 273,890,203
Less: Scholarship allowances	60,775,712	58,087,800
Net tuition	206,411,155	215,802,403
Federal grants and contracts	10,122,035	8,724,411
State and local grants and contracts	420,198	1,148,644
Nongovernmental grants and contracts	3,993,223	3,688,634
Sales and services of educational activities	20,114,912	20,152,914
Auxiliary enterprises (net of room & board allowances of $11,576,326 in 2019 and $12,750,981 in 2018)	73,253,040	78,593,858
TOTAL OPERATING REVENUES	314,314,563	328,110,864
EXPENSES		
OPERATING EXPENSES:		
Compensation:		
Faculty	99,738,739	101,558,488
Staff	90,790,399	88,331,637
Benefits	79,613,914	82,297,429
Student	13,598,806	16,098,518
Scholarships and fellowships	16,647,406	17,130,767
Utilities	8,248,456	8,483,486
Supplies and other	96,227,206	93,905,850
Operation and maintenance of plant expenses	27,790,924	26,348,284
Depreciation	26,909,087	26,408,629
TOTAL OPERATING EXPENSES	459,564,937	460,563,088
OPERATING LOSS	(145,250,374)	(132,452,224)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	88,710,338	87,117,685
Gifts and pledges (net of allowance)	5,315,089	7,881,672
Gifts of term endowments	511,051	
Investment income (net of investment expense)	19,626,617	29,510,460
Interest on capital assets related debt	(6,170,560)	(6,016,819)
Federal Pell grant program	24,802,492	26,283,330
Other nonoperating revenues	10,700	723,175
NET NONOPERATING REVENUES (EXPENSES)	132,805,727	145,499,503
INCOME (LOSS) BEFORE OTHER REVENUES	(12,444,647)	13,047,279
OTHER REVENUES		
Capital appropriations	7,866,546	1,300,284
Capital grants and gifts	4,051,659	4,577,086
Additions to permanent endowments	2,871,715	2,623,742
TOTAL OTHER REVENUES	14,789,920	8,501,112
INCREASE IN NET POSITION	2,345,273	21,548,391
NET POSITION		
NET POSITION AT BEGINNING OF YEAR	653,554,505	667,830,240
ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE (NOTE 1)		(35,824,126)
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	653,554,505	632,006,114
NET POSITION AT END OF YEAR	$ 655,899,778	$ 653,554,505

See notes to the financial statements.

STATEMENTS OF CASH FLOWS – DIRECT METHOD

Central Michigan University

	YEAR ENDED JUNE 30 2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Tuition	$ 206,232,709	$ 215,510,125
Grants and contracts	15,388,874	12,708,117
Payments to suppliers	(101,489,702)	(114,740,329)
Payments for utilities	(8,248,456)	(8,483,486)
Payments to employees	(203,981,405)	(206,524,097)
Payments for benefits	(80,383,116)	(80,791,917)
Payments for scholarships and fellowships	(16,647,406)	(17,130,767)
Auxiliary activities	72,698,666	77,356,168
Sales and services of educational activities	17,545,071	18,978,648
Other payments	(3,267,533)	(270,595)
NET CASH USED BY OPERATING ACTIVITIES	(102,152,298)	(103,388,133)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	88,450,096	86,594,904
William D. Ford PLUS direct lending receipts	115,903,269	126,780,790
William D. Ford PLUS direct lending disbursements	(115,903,269)	(126,780,790)
Federal Pell grant program	24,802,492	26,283,330
Other nonoperating revenue	10,700	14,886,680
Gifts for other than capital purposes	5,992,063	7,722,973
Gifts for endowment purposes	3,382,766	2,623,742
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	122,638,117	138,111,629
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations	1,471,131	1,610,284
Capital grants and gifts received	3,065,059	3,818,368
Purchases of capital assets	(40,660,729)	(20,889,772)
Principal paid on capital debt and leases	(5,485,000)	(5,270,000)
Interest paid on capital debt and leases	(6,625,199)	(6,471,458)
Insurance proceeds	1,617	10,757
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(48,233,121)	(27,191,821)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	740,645,047	824,247,781
Income on investments, net	16,010,006	14,233,894
Purchase of investments	(737,803,266)	(850,219,466)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	18,851,787	(11,737,791)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,895,515)	(4,206,116)
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	35,696,935	39,903,051
CASH AND CASH EQUIVALENTS-END OF THE YEAR	$ 26,801,420	$ 35,696,935

See notes to the financial statements.

STATEMENTS OF CASH FLOWS – DIRECT METHOD
Central Michigan University

	YEAR ENDED JUNE 30	
	2019	2018
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (145,250,374)	$ (132,452,224)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense and loss on disposal of capital assets	28,819,158	26,491,730
Change in assets, liabilities and deferred resources:		
Receivables, net	(1,884,724)	(1,140,132)
Inventories	578,593	993,326
Other assets	(2,588,284)	(360,274)
Accounts payable, accrued liabilities and deposits	7,428,601	(2,827,034)
Unearned revenue	(1,182,620)	192,140
Retirement service award program	(388,810)	(534,320)
Compensated absences	(265,627)	62,085
Other obligations	(23,975)	(56,447)
Net pension and OPEB liability	9,649,916	396,329
Deferred resources - pension and OPEB	2,955,848	5,846,688
NET CASH USED BY OPERATING ACTIVITIES	$ (102,152,298)	$ (103,388,133)

See notes to the financial statements.

STATEMENTS OF NET ASSETS

Central Health Advancement Solutions

		YEAR ENDED JUNE 30	
		2019	2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$	2,296,565	$ 2,315,384
Patient accounts receivable, less allowance for doubtful accounts of $319,429 in 2019 and $258,799 in 2018		1,083,972	858,988
Other receivables		1,770,578	1,524,632
Prepaid expenses and other assets		1,189,512	793,229
TOTAL CURRENT ASSETS		6,340,627	5,492,233
ASSETS WHOSE USE IS LIMITED:			
By the Board of Trustees		60,145	184,585
Under professional liability funding arrangement-held by the trustee		788,418	753,455
TOTAL ASSETS WHOSE USE IS LIMITED:		848,563	938,040
Medical education funding receivables, less allowance of $1,250,101 in 2019 and $1,038,544 in 2018		1,584,462	920,648
Leasehold improvements, furniture, and equipment, net		1,634,330	1,691,632
TOTAL ASSETS	$	10,407,982	$ 9,042,553
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	$	310,266	$ 456,325
Other accrued liabilities		34,026	34,026
Payable to CMU		265,678	245,284
Payroll and related liabilities		2,488,101	1,707,082
Unearned revenue		747,953	39,172
TOTAL CURRENT LIABILITIES		3,846,024	2,481,889
Estimated professional liability under self-insurance		200,000	75,900
TOTAL LIABLITIES		4,046,024	2,557,789
NET ASSETS			
Unrestricted - undesignated		6,361,958	6,484,764
TOTAL LIABLITIES AND NET ASSETS	$	10,407,982	$ 9,042,553

See Notes 1 and 12 to the Central Michigan University financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Central Health Advancement Solutions

	YEAR ENDED JUNE 30 2019	2018
UNRESTRICTED REVENUES AND OTHER SUPPORT		
Member hospitals	$ 17,364,738	$ 16,486,327
Net patient service revenue	12,734,072	11,555,475
Professional liability fund	24,421	21,497
Contracts and other revenue	13,887,528	11,565,948
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	44,010,759	39,629,247
OPERATING EXPENSES		
Salaries, wages, and payroll taxes	29,802,101	26,543,957
Employee benefits	4,669,702	4,593,393
Recruiting	352,843	448,861
Facility and equipment	2,098,654	1,991,437
Consumable supplies	794,306	643,255
Educational supplies and services	428,596	484,720
Consulting and contractual services	1,973,844	1,937,930
Communications	276,494	257,918
Educational conferences and travel	858,764	826,090
Grant expenses	688,690	518,778
Other expenses	165,856	184,428
Professional liability insurance expense	864,819	794,442
Depreciation	376,169	349,423
Provision for bad debts	481,013	439,882
Professional liability expense	315,639	153,812
TOTAL OPERATING EXPENSES	44,147,490	40,168,326
Unrestricted revenues and other support (under) over operating expenses	(136,731)	(539,079)
Net unrealized gain on investments whose use is limited	13,925	34,681
Net assets released from restrictions		
(Decrease) increase in unrestricted net assets	(122,806)	(504,398)
NET ASSETS		
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	6,484,764	6,989,162
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 6,361,958	$ 6,484,764

STATEMENTS OF NET ASSETS

The Institute for Excellence in Education

	YEAR ENDED JUNE 30 2019	2018
ASSETS		
CURRENT ASSETS:		
Cash	$ 373,460	$ 431,313
Accounts receivable, net allowance	941,875	348,570
Accounts receivable - related party		
Central Michigan University	90,910	90,910
The Center for Charter Schools	25,881	14,544
Inventory	66,766	36,562
Prepaid expenses	152,605	68,283
TOTAL CURRENT ASSETS	1,651,497	990,182
Property and equipment, net	41,253	41,027
Intangible assets, net	2,151,598	2,059,622
Goodwill, net	548,177	685,221
TOTAL ASSETS	$ 4,392,525	$ 3,776,052
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 336,507	$ 143,604
Note payable, current portion	148,323	141,486
Accrued liabilities	321,307	307,292
Compensated absences	123,221	113,268
Unearned revenue	122,272	85,929
TOTAL CURRENT LIABILITIES	1,051,630	791,579
Note payable, net of current portion	294,224	442,224
TOTAL LIABLITIES	1,345,854	1,233,803
NET ASSETS		
Unrestricted	3,046,671	2,542,249
TOTAL NET ASSETS	3,046,671	2,542,249
TOTAL LIABLITIES AND NET ASSETS	$ 4,392,525	$ 3,776,052

See Note 1 to the Central Michigan University financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

The Institute for Excellence in Education

	YEAR ENDED JUNE 30	
	2019	2018
OPERATING REVENUE AND OTHER SUPPORT		
State Appropriations - related party		
Central Michigan University	$ 500,000	$ 500,000
Service Revenue	6,266,127	4,914,606
Federal Grants	208,365	
Contributions	318,061	356,601
Book revenue, net of cost of goods sold	27,320	3,980
Other revenue	5,848	45,292
Gain on disposal of property and equipment	1,183	
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	7,326,904	5,820,479
OPERATING EXPENSES		
Compensation	3,785,841	3,208,049
Benefits	905,251	828,314
Interest	25,362	32,774
Occupancy	107,032	96,777
Services and fees	266,073	174,959
Supplies and other	227,477	188,322
Telephone	25,899	25,467
Marketing	76,488	76,183
Travel	510,761	383,247
Bad Debt	20,776	
TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	5,950,960	5,014,092
CHANGE IN NET ASSETS FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION	1,375,944	806,387
Depreciation	24,480	23,260
Amoritization	847,042	713,644
CHANGE IN NET ASSETS	504,422	69,483
NET ASSETS		
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	2,542,249	2,472,766
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 3,046,671	$ 2,542,249

NOTE 1--ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Central Michigan University (the university or CMU) is an institution of higher education and is considered to be a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Trustees (the board). Accordingly, the university is included in the state's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, appropriations for Charter Schools, grants from various state agencies, State Building Authority (SBA) revenues and payments to the state retirement program for university employees. The university has six affiliated organizations that were evaluated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, which the university adopted July 1, 2010 and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which the university adopted July 1, 2016. Each organization is described below as well as the impact that it has on the university's financial statements:

- Central Health Advancement Solutions (CHAS) is a Michigan nonprofit corporation established January 28, 2011 and is organized on a non-stock membership basis. The sole member of the corporation is the Board of Trustees of Central Michigan University. The purpose for which the corporation is organized and to be operated is exclusively charitable, educational and scientific within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended and corresponding provision of any subsequent federal tax laws. The corporation is administered solely for the benefit of the sole member by providing, directly or indirectly, assistance and benefit, financial or otherwise, to the sole member through whatever means are determined appropriate by the Board of Directors of the corporation. Effective January 1, 2011, CHAS entered into a Member's Agreement that provides a 90% membership interest in CMU Medical Education Partners whose purpose is to integrate medical education, research, and service, primarily for the training of medical residents and other medical related personnel. In accordance with the provisions of GASB Statement No. 61, CHAS is discretely presented in the university's financial statements (refer to pages 21 and 22 for CHAS financial statements). The June 30, 2019 audited financial statements for CHAS can be found at: www.cmich.edu

- The CMU College of Business Administration Foundation (CBAF) was a Michigan nonprofit corporation established January 28, 2011 and was registered as a charitable trust under the Charitable Organizations and Solicitations Act (COSA), MCL 400.271 et seq. and the Supervision of Trustees for Charitable Purposes Act, 1961 PA 101, MCL 14.251 et seq. (STCPA). The purpose for which the corporation was organized and operated was to solicit, receive, hold and administer and disburse cash/non-cash investment funds to support the charitable, educational and scientific purposes of CMU's College of Business Administration. In accordance with the provisions of GASB Statement No. 61, CBAF was blended into the university's financial statements because CBAF provides services entirely to the university and the activity was not significant to the university.

  During fiscal year 2017 it was determined that given the modest gifts, grants and contributions received, the CBAF had not been able to fully meet its objectives. On February 22, 2017, the CBAF Board recommended a plan of dissolution of the foundation to the corporation's sole member, the CMU Board of Trustees. On April 27, 2017 the CMU Board of Trustees approved the CBAF plan of dissolution. On May 30, 2017 a dissolution questionnaire was filed with the Michigan Department of the Attorney General. Dissolution of the CBAF was completed as of August 16, 2017 when CMU received notification from the Michigan Department of Licensing and Regulatory Affairs that all paperwork was endorsed and filed.

  Due to the dissolution of the CBAF in August of 2017, there was no financial activity in the fiscal year ended June 30, 2019 and insignificant activity in the fiscal year ended June 30, 2018. Audited financial statements for CBAF for years prior to fiscal year 2017 can be found at: www.cmich.edu.

- The Charter Schools Development & Performance Institute d/b/a National Charter Schools Institute (NCSI), d/b/a Institute for Excellence in Education (IEE), a Michigan nonprofit corporation, was formed on November 29, 2001. The institute is incorporated as a private tax-exempt corporation with the primary goal to facilitate the development and performance of charter schools in Michigan and throughout the nation, and to pursue multiple related objectives in support of Charter Schools. There are two classes of members of the corporation, Category A and Category B. The Category A members consist of persons who are the president or members of the Board of Trustees of Central Michigan University. Category B members of the corporation consist of individuals serving as members of the Board of Trustees of the corporation. The university transferred $500,000 to the IEE for each year ended June 30, 2019, and 2018.

  In accordance with the provisions of GASB Statement No. 61, the IEE is considered a component unit of the university and the operations of the IEE should be discretely presented in the university's financial statements because there is a financial benefit/burden and the blending criteria of GASB Statement No. 61 are not met. As a result, IEE is shown discretely presented at June 30, 2019 (refer to pages 23 and 24 for IEE financial statements).

- The Central Michigan University Research Corporation (CMURC) was formed as an independent 501(c)(3) nonprofit corporation on February 15, 2002. The corporation's sole member is Central Michigan University. The purpose for which the corporation was formed is to solicit, collect, receive and administer funds exclusively for the support of the scientific, literary and educational programs of the university as permitted by an organization exempt from federal income taxation. In June 2014, the university's Board of Trustees approved extending an annual contribution of $500,000 through FY 2019. Fiscal year 2019 is the eighteenth year of the commitment. At June 30, 2019, and 2018, the net assets of CMURC were $1,747,984 and $1,799,447, respectively. In accordance with the provisions of GASB Statement No. 80, CMURC is considered a component unit of the university and the operations of CMURC should be blended into the university's financial statement because the university is the corporation's sole member. However, the university has excluded the amounts from the financial statements overall due to insignificance.

- The CMU Foundation (Foundation) is a Michigan nonprofit corporation established during fiscal year 1998. The purpose for which the corporation is organized and operated is to solicit, collect, receive and administer funds to provide support for the objectives and purposes of the university. There were insignificant assets and no liabilities as of June 30, 2019 and 2018. In accordance with the provisions of GASB Statement No. 61, the Foundation is blended into the university's financial statements because the activity is insignificant and the Foundation provides services entirely to the university. There was no activity to be reported for the years 2019 and 2018.

- CMU Charter Schools are nonsectarian public schools of choice that operate with freedom from many of the regulations that apply to traditional public schools. The "charter" establishing each such school is a performance contract detailing the school's mission, program, goals, students served, methods of assessment and ways to measure success. In accordance with the provisions of GASB Statement No. 61, the CMU Charter Schools are considered a related organization because there is no financial benefit/burden to the university nor can the university impose its will on the charter schools. According to GASB Statement No. 61, only note disclosure is required for related organizations.

Therefore, the financial statements include the operations of the university, CHAS, IEE, CBAF, and the Foundation, collectively known as the university's financial statements, based on the evaluation of the entities and provisions of GASB Statements No. 61 and No. 80.

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 Governmental Accounting Standards Board.

The university follows the “business-type” activities requirements of GASB Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements-and Management’s Discussion and Analysis-for Public Colleges and Universities*. This statement requires the following components of the university’s financial statements:

- Management’s discussion and analysis

- Basic financial statements including a Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the university as a whole

- Notes to the financial statements

GASB Statement No. 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net position subject to externally imposed constraints that they be maintained permanently by the university. Such assets include the university’s permanent endowment funds.

  Expendable – Net position whose use by the university is subject to externally imposed constraints that can be fulfilled by actions of the university pursuant to those constraints or that expire by the passage of time.

- Unrestricted: Net positions that are not subject to externally imposed constraints. Unrestricted net positions may be designated for specific purposes by action of management or the board or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net positions are designated for academic, research and outreach programs and initiatives, postemployment benefits, operating and stabilization reserves, capital projects and capital asset renewals and replacements.

This statement also requires the university to report revenues net of discounts and allowances. Gift and grant revenues are recognized at the later of the pledge date or when the eligibility requirement of the gifts and grants are met. In addition, direct lending is not reported as federal revenue and scholarship expenditures but is instead treated as an agency transaction.

Summary of Significant Accounting Policies

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.

Pledges

Financial support to the university in the form of pledges is received from business enterprises, foundations and individuals. Revenue from gift pledges is recorded only when there is an unconditional promise to pay and all eligibility requirements, including time requirements, have been met. Contributions to permanent and term endowments are not recognized as assets until actually received by the university.

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.

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

Asset Classification	Useful Life
Buildings and Improvements more than $100,000	40 years
Buildings and Improvements $50,000 to $100,000	10 years
Infrastructure	20 years
Leasehold Improvements	8 years
Land Improvements	8 years
Intangible Assets	40 years
Equipment – Digital TV	20 years
Equipment	8 years
Library books	10 years
Vehicles	4 years
Software	Lesser of 5 years or actual

Compensated Absences

University employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation based upon the nature of separation (death, retirement or termination). Certain limitations have been placed on the hours of vacation that employees may accumulate and carry over for payment at death, retirement or termination. Unused hours exceeding these limitations are forfeited.

Pensions and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension and other post-employment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Unearned Revenue

Unearned revenue consists primarily of advance ticket sales for athletic events; summer school tuition, fall room and board not earned during the current year, and contract and sponsored program advances.

CHAS Estimated Professional Liability

The provision for estimated self-insured medical malpractice claims is actuarially determined and includes estimates of the costs for both reported claims and claims incurred but not reported. The liability is approximately $200 thousand at June 30, 2019, $75 thousand at June 30, 2018 and is included in the member hospital and malpractice fund liability. Additionally, CHAS has malpractice funding held by trustee of approximately $790 thousand at June 30, 2019 and $750 thousand at June 30, 2018.

Deferred Outflows and Deferred Inflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and as such, is not recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources consist of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method, gains on the defeasance of debt and deferred resources related to the university's proportionate share of the net pension and other post-employment benefit liability for the Michigan Public School Employee's Retirement System (MPSERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of $5,509,327 at June 30, 2019, and $4,540,943 at June 30, 2018. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at $991,060 and $1,065,857, net of amortization, at June 30, 2019 and 2018, respectively; Series 2005 valued at $896,883 and $955,695, net of amortization, at June 30, 2019 and 2018 respectively; and Series 2006 valued at $190,969 and $202,721, net of amortization, at June 30, 2019 and 2018 respectively. The value of deferred outflows related to the MPSERS plan for pensions was $10,877,586 and $10,577,454 as of June 30, 2019 and 2018 respectively, and for other post-employment benefits (OPEB) was $3,741,458 and $2,443,445 as of June 30, 2019 and 2018, respectively. See Note 9 for additional information on deferred outflows related to the MPSERS plan.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and as such, is not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of future revenue streams related to split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the university's proportionate share of the net pension and net OPEB liability for the MPSERS plan. Deferred inflows of resources applicable to split-interest agreements include $5,196,159 and $2,745,140 at June 30, 2019 and 2018 respectively. See Note 8 for additional information on deferred inflows related to split-interest agreements. At June 30, 2019 and 2018, respectively, deferred inflows related to changes in the pension portion of the MPSERS plan were $5,342,389 and $3,334,350 and the value related to changes in the OPEB portion of the MPSERS plan was $3,998,013 and $1,452,059. See Note 9 for additional information on deferred inflows related to the MPSERS plan. The value of deferred inflows of resources related to funding received through state appropriations for contributions to the MPSERS plan, after the measurement date, was $1,206,509 and $1,133,337 at June 30, 2019 and June 30, 2018, respectively.

Bond Issuance Costs

Bond issuance costs are expensed when incurred.

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.

Revenue Recognition

Revenues are recognized when earned and expenditures are recognized when the good or service is provided. Restricted grant revenue is recognized only to the extent expended.

Student Tuition

Student tuition revenues are reported net of scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship allowances represent the difference between the stated charge for goods and services provided by the university and the amount that is paid by the students or third parties on behalf of the students, where the university has discretion over such expenses.

Auxiliary Enterprises

Auxiliary enterprises primarily represent revenues generated from University Residence Services, intercollegiate athletics, clinics and various other departmental activities that provide services to the student body, faculty, staff and general public.

CHAS Revenue

CHAS has agreements with third-party payers that provide for reimbursements to the corporation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the corporation's established rates for services and amounts reimbursed by third-party payers. The corporation grants credit without collateral to its patients, most of who are Michigan residents and are insured under third-party payer agreements. Significant concentrations of CHAS accounts receivable at June 30, 2019 and June 30, 2018 include Medicare (21.8% and 19.6%), Blue Cross (13.1% and 9.2%), Medicaid (20.1% and 26.9%) and other commercial insurers and self-pay (45.0% and 44.3%), respectively.

CHAS patient accounts receivable and revenue are recorded when patient services are performed. Patient accounts receivable are recorded at the corporation's established rates with contractual adjustments, charity allowances, policy discounts and the provision for uncollectible accounts deducted to arrive at net patient accounts receivable. Patient services and member hospital receivables are recorded net of the total allowance for doubtful accounts of $1,569,530 at June 30, 2019 and $1,297,343 at June 30, 2018.

Donor Restricted Endowments

Under Michigan law set forth in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Michigan in 2009, the board acts in a fiduciary capacity as trustee of its endowment funds. The UPMIFA requires that the board exercise its fiduciary duties prudently and consider both the charitable purposes and needs of the university as well as the purposes of the specific endowment regarding current expenditures and preservation of the purchasing power of the funds. See Note 2 for the university spending policy. Endowment realized and unrealized appreciation is reported consistently with the net position categorization of the related endowment, net of spending policy distributions.

Eliminations

In preparing the financial statements, the university eliminates inter-fund assets and liabilities that would otherwise be reflected twice in the Statements of Net Position. Similarly, revenues and expenses related to internal service activities are also eliminated from the Statements of Revenues, Expenses and Changes in Net Position. Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts where the university has discretion over such expenses, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Income Taxes

The university is a part of the State of Michigan for purposes of Internal Revenue Code Section 115, and is an organization as described in Internal Revenue Code Section 501(c)(3). The university's income generally is exempt from federal income taxes, although income from certain activities may be subject to taxation as unrelated business income. The component units are also exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code for activities related to their exempt purposes.

Adoption of New Standards

As of July 1, 2018, the university adopted Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. As a result of the new standard, the university is now disclosing additional information related to debt in Note 7.

As of July 1, 2018, the university adopted Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest costs incurred before the end of a construction period be expensed in the period where incurred. As a result, this interest cost will not be included in the historical cost of a capital asset, as previously recorded and is included in interest on capital assets related debt expense. The adoption is prospective, and no prior year amounts were impacted.

NOTE 2--CASH AND CASH EQUIVALENTS, ENDOWMENTS AND OTHER LONG-TERM INVESTMENTS

Policy

The university uses the "pooled cash" method of accounting and has retained independent investment managers to handle all of its cash and investments. The component units maintain interest-bearing deposits and short-term investments with financial institutions that are insured by the Federal Deposit Insurance Corporation.

Investment policies for cash and cash equivalents, as set forth by the Board of Trustees, authorize the investment managers to invest in commercial paper of companies rated within the highest classification established by not less than two national rating services. Investments may be made in securities of the US Treasury and Federal Agencies, common stock, convertible bonds, convertible preferred stock, time savings accounts and other fixed income, equities and other marketable securities deemed prudent by the investment managers. For investment grade accounts, the weighted average credit quality is to be no less than AAA for the short-term investment pool accounts, AA for the intermediate-term investment pool accounts and A for the long-term investment pool accounts. The weighted average credit quality is to be no less than B for the non-investment grade long-term investment pool accounts. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be A for the short-term investment pool accounts and BBB for the intermediate-term and long-term investment pool accounts.

Policies regarding marketable securities in the endowment investments, as set forth by the Board of Trustees, authorize the investment managers to invest in equities, bonds or other marketable securities as outlined in the CMU Endowment Investment Policy Statement (found on the Board of Trustees website). The endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. Under state law, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the university may appropriate for spending as much of the endowment as the institution deems prudent for the uses, benefits, purposes and duration for which the particular endowment fund was established, subject to evaluation of several specific factors including general economic conditions and the fund's purpose. Although UPMIFA allows spending of the original gift, the university's board policy does not allow the annual spending income allocation to reduce the original gift principal. Therefore, some of the endowments may not have distributed for fiscal year 2019. The spending policy is reviewed periodically by the investment committee, who recommend changes to the Board of Trustees. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates $40,666,612 at June 30, 2019, and $30,789,655 at June 30, 2018. The net appreciation is a component of restricted, expendable net positions. The yields of the endowment investments were as follows:

	June 30	
	2019	2018
Interest and Dividends	0.4 %	0.3 %
Net Realized and Unrealized Gains	5.5 %	8.8 %
Total Return	5.9 %	9.1 %

The university had the following investments:

	Fair Market Value June 30	
	2019	2018
Investments:		
Bonds (Including Bonds, Mutual Funds, & ETFs)	$ 111,789,264	$ 107,356,170
Equities (Including Equities, Mutual Funds, & ETFs)	217,594,362	228,418,175
Real Estate	84,806	6,043
Life Insurance Policies	293,251	328,886
Alternative Investments	64,852,709	60,711,391
Cash Equivalents-Endowments	6,482,248	3,409,709
Beneficial Interests in Split-Interest Agreements	4,957,159	2,597,157
Cash Equivalents	4,892,276	6,207,753
Cash Deposits	21,907,931	29,488,389
Total Investments	$ 432,854,006	$ 438,523,673
As Reported on the Statements of Net Position		
Current Investments:		
Cash and Cash Equivalents	$ 26,800,207	$ 35,696,142
Noncurrent Investments:		
Restricted Cash and Cash Equivalents	1,213	793
Endowment Investments	189,791,919	182,388,106
Other Long-Term Investments	216,260,667	220,438,632
Total Noncurrent Investments	406,053,799	402,827,531
Total Investments	$ 432,854,006	$ 438,523,673

Investments at Amortized Cost

The university invests in the Governments of Michigan Investing Cooperatively (GovMIC) program. The GovMIC share class was specifically designed for governmental entities and is a class within the broader Michigan Liquid Asset Fund (MILAF) portfolio. This external investment pool provides daily liquidity and flexibility to investors and measures its investments at amortized cost. There are no minimum deposit or redemption requirements for investors in the fund, nor are there any limits on the number of deposits or withdrawals. The fund is invested in compliance with Michigan Public Act 20. For Term MILAF funds, there is a one-day minimum investment period and investments may not be redeemed, without penalty, for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. Redemptions made prior to the end of the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount redeemed. At June 30, 2019 and 2018, the university only had holdings in the GovMIC daily liquidity fund of the MILAF portfolio and the values were $274,255 as of June 30, 2019 and $56,581 as of June 30, 2018.

Credit Risk

For investments in non-mutual and non-pooled funds, no more than 10% of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. government securities. The weighted average quality is to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool accounts, "AA" for the intermediate-term investment pool accounts, and "A" for the investment grade accounts long-term investment pool accounts.

In addition, the minimum acceptable credit quality at the time of purchase for individual securities in the investment grade accounts shall be "A" for the short-term investment pool accounts, and "BBB" for the intermediate-term and investment grade long-term pool accounts. The diversified fixed income manager shall maintain an overall weighted average credit rating of B or better.

As of June 30, 2019, all University debt instruments fell within the Standard & Poor's credit rating range of AAA to BB-.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. 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. The maturities of fixed income investments as of June 30, 2019 and 2018 are as follows:

June 30, 2019
Fixed Income Investment Maturities

Investment Type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
US Treasury/TIPS	$ 792,859	$ 5,742,670	$ 10,498,486	$ 2,097,900	$ 19,131,915
Core Fixed Income	1,864,853	11,237,184	7,289,501	4,927,332	25,318,870
Short Duration Fixed Income	2,235,057	10,469,410	58,717	1,276	12,764,460
Emerging Market Debt	788,358	755,510	1,723,637	2,704,904	5,972,409
Global Multi-Sector Fixed Income	7,193,917	10,931,844	6,307,496	1,328,016	25,761,273
Absolute Return Fixed Income	3,990,207	8,800,382	7,512,187	2,537,561	22,840,337
Total	$ 16,865,251	$ 47,937,000	$ 33,390,024	$ 13,596,989	$ 111,789,264

June 30, 2018
Fixed Income Investment Maturities

Investment Type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
US Treasury/TIPS	$ 166,213	$ 5,687,589	$ 7,744,822	$ 4,399,649	$ 17,998,273
Core Fixed Income	2,154,173	7,312,619	5,964,581	5,414,776	20,846,149
Short Duration Fixed Income	3,225,060	8,992,120	7,336	1,369	12,225,885
Emerging Market Debt	1,107,183	1,369,866	1,343,943	1,939,588	5,760,580
Global Multi-Sector Fixed Income	12,417,840	12,784,117	2,594,659	(2,027,927)	25,768,689
Absolute Return Fixed Income	(1,512,629)	14,591,551	8,828,210	2,849,462	24,756,594
Total	$ 17,557,840	$ 50,737,862	$ 26,483,551	$ 12,576,917	$ 107,356,170

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 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, 2019, or June 30, 2018.

Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2019 and June 30, 2018, therefore the university was not subject to foreign currency risk.

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 $21,907,931 at June 30, 2019, and $29,488,389 at June 30, 2018. The deposits were reflected in the accounts of the banks at $25,659,772 at June 30, 2019, and $33,090,716 at June 30, 2018. Of the bank balance, $25,159,772 at June 30, 2019, and $32,590,716 at June 30, 2018, 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 $186.3 million at June 30, 2019, and $185.6 million at June 30, 2018, in its investment portfolios held by various investment managers as the counterparty.

NOTE 3--RECEIVABLES

Accounts receivable relate to several transactions including state appropriations, student tuition billings and auxiliary enterprise sales, such as food service, bookstore and residence halls. In addition, receivables arise from grant awards, financial aid, State Building Authority (SBA) revenues and component unit activities. The receivables are shown net of allowance for doubtful accounts.

Accounts receivable are recorded net of the allowance for doubtful accounts of $2,094,879 at June 30, 2019, and $2,341,908 at June 30, 2018.

During the fiscal year, the university received approximately $237,543,000 ($229,728,000 in fiscal year 2018) of state appropriations, which were forwarded to fifty-eight charter schools.

	June 30	
	2019	2018
Tuition, Room and Board	$ 6,435,782	$ 5,849,728
Contracts and Grants	3,023,944	3,102,808
Sales and Services	6,804,266	6,044,834
Insurance Proceeds		441
Pledges	7,978,613	7,668,986
Agency Activities	1,213,877	1,794,990
Total	25,456,482	24,461,787
State Appropriations-SBA	6,398,547	3,132
State Appropriations-Operations	16,112,998	15,779,584
State Appropriations-Charter Schools	38,936,835	37,738,796
Total Receivable	$ 86,904,862	$ 77,983,299

NOTE 4--PLEDGES

The university receives pledges of financial support from corporations, foundations and individuals. The change in pledges has been recorded as gifts. Pledges receivables are presented net of allowance for doubtful contributions of $278,984 and $260,317 for fiscal years ended June 30, 2019 and 2018, respectively. Certain pledges are recorded at present value calculated using a discount rate of the average interest rate for bonded debt of 4.00% at June 30, 2019 and 3.96% at June 30, 2018, resulting in a discount of $688,660 and $558,591 at June 30, 2019 and 2018, respectively. The present value of pledges outstanding is $7,978,613 at June 30, 2019 and $7,668,986 at June 30, 2018.

Payments on pledged receivables at June 30, 2019 are expected to be received in the following fiscal years:

2020	$ 2,800,226
2021 and after	5,178,387
	$ 7,978,613

NOTE 5--CAPITAL ASSETS

Capital assets, net of depreciation, consist of the following as of June 30, 2019:

	Beginning Balance July 1, 2018	Additions	Reductions	Ending Balance June 30, 2019
Non-depreciated capital assets:				
Land	$ 12,927,599			$ 12,927,599
Capitalized Collections	833,520	$ 15,300	$ 645	848,175
Construction In Progress	13,730,844	27,336,651	3,963,166	37,104,329
Total non-depreciated capital assets	27,491,963	27,351,951	3,963,811	50,880,103
Depreciated capital assets:				
Land Improvements	32,965,529	6,606,079	760,345	38,811,263
Infrastructure	23,567,646	1,128,246	159,896	24,535,996
Buildings	778,387,991	5,039,386	5,531,301	777,896,076
Leasehold Improvements	346,256			346,256
Furniture and Equipment	84,250,102	3,597,281	1,667,710	86,179,673
Library Materials	30,102,092	900,952		31,003,044
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	26,283,754	2,048,436	760,345	27,571,845
Infrastructure	12,109,214	1,098,990	13,991	13,194,213
Buildings	302,016,021	17,794,359	3,857,275	315,953,105
Leasehold Improvements	147,947	25,050		172,997
Furniture and Equipment	64,567,514	4,923,869	1,578,215	67,913,168
Library Materials	26,154,788	1,010,603		27,165,391
Intangible Assets	807,522	7,780		815,302
Total depreciated capital assets	518,457,562	(9,637,143)	1,909,426	506,910,993
Capital Assets, Net	$ 545,949,525	$ 17,714,808	$ 5,873,237	$ 557,791,096

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Capital assets, net of depreciation, consist of the following as of June 30, 2018:

	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018
Non-depreciated capital assets:				
Land	$ 12,927,599			$ 12,927,599
Capitalized Collections	704,165	$ 129,355		833,520
Construction In Progress	16,098,569	9,671,130	$ 12,038,855	13,730,844
Total non-depreciated capital assets	29,730,333	9,800,485	12,038,855	27,491,963
Depreciated capital assets:				
Land Improvements	32,255,556	709,973		32,965,529
Infrastructure	22,355,706	1,211,940		23,567,646
Buildings	761,696,523	16,691,468		778,387,991
Leasehold Improvements	346,256			346,256
Furniture and Equipment	82,789,240	3,438,628	1,977,766	84,250,102
Library Materials	34,571,237	1,076,133	5,545,278	30,102,092
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	24,800,235	1,483,519		26,283,754
Infrastructure	11,022,438	1,086,776		12,109,214
Buildings	284,309,268	17,706,753		302,016,021
Leasehold Improvements	122,897	25,050		147,947
Furniture and Equipment	61,385,837	5,076,342	1,894,665	64,567,514
Library Materials	30,677,657	1,022,409	5,545,278	26,154,788
Intangible Assets	799,742	7,780		807,522
Total depreciated capital assets	521,821,150	(3,280,487)	83,101	518,457,562
Capital Assets, Net	$ 551,551,483	$ 6,519,998	$ 12,121,956	$ 545,949,525

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, 2019 primarily consists of the construction costs for the Center for Integrated Health Studies building of $16.9 million, Chippewa Champions Center project of $4.5 million, Residence Life Facilities Infrastructure Improvements of $4.3 million, Powerhouse upgrade to the 1250 ton absorption chiller of $1.6 million and other projects including maintenance and remodeling of approximately $9.8 million.

Funds needed to complete construction projects will be provided by current unrestricted university net assets or by future state appropriations, gifts, grants, State Building Authority (SBA) monies or bond funds. Funds required to complete the projects in process approximate $68.7 million as of June 30, 2019 ($49.1 million as of June 30, 2018).

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, Education Building and Biosciences Building. The university is in negotiations for a similar lease related to the Center for Integrated Health Studies 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.

NOTE 6--ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due at June 30 for goods and services received prior to the end of the fiscal year.

	2019	2018
University Wages and Benefits	$ 12,774,679	$ 12,742,905
University Supplies	23,224,458	15,765,306
Charter Schools	38,929,311	37,732,314
Total	$ 74,928,448	$ 66,240,525

NOTE 7--LONG-TERM DEBT, HEDGING INSTRUMENTS AND OTHER OBLIGATIONS

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2019:

	Beginning Balance July 1, 2018	Additions	Reductions	Ending Balance June 30, 2019	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	$ 21,310,000		$ 505,000	$ 20,805,000	$ 430,000
Series 2009A Series Bonds	20,395,000		1,850,000	18,545,000	1,935,000
Series 2009A Unamortized Premium	1,419,000		172,000	1,247,000	172,000
Series 2012A Series Bonds	21,750,000		690,000	21,060,000	580,000
Series 2014:					
Series Bonds	41,635,000		1,605,000	40,030,000	1,680,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	7,140,000		272,000	6,868,000	272,000
Series 2016 Series Bonds	19,415,000		710,000	18,705,000	740,000
Series 2016 Unamortized Premium	2,691,000		156,000	2,535,000	156,000
Total Long-Term Debt	157,860,000		5,960,000	151,900,000	5,965,000
Other Obligations:					
Note Payable	425,000		125,000	300,000	100,000
Hedging Instruments	4,540,943	$ 968,384		5,509,327	
Compensated Absences	5,751,790		265,627	5,486,163	70,075
Retirement Service Programs	1,387,582		388,810	998,772	
Other Obligations	40,191	51,466	75,441	16,216	16,216
Total	$ 170,005,506	$ 1,019,850	$ 6,814,878	$ 164,210,478	$ 6,151,291

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Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2018:

	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	$ 21,790,000		$ 480,000	$ 21,310,000	$ 505,000
Series 2009A Series Bonds	22,155,000		1,760,000	20,395,000	1,850,000
Series 2009A Unamortized Premium	1,591,000		172,000	1,419,000	172,000
Series 2012A Series Bonds	22,455,000		705,000	21,750,000	690,000
Series 2014:					
Series Bonds	43,175,000		1,540,000	41,635,000	1,605,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	7,412,000		272,000	7,140,000	272,000
Series 2016 Series Bonds	20,100,000		685,000	19,415,000	710,000
Series 2016 Unamortized Premium	2,847,000		156,000	2,691,000	156,000
Total Long-Term Debt	163,630,000		5,770,000	157,860,000	5,960,000
Other Obligations:					
Note Payable	525,000		100,000	425,000	100,000
Hedging Instruments	5,877,946		1,337,003	4,540,943	
Compensated Absences	5,689,705	$ 62,085		5,751,790	90,825
Retirement Service Programs	1,921,902		534,320	1,387,582	137,501
Other Obligations	96,638	49,753	106,200	40,191	40,191
Total	$ 177,741,191	$ 111,838	$ 7,847,523	$ 170,005,506	$ 6,328,517

GENERAL REVENUE BONDS

On January 5, 2016, the university issued $20,750,000 in General Revenue Refunding Bonds, Series 2016. The outstanding bonds bear an interest rate between 2.50% and 5.00% and mature in fiscal years 2020 through 2036. The proceeds of these bonds were used to advance refund $23,325,000 of outstanding General Revenue Bonds Series 2006, with an interest rate between 4.00% and 4.50%. The advance refunding reduced total debt service payments over the next 20 years by approximately $2.9 million, which represents an economic gain of approximately $2.2 million.

On October 1, 2014, the university issued $66,770,000 in General Revenue and Refunding Bonds, Series 2014. The outstanding bonds bear an interest rate between 3.50% and 5.00% and mature in fiscal years 2020 through 2045. A portion of the proceeds from the issuance was used to advance refund $25,385,000 of outstanding General Revenue Bonds, Series 2005. The additional $47.9 million in proceeds from the issuance were used, together with other available funds, to pay the costs of constructing, furnishing and equipping a new four story Biosciences Building.

On May 1, 2012, the university issued $23,015,000 in General Obligation Revenue Bonds, Series 2012A. The outstanding bonds bear an interest rate between 2.25% and 3.75% and mature in fiscal years 2020 through 2033. The proceeds of these bonds were used to advance refund $20.9 million of outstanding General Revenue Bonds Series 2002A, with an interest rate of 5.05%.

On October 1, 2009, the university issued $32,265,000 in General Revenue Bonds, Series 2009. The outstanding bonds bear an interest rate between 4.00% and 5.00% and mature in fiscal years 2020 through 2027. Proceeds from this issuance were $35,181,688, consisting of principal amount of the bonds ($32,265,000) and net original issue premium of $2,916,688. The proceeds from the sale of the bonds were used to refund the General Revenue Bonds, Series 1998.

On May 1, 2008, the university issued $43,025,000 in General Revenue Bonds, Series 2008A. The variable rate bonds mature in the fiscal years 2020 through 2033. Proceeds from this issuance were $43,025,000 of principal. The proceeds from the sale of the bonds were used to retire the 2002 Select Auction Variable Rate Securities (SAVRS) Series A and B bonds. The university retained the related swaps, and these swaps are now designated as a hedge against the General Revenue Bonds, Series 2008A as a means to fix the variable rate bond, and minimize long-term interest rate risk.

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, 2019 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
2020	5,365,000	5,638,193	821,875	11,825,068
2021	5,860,000	5,491,016	1,091,461	12,442,477
2022	5,990,000	5,231,392	1,092,564	12,313,956
2023	6,420,000	4,957,241	1,091,036	12,468,277
2024	6,565,000	4,680,009	1,086,809	12,331,818
2025-2029	38,610,000	18,865,476	5,140,410	62,615,886
2030-2034	43,760,000	10,594,501	2,293,389	56,647,890
2035-2039	14,230,000	4,413,750		18,643,750
2040-2044	11,795,000	1,760,125		13,555,125
2045	2,655,000	53,100		2,708,100
Total	141,250,000	$ 61,684,803	$ 12,617,544	$ 215,552,347
Unamortized Premium	10,650,000			
	$ 151,900,000			

Subsequent to June 30, 2019, the university issued $25,410,000 in General Revenue Bonds, Series 2019. The outstanding bonds bear an interest rate of 5.00% and mature in fiscal years 2021 through 2035. A portion of the proceeds from the issuance will be used to advance refund $16,610,000 of outstanding General Revenue Bonds, Series 2009. The additional $13.0 million in proceeds from the issuance will be used to pay the costs of the demolition of a residence hall and the redevelopment of the site as green space, upgrades and improvements to the North Community Residence Halls, including electrical and life safety infrastructure upgrades and interior and exterior renovations and East, South and Towers Residence Halls infrastructure upgrades and improvements.

HEDGING INSTRUMENTS

The university has one pay-fixed, receive-variable, interest rate swap at June 30, 2019. The objective of this swap is to hedge interest rate risk on the Series 2008A bonds. A description of the swap is as follows:

Under this 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) (1.08383% at June 30, 2019). 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.

As of June 30, 2019, the swap agreement had a notional amount of $20,675,000, and was in a negative position of $5,509,327. 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 swap is considered a cash flow hedge. The change in fair value was an increase to deferred outflows of $968,384 for fiscal year 2019. The accumulated change in fair value of ($5,509,327) and ($4,540,943) is recorded in deferred outflows at June 30, 2019 and 2018, respectively.

The fair value of the interest rate swap was 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 swap.

To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics was used. This is the best method available under current market conditions since the university has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties is determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating are used. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

Credit Risk

As of June 30, 2019 and 2018, the hedging derivative instrument is a liability and 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, 2019 and 2018, the derivative counterparty is rated Baa2 which suggests a capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparty from complying with the terms of the derivative agreement. 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 rate increases (decreases). The university believes it has effectively hedged interest rate risk on the hedged portion of its variable-rate debt by entering into an interest rate swap.

Basis Risk

The variable-rate debt hedged by the interest rate swap is, weekly-resetting variable rate demand obligation bonds. The university is exposed to basis risk since the variable rate receipts from the hedging derivatives are based on a rate or index other than the interest rates the university pays on its hedged debt.

Termination Risk

The university or its hedging counterparty may terminate a hedging instrument if the other party fails to perform under the terms of the contract. In addition, the university's swap counterparty has 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/Baa2. If such an event occurs, the university could be forced to terminate a derivative in a liability position.

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, 2019, 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.

Credit Limit

The university entered into a commercial card services agreement as of January 28, 2011 and amended as of July 16, 2013 and December 21, 2017, which supports the university business card program. As part of the agreement, the university has an available credit limit in the amount of $8 million as of June 30, 2019 and June 30, 2018. The outstanding balance is due monthly. Due to the timing of the monthly close for the credit card statements, the university had an outstanding balance of $121,618 as of June 30, 2019 under the credit limit. There was no outstanding balance as of June 30, 2018.

Letter of Credit

On June 6, 2019, the university signed a new stand by Letter of Credit agreement with a new counter party in the amount of outstanding bond principal plus 35 days interest equal to $21,004,500 to provide credit enhancement and liquidity support for certain General Revenue Refunding Bonds, Series 2008A. The expiration date of the stand by Letter of Credit is July 3, 2024. The previous stand by letter of credit agreement was signed on May 1, 2008, amended by a First Amendment agreement dated August 1, 2010, amended by a Second Amendment agreement dated June 28, 2013 and amended by a Third Amendment agreement dated June 30, 2016. The expiration date of the previous stand by Letter of Credit is July 1, 2019.

OTHER OBLIGATIONS

The Retirement Service Award program and compensated absences have been determined to be primarily long-term liabilities. Other obligations have been determined to be primarily short-term liabilities.

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NOTE 8--FAIR VALUE MEASUREMENTS

The university categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The university's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The university has the following recurring fair value measurements as of June 30, 2019:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

		Fair Market Measurements Using		
	Balance at June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt Securities				
Domestic short term duration	$ 19,675,556	$ 19,675,556		
Domestic intermediate duration	6,766,031	6,472,780		$ 293,251
Global and unconstrained duration	38,396,230	38,396,230		
Total debt securities	64,837,817	64,544,566		293,251
Equity securities				
Domestic	68,814,575	68,814,575		
Global	690,126	690,126		
Total equity securities	69,504,701	69,504,701		
Real asset funds				
Domestic	84,806	84,806		
Total real asset funds	84,806	84,806		
Alternative Strategies				
Multi-asset class funds	33,877,732	33,877,732		
Total alternative strategies	33,877,732	33,877,732		
Beneficial Interests				
Beneficial Interests in Split-Interest	4,957,159			4,957,159
Total Beneficial Interests	4,957,159			4,957,159
Total investments by fair value level	$ 173,262,215	$ 168,011,805	$	$ 5,250,410
Investments measured at the net asset value (NAV)				
Debt Securities - domestic/global	35,524,250			
Equity securities - domestic/global	114,558,853			
Private investments - domestic/global	18,078,483			
Equity long/short hedge funds	12,329,182			
Event-driven hedge funds	1,468,468			
Multi-strategy hedge funds	21,658,322			
Multi-asset class funds	11,599,611			
Real asset funds	11,318,254			
Total investments measured at the NAV	226,535,423			
Total investments measured at fair value	$ 399,797,638			
Hedging derivative instruments				
Interest rate swaps - effective	$ (5,509,327)		$ (5,509,327)	
Total hedging derivatives	$ (5,509,327)		$ (5,509,327)	

The university has the following recurring fair value measurements as of June 30, 2018:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Market Measurements Using		
Investments by fair value level:				
Debt Securities				
Domestic short term duration	$ 18,732,123	$ 18,732,123		
Domestic intermediate duration	6,246,464	5,917,579		$ 328,885
Global and unconstrained duration	41,061,119	41,061,119		
Total debt securities	66,039,706	65,710,821		328,885
Equity securities				
Domestic	68,600,854	68,600,854		
Global	368,302	368,302		
Total equity securities	68,969,156	68,969,156		
Real asset funds				
Domestic	6,044	6,044		
Total real asset funds	6,044	6,044		
Alternative Strategies				
Multi-asset class funds	35,882,674	35,882,674		
Total alternative strategies	35,882,674	35,882,674		
Beneficial Interests				
Beneficial Interests in Split-Interest	2,597,157			2,597,157
Total Beneficial Interests	2,597,157			2,597,157
Total investments by fair value level	$ 173,494,737	$ 170,568,695	$	$ 2,926,042
Investments measured at the net asset value (NAV)				
Debt Securities - domestic/global	30,310,337			
Equity securities - domestic/global	118,389,476			
Private investments - domestic/global	14,239,757			
Equity long/short hedge funds	14,018,315			
Event-driven hedge funds	1,578,926			
Multi-strategy hedge funds	23,893,549			
Multi-asset class funds	16,619,515			
Real asset funds	6,980,845			
Total investments measured at the NAV	226,030,720			
Total investments measured at fair value	$ 399,525,457			
Hedging derivative instruments				
Interest rate swaps - effective	$ (4,540,943)		$ (4,540,943)	
Total hedging derivatives	$ (4,540,943)		$ (4,540,943)	

The fair value of debt and equity securities classified in Level 1 at June 30, 2019 and 2018 were valued using prices quoted in active markets for those securities.

The fair value of debt and equity securities classified in Level 3 at June 30, 2019 and 2018 were valued using otherwise unobservable inputs. The life insurance policies, $293,251 and $328,885 at June 30, 2019 and June 30, 2018 respectively, were valued using their cash surrender value. The beneficial interests in split-interest agreements, $4,957,159 and $2,597,157 at June 30, 2019 and June 30, 2018 respectively, were valued using investment statements and current market values of stock held in trusts.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the table below.

The fair value of hedging derivative instruments classified in Level 2 at June 30, 2019 and 2018 were valued using available market inputs such as interest rates and yield curves adjusted for nonperformance risk that are observable at commonly quoted intervals.

Investments in Entities that Calculate Net Asset Value per Share

The university holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At fiscal year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2019	June 30, 2018		June 30, 2019
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible
Debt securities	$ 35,524,250	$ 30,310,337		Daily to Monthly
Equity securities	114,558,853	118,389,476		Daily to Monthly
Private Investments	18,078,483	14,239,757	$ 11,079,460	N/A
Equity long/short hedge fund	12,329,182	14,018,315		Quarterly to Semi-Annually
Event driven hedge fund	1,468,468	1,578,926		Rolling 2 Year
Multi-strategy hedge fund	21,658,322	23,893,549		Quarterly to Annually
Multi-asset class fund	11,599,611	16,619,515		Daily to Monthly
Real asset funds	11,318,254	6,980,845	3,222,478	N/A
Total	$ 226,535,423	$ 226,030,720	$ 14,301,938	

The debt securities class includes three domestic debt security investments. These are investments in primarily high quality US fixed income securities that are publicly traded and held in commingled asset vehicles. Securities held may include, but are not limited to, government and agency obligations, mortgage-backed securities, corporate bonds, debentures, and commercial paper. These investments can typically be liquidated within one month or less.

The equity securities class includes two domestic equity investments, and ten international equity investments. These are investments in publicly listed equity securities held in commingled asset vehicles that invest long only in global common stocks. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. These investments can typically be liquidated within one month or less.

The private investments class includes eleven investments in private equity funds that invest in venture capital, growth equity and buyout funds, direct lending, portfolio investments, and private credit. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. The investment period of these investments range from 6 - 12 years. The nature of these investments involve capital calls being made throughout the investment period, as well as income distributions being received as underlying investments are bought and sold. Because no public market exists for selling these types of investments, they are viewed as long-term in nature with funds being committed over the life of the investment.

The equity long/short hedge fund class includes five investments in hedge funds that invest both long and short primarily in global common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. The lock-up period is three years or less, and redemptions can be made on a semi-annual or quarterly basis.

The event driven hedge funds class includes two investments in hedge funds that invest in situations with the expectation that a near term event will act as a catalyst changing the market's perception of a company, thereby increasing or decreasing the value of its equity or debt. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. The lock-up period is two years or less, and redemptions can be made on a rolling two year basis.

The multi strategy hedge funds class includes nine investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The strategies may include convertible arbitrage, merger arbitrage, and fixed income arbitrage positions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. The lock-up period is less than two years, and redemptions can be made quarterly.

The multi asset class funds class includes two investments in an actively managed commingled fund that seeks to provide a diversified and risk-managed portfolio in pursuit of a targeted return. The strategies may include securities and other investments that provide exposure to issuers located in at least three different countries, including the U.S. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. These investments can typically be liquidated within one month or less.

The real asset funds class includes seven investments in real estate, energy infrastructure and energy-related funds that invest globally, but with the majority being in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the university's ownership interest in partners' capital.

NOTE 9--RETIREMENT PLANS

The university has a defined contribution retirement plan for all qualified employees. CMU currently has one record-keeper for this plan, Teachers Insurance and Annuity Association (TIAA). Full-time faculty and professional administrators hired prior to January 1, 1996, who chose to participate in the defined contribution plan, receive university contributions equal to 12% of their base salary into the plan. All other employees participating in this plan, receive contributions equal to 10% of their base salary into the plan. All contributions are subject to IRS limits. University contributions begin immediately and employee benefits vest immediately.

Hourly employees hired prior to January 1, 1996, and other eligible employees choosing this option, participate in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit plan through the State of Michigan. Detailed information regarding the MPSERS plan, eligibility and the university's commitment under the plan is included in the MPSERS section of this footnote.

Contributions and covered payroll under all plans in fiscal year 2019 are summarized as follows:

	TIAA	MPSERS	University Total
Pension Contributions			
University Defined Contribution	$ 16,523,408	$ 16,816	$ 16,540,224
University Normal Defined Benefit		656,354	656,354
Required Employee DB		401,595	
University DB UAAL		7,797,421	7,797,421
Payroll Floor UAAL (Estimated)		2,560,591	2,560,591
Stabilization UAAL Contribution		1,206,509	1,206,509
Health Contributions			
University Personal Health Fund DC		12,291	12,291
Required Employee PHF DC		12,291	
University Normal Defined Benefit		49,267	49,267
Required Employee DB		379,999	
University UAAL		2,383,301	2,383,301
Payroll Floor UAAL (Estimated)		782,926	782,926
Covered Payroll	160,694,768	13,257,965	173,952,734

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 $858,188 for fiscal year 2019 and $969,396 for fiscal year 2018 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 university's long-term debt, hedging instruments and other long-term obligations.

MSPERS – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description

Michigan Public School Employees' Retirement System (MPSERS), is a cost-sharing multiple-employer defined benefit and defined contribution plan through the State of Michigan. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at Central Michigan University, or one of the other six universities that are part of MPSERS. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. The State of Michigan Office of Retirement Services issues an annual financial report that includes financial statements and required supplementary information regarding MPSERS. The report is available on the web at http:www.michigan.gov/orsschools, or by writing to the Office of Retirement System (ORS) at 530 West Allegan Street, Lansing MI 48929. In July 2015, ORS determined that MPSERS has two reporting units: universities and non-universities. Office of Retirement Services provided the universities a separate net pension liability and net other postemployment benefits (OPEB) liability. Separate pension and OPEB information related to the universities reporting unit included in this plan is not available.

Contributions

Public Act 300 of 1980, as amended, required the university to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each university's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

The university's contributions are determined based on employee elections. There are four different benefit options included in the plan available to employees based on date of hire. The university also contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded actuarial accrued liability (UAAL) portion of future pensions and health benefits. Public Act 136 of 2016 sets a rate cap of 25.73 percent for university employer UAAL contributions. In addition, the new law establishes a requirement for a payroll floor. In a given fiscal year, each university owes UAAL contributions based on the greater of its payroll floor or its actual payroll. The payroll floor was $52,562,142 and $51,785,566 for fiscal year 2019 and 2018, respectively. Contribution rates are adjusted annually by the ORS. The rates for the defined benefit plan are as follows:

	Normal Pension Rate	Unfunded Pension Rate	Normal Health Rate	Unfunded Health Rate
10/01/18 – 06/30/19	5.29%	19.74%	0.43%	5.99%
10/01/17 – 09/30/18	4.87%	19.60%	0.31%	6.13%
07/01/17 – 09/30/17	4.30%	18.75%	0.38%	6.98%

Employees starting between January 1, 1990, and December 31, 1995, are required to contribute between 3.0% and 5.29% of their annual pay. During the period February 1, 2013 through June 30, 2013 employees could transition to a defined contribution plan.

The university's required defined benefit contributions to MPSERS normal pension costs, totaled $656,354 in fiscal year 2019 and $659,085 in fiscal year 2018. Required employee contributions were $401,595 in fiscal year 2019 and $441,171 in fiscal year 2018. The university's contributions to the unfunded MPSERS defined benefit pensions totaled $10,358,012 in fiscal year 2019 and $10,058,366 in fiscal year 2018. The university also recorded $1,206,509 and $1,133,337 of stabilization rate revenue from the State of Michigan to assist in funding the MPSERS pension and health Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2019 and June 30, 2018, respectively. The university's contributions toward the MPSERS defined contribution plan totaled $16,816 in fiscal year 2019 and $9,920 in fiscal year 2018.

Benefits Provided

Benefit provisions of the defined benefit pension plan also are established by State statute. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation, times years of service, times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire begin at the age of 55 with years of service ranging from 10 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction.

Benefits may transfer to a beneficiary upon death, and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members that do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2019 and June 30, 2018, the university reported a pension liability of $156,499,530 and $141,154,617, respectively for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPSERS. The net pension liability for fiscal year 2019 was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, that used update procedures to roll forward the estimated liability to September 30, 2018. The net pension liability for fiscal year 2018 was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, that used update procedures to roll forward the estimated liability to September 30, 2017. The university's proportion of the net pension liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2018, September 30, 2017 and September 30, 2016, the university's proportion was 24.49 percent, 24.54 percent and 24.49 percent, respectively of the universities reporting unit.

For the year ended June 30, 2019 and June 30, 2018, the university recognized pension expense of $29,146,907 and $19,829,443, respectively.

At June 30, 2019 the university reported a payable of $329,046 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2019.

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At June 30, 2019 and June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 121,378		$ 151,781
Changes of assumptions	$ 1,255,282		$ 1,191,429	
Net difference between projected and actual plan investment earnings		5,176,821		3,138,490
Changes in proportion and differences between contributions and proportionate share of contributions		44,190	30,154	44,079
Contributions subsequent to the measurement date	9,622,304		9,355,871	
Total	$ 10,877,586	$ 5,342,389	$ 10,577,454	$ 3,334,350

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30	Amount
2019	$ 871,500
2020	(1,971,446)
2021	(2,093,045)
2022	(894,116)
Total	$ (4,087,107)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the university, calculated using the current discount rate, 7.05% as of June 30, 2019 and 7.50% as of June 30, 2018 as well as what the university's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Discount Rate	1.00 percent increase
June 30, 2019	$ 185,010,308	$ 156,499,530	$ 132,177,765
June 30, 2018	$ 165,614,139	$ 141,154,617	$ 120,042,720

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Postemployment Benefits Other Than Pensions (OPEB)

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. The MPSERS Board of trustees annually sets the employer contribution rate to fund the benefits. For the plan years beginning October 1, 2018 and October 1, 2017 the university contribution rate was 5.99% and 6.13%, respectively of both member and non-member payroll wages to cover current and future unfunded retiree health benefits. Prior to October 1, 2014 the university contributions were based on actual retiree insurance coverage and corresponding premium subsidy (a pay as you go basis). The university's monthly contribution for retiree health care benefits, aggregated to $3,215,494 during the 2019 university fiscal year and $3,330,389 during the 2018 university fiscal year. Effective July 1, 2010, all active employees enrolled in MPSERS are required to contribute 3.0% of their pay toward retiree healthcare.

Under Public Act 300 of 2012, during the period February 1, 2013 through June 30, 2013 employees could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the retiree healthcare benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 403B account. The university's required contributions into PHF accounts were $12,291 and $12,332 for the university fiscal years ended June 30, 2019 and June 30, 2018, respectively.

At June 30, 2019 and June 2018, the university reported a liability of $29,395,383 and $35,090,380, respectively, for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPSERS. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, that used update procedures to roll forward the estimated liability to September 30, 2018. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, that used update procedures to roll forward the estimated liability to September 30, 2017. The university's proportion of the net OPEB liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2018 and September 30, 1017 the university's proportion was 24.78 percent and 24.66 percent, respectively, of the universities reporting unit.

For the year ended June 30, 2019 and June 30, 2018, the university recognized OPEB expense of $(1,271,151) and $1,817,163, respectively.

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At June 30, 2019 and June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 2,312,768		$ 264,222
Changes of assumptions	$ 1,255,706			
Net difference between projected and actual plan investment earnings		1,674,828		1,138,378
Changes in proportion and differences between contributions and proportionate share of contributions	44,875	10,417		49,459
Contributions subsequent to the measurement date	2,440,877		$ 2,443,445	
Total	$ 3,741,458	$ 3,998,013	$ 2,443,445	$ 1,452,059

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ending September 30	Amount
2019	$ (1,512,799)
2020	(490,195)
2021	(490,195)
2022	(204,243)
Total	$ (2,697,432)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net OPEB liability in the next year.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the university, calculated using the current discount rate, 7.15% as of June 30, 2019 and 7.50% as of June 30, 2018 as well as what the university's net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Discount Rate	1.00 percent increase
June 30, 2019	$ 35,363,019	$ 29,395,383	$ 24,299,742
June 30, 2018	$ 40,909,309	$ 35,090,380	$ 30,078,490

Sensitivity of the net OPEB liability to changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the university, calculated using the current healthcare cost trend rate, 7.50% as of June 30, 2019 and 7.50% as of June 30, 2018 as well as what the university's net

OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
June 30, 2019	$ 23,925,806	$ 29,395,383	$ 35,653,330
June 30, 2018	$ 29,703,468	$ 35,090,380	$ 41,192,857

Actuarial Assumptions

The total pension and OPEB liabilities measured as of September 30, 2018 are based on the results of an actuarial valuation date of September 30, 2017 and rolled forward using generally accepted actuarial procedures.

Actuarial cost method	Entry age normal cost actuarial cost method
Assumed rate of return	7.05 percent, net of investment expenses based on the groups (Pension) 7.15 percent, net of investment expenses based on the groups (OPEB)
Salary increases	2.75-11.55 percent, including wage inflation of 2.75%
Healthcare cost trend rate	7.50 percent, year 1 graded to 3.0% year 12
Mortality basis	
Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

The actuarial assumptions used for the September 30, 2017 valuation were based on the results of an actuarial experience study for the periods 2012 through 2017. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

The total pension and OPEB liabilities measured as of September 30, 2017 are based on the results of an actuarial valuation date of September 30, 2016 and rolled forward using generally accepted actuarial procedures.

Actuarial cost method	Entry age normal cost actuarial cost method
Assumed rate of return	7.50 percent, net of investment expenses based on the groups
Salary increases	3.50-12.30 percent, including wage inflation of 3.50%
Healthcare cost trend rate	7.50 percent, year 1 graded to 3.5% year 12
Mortality basis	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used for the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate

The discount rate used to measure the total pension liability was 7.05 percent at September 30, 2018 and 7.50 percent at September 30, 2017. The discount rate used to measure the total OPEB liability was 7.15 percent at September 30, 2018 and 7.50 percent at September 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method where best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Plan Year September 30, 2018		Plan Year September 30, 2017	
Investment Category	Target Allocation	Expected Real Rate of Return	Target Allocation	Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.7%	28.0%	5.6%
Private Equity Pools	18.0%	9.2%	18.0%	8.7%
International Equity Pools	16.0%	7.2%	16.0%	7.2%
Fixed Income Pools	10.5%	0.5%	10.5%	-0.1%
Real Estate & Infrastructure Pools	10.0%	3.9%	10.0%	4.5%
Absolute Return Pools	15.5%	5.2%	15.5%	5.0%
Short Term Investment Pools	2.0%	0.0%	2.0%	-0.9%
Total	100.0%		100.0%	

NOTE 10--CONTINGENCIES AND COMMITMENTS

In the normal course of its activities and operations, 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, for which General Counsel provides oversight, the university is of the opinion that the outcome thereof will not have a material effect on the financial statements.

There were no settlement amounts exceeding insurance coverage for each of the past three fiscal years.

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NOTE 11--LEASE COMMITMENTS

The university has entered into various operating leases, primarily for Global Campus degree program facilities and College of Medicine office space. 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:

2020	$	1,944,090
2021		1,562,061
2022		931,419
2023		173,365
2024		30,006
	$	4,640,941

NOTE 12--LIABILITY AND PROPERTY INSURANCE

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, automobile physical damage and automobile liability. M.U.S.I.C. retains the first layer of coverage for losses exceeding retention levels in a group risk-sharing pool, and they purchase additional layers of excess insurance through commercial carriers for the aforementioned coverages. 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.

Additionally, the university either self-insures or purchases commercially available coverage for exposures outside of the M.U.S.I.C. program, some of which are: property insurance, medical malpractice, workers compensation and cyber insurance. 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.

Since January 28, 2011, Central Health Advancement Solutions (CHAS), a solely owned component unit of Central Michigan University, has been a 90% owner of CMU Medical Education Partners (CMEP). During this time CMEP has continued its commercial insurance coverage for property and casualty losses including professional medical malpractice, covering the corporation for its acts and omissions. Malpractice and other claims have been asserted against the corporation by various claimants. Such claims are in varied stages of processing and some may be litigated. Accordingly, CMEP’s management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of CMEP’s management, all such matters are adequately covered by prior and existing insurance programs.

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NOTE 13--FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

The university's operating expenses by functional classification were as follows for years ended June 30:

2019	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	$ 145,557,704	$ 130,980,742	$ 9,358,106	$ 4,994,989	$ 223,867	
Research	15,611,205	7,194,847	7,643,151	773,207		
Public Service	16,870,078	9,166,341	7,268,430	68,595	366,712	
Academic Support	48,797,683	36,234,982	12,378,232	145,975	38,494	
Student Services	24,299,100	17,789,448	6,308,168	202,973	(1,489)	
Institutional Support	35,899,710	27,409,232	8,368,194	42,855	79,429	
Scholarships & Fellowships	12,745,876	1,017,954	274,235	11,453,687		
Operations and Maintenance of Plant	27,791,395	11,044,104	16,738,588		8,703	
Auxiliary Enterprises	92,645,407	43,089,085	43,058,457	(1,034,875)	7,532,740	
Depreciation	26,909,087					$ 26,909,087
Other	12,437,692	(184,877)	12,622,569			
Total Operating Expenses	459,564,937	$ 283,741,858	$ 124,018,130	$ 16,647,406	$ 8,248,456	$ 26,909,087
Interest Expense	6,170,560					
Total Expenses	$ 465,735,497					

2018	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	$ 149,198,557	$ 133,984,596	$ 9,862,645	$ 5,101,190	$ 250,126	
Research	14,368,637	6,216,495	7,565,189	586,953		
Public Service	17,514,021	9,682,823	7,356,529	55,069	419,600	
Academic Support	49,970,293	34,686,511	15,083,356	161,702	38,724	
Student Services	25,843,730	19,352,374	6,354,204	137,152		
Institutional Support	35,566,518	27,851,212	7,649,949	30,000	35,357	
Scholarships & Fellowships	16,901,204	944,022	(144,114)	16,101,296		
Operations and Maintenance of Plant	26,348,284	10,986,473	15,345,656		16,155	
Auxiliary Enterprises	92,249,211	44,690,027	44,878,255	(5,042,595)	7,723,524	
Depreciation	26,408,629					$ 26,408,629
Other	6,186,036	(108,461)	6,294,497			
Subtotal	460,555,120	$ 288,286,072	$ 120,246,166	$ 17,130,767	$ 8,483,486	$ 26,408,629
Component Units	7,968					
Total Operating Expenses	460,563,088					
Interest Expense	6,016,819					
Total Expenses	$ 466,579,907					

NOTE 14--NEW ACCOUNTING PRONOUNCEMENTS

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities,* establishing criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The university is currently evaluating the impact of this standard, specifically related to holding assets for other organizations and registered student organizations. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases,* which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the university's financial statements as a result of the lease of space for educational, research, public service and administrative purposes as well as storage that are currently classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2021.

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Required Supplemental Information

Schedule of the Institution's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
(Amounts were determined as of 9/30 of each fiscal year)

	2018	2017	2016	2015	2014
University's proportion of the Universities collective MPSERS net pension liability: As a percentage	24.49%	24.54%	24.49%	23.49%	24.89%
Amount	$156,499,530	$141,154,617	$137,188,658	$128,881,423	$93,365,966
University's covered payroll	$51,785,566	$52,547,000	$50,770,000	$40,847,274	$45,313,116
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered payroll	302.21%	268.63%	270.22%	315.52%	206.05%
MPSERS fiduciary net position as a percentage of the total pension liability	45.87%	47.42%	46.77%	47.45%	63.00%

Schedule of Institution Pension Contributions
Michigan Public School Employees Retirement Plan
(Amounts were determined as of 6/30 of each fiscal year)

	2019	2018	2017	2016	2015
Statutorily required contribution	$12,220,875	$11,850,788	$10,398,409	$9,124,243	$8,048,600
Contributions in relation to the actuarially determined contractually required contribution	$12,220,875	$11,850,788	$10,398,409	$9,124,243	$8,048,600
Contribution deficiency (excess)					
Covered payroll	$52,562,142	$51,975,500	$52,102,750	$42,389,435	$41,843,844
Contributions as a percentage of covered payroll	23.25%	22.80%	19.96%	21.52%	19.23%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2019

The employer's covered payroll is defined by GASB 82, *Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016.

Changes of benefit terms: There were no changes in benefit terms in 2018, 2017, 2016, 2015 or 2014.

Changes of assumptions: For 2018, the discount rate for the September 30, 2017 annual actuarial valuation decreased by 0.45%. For 2017, the discount rate for the September 30, 2016 annual actuarial valuation decreased by 0.50%. There were no changes of assumptions in 2016, 2015 or 2014.

Schedule of the Institution's Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 9/30 of each fiscal year)

	2018	2017
University's proportion of the Universities collective MPSERS net OPEB liability: As a percentage	24.78%	24.66%
Amount	$29,395,383	$35,090,380
University's covered payroll	$51,785,566	$52,547,000
University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered payroll	56.76%	66.78%
MPSERS fiduciary net position as a percentage of the total OPEB liability	51.90%	44.11%

Schedule of Institution OPEB Contributions

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 6/30 of each fiscal year)

	2019	2018
Statutorily required contribution	$3,215,494	$3,330,389
Contributions in relation to the actuarially determined contractually required contribution	$3,215,494	$3,330,389
Contribution deficiency (excess)		
Covered payroll	$52,562,142	$51,975,500
Contributions as a percentage of covered payroll	6.12%	6.41%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2019

The employer's covered payroll is defined by GASB 82, *Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016.

Changes of benefit terms: There were no changes in benefit terms in 2018 or 2017.

Changes of assumptions: For 2018, the discount rate for the September 30, 2017 annual actuarial valuation decreased by 0.35%. There were no changes in assumptions in 2017.

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