CMU

CENTRAL MICHIGAN UNIVERSITY

2016-2017

Financial Report

As of and for Years Ended June 30, 2017 and 2016

Biosciences Building Opened for Classes Spring 2017

CMU
CENTRAL MICHIGAN UNIVERSITY

August, 2017

To the People of the State of Michigan:

The story of Central Michigan University's financial performance for the fiscal year ending June 30, 2017 reflects our commitment to you, as Michigan residents, business leaders and parents whose children deserve the opportunity to earn a college degree that prepares them for a promising future.

These pages detail CMU's ongoing strong financial position. During the past two years, Central has adjusted its budget by four percent. Through diligent, student-focused, conservative fiscal management and a profound sense of responsibility to you, Michigan's taxpayers, we trimmed $16 million from our budget, primarily through cost-cutting measures and the elimination of vacant positions. In reflecting on these proactive measures, financial analysts tell us CMU remains one of the strongest and most stable universities in the nation.

State funding accounts for less than 18 percent of our operating budget and covers just 66 days of operation — placing a massive burden on students and families. To offset that, CMU has held the line on tuition, with the lowest cumulative tuition increase the past eight years among all Michigan public universities. We also have increased our scholarship funding 87 percent since George E. Ross became president in 2010.

With a strong emphasis on science, technology, engineering and math disciplines, as well as health and business programs, CMU has evolved to meet existing and emerging needs of students and businesses. We believe in the transformative power of education, offering more than 200 programs and boundless opportunities to immerse and learn. Consider these few points of pride:

- CMU is among only five percent of U.S. universities in the highest two Carnegie research classifications. At CMU, research means even undergraduate students work beside faculty, immersed in experiences employers value.
- Each year, about 90 percent of our freshmen on campus hail from the Great Lakes state. About 80 percent choose to stay in Michigan upon graduation, contributing to the well-being of its businesses, communities, residents, environment, and unique and diverse culture.
- Through 125 years, CMU graduates have become CEOs, military generals, neuroscientists, microbiologists, biochemists, forensic accountants, engineers, entrepreneurs, teachers, lawmakers and policy experts who shape our state and nation. This May, CMU graduated its first physicians and 10th class of engineers.

Through the combined efforts of our faculty, staff, alumni and the citizens of Michigan, Central Michigan University achieves its vision of being an inclusive community of scholars and a national leader that inspires excellence and innovation. At the end of the day, we graduate leaders.

Sincerely,

Barrie J. Wilkes

Barrie J. Wilkes
Vice President for Finance and Administrative Services

Financial Statements

Central Michigan University

June 30, 2017

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, 2017, with selected comparative information for the years ended June 30, 2016, and 2015. 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 focuses 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 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 increases.

The university's state appropriations for fiscal year 2017 were $4.9 million below its peak appropriations of fifteen years ago. In fiscal year 2017, state appropriations contributed approximately 16.0% of university revenues. In fiscal year 2002, state appropriations contributed approximately 31.5% of university revenues.

The university has a required supplemental contribution to 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 $14.3 million for fiscal year 2017 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 for our students and their families. The university is adamant about holding the line related to tuition increases even though state appropriations are less than what they were fifteen years ago. Significant efforts, such as merging our global campus with our main campus administration, will continue to achieve operational efficiencies and will enhance our ability to identify and implement additional 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 $74.5 million in 2017, 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 2018 of $484.9 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 utility 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 established, 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. Current estimates, adjusted for inflation, of existing deferred maintenance needs for general fund facilities total $111.1 million. Starting with fiscal year 1999, approximately $4.5 million dollars per year was dedicated toward addressing these needs. Beginning with fiscal year 2007, the amount was increased to $5.5 million, and in 2013, it was increased to $7.0 million. In fiscal years 2014 through 2016, the amount was $5.7 million per year and in 2017, the amount was $7.9 million.

During fiscal year 2017, the university expended approximately $47.8 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. Comprehensive reviews of academic programs and academic service units are conducted as part of our continuous improvement process to assess academic excellence and enhance quality performance.

College of Medicine

The Central Michigan University College of Medicine is the nation's 137th medical school and was founded to produce high-quality physicians for underserved rural and urban communities, particularly in central and northern Michigan. In the 2016-2017 academic year, the university continued to make significant progress to advance the mission of the CMU College of Medicine. The primary focus was to successfully match and graduate the inaugural class. Both goals were completed successfully. Sixty-two students (100%) from the inaugural class matched to residency programs with nearly half (47%) matching to residency in Michigan. The May 7, 2017 graduation of the inaugural class marked a pinnacle milestone in the college's history. The number of applicants to the College of Medicine continues to expand showing great interest in the program. The matriculating class of 2016 was selected from over 4800 applicants and includes 14% minority students (10% is the national average).

From an accreditation perspective, the Liaison Committee on Medical Education (LCME) affirmed the college's preliminary accreditation status and included 21 areas of noncompliance or compliance with a need for monitoring related to their standards mainly in the first two years of the medical school. A repeat data collection instrument was submitted and a survey visit for provisional accreditation occurred in May 2016. In October 2016, the college was granted provisional accreditation by the LCME with only eight areas of noncompliance or compliance with a need for monitoring - a significant improvement. Completion of the full accreditation data collection instrument is in process and on track for the December 2017 submission deadline. Preparations for the February 2018 full accreditation site visit are underway.

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 five residency programs based at CMU Partners in Saginaw. All residency programs including family medicine, internal medicine, emergency medicine, emergency medical services, and psychiatry, are accredited. Accreditation for a podiatry residency is in process.

Work continues to create a learning and working environment that attracts the best students, and recruits and retains faculty and engaged support staff. Three new discipline chairs joined the faculty team to provide leadership and support for the surgical, medical, and foundational sciences. The significant efforts put forth in 2015-16 to address working relationships and build trust with CMU Education Partners and Covenant Healthcare and St. Mary's of Michigan have resulted in negotiation of a long term affiliation agreement currently under draft.

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. To ensure success of the plan, input is sought from a broad contingency of university stakeholders.

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. The university is well positioned to respond to current trends, environmental influences, and the likely shift in the demographics of future students.

Campus Master Plan and Campus Identity Project

The campus master plan ensures that CMU's campus and facilities align with the Strategic Plan, Academic Priorities, and the Strategic Enrollment Management Plan, accelerating learning and enhancing the success of CMU students. The campus master plan delivered a facilities condition assessment, infrastructure assessment, and land use plan. It included 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. A multiyear implementation of wayfinding and gateways developed as part of this project began in summer 2016.

The completion of both 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 and pedestrian and motorized vehicle access planning for multiple projects. To date, 18 out of 20 projects in the original 10 year capital plan have been addressed. Five projects have been completed. Seven are in the phases of planning, design or construction. Five projects have been studied in depth and been canceled or put on hold. The Capital Plan was updated in 2017 to continue the alignment of CMU's investment in facilities with the Strategic Plan. On average, 70% of deferred maintenance spending is also aligned with priorities identified in the Campus Master Plan.

CMU Research Corporation

Central Michigan University Research Corporation (CMURC) is a coworking space, incubator and accelerator created nearly two decades ago. 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. CMURC partners throughout the Great Lakes Bay Region with local chambers of commerce, along with economic development organizations, to provide critical resources to small businesses, anywhere from development to assistance in securing financing. Recognized as one of the Michigan Economic Development Corporation's SmartZones, serving the Governor's Prosperity Region 5, CMURC expanded from the Mount Pleasant location to open a second facility in Uptown Bay City in March 2017. This venture demonstrates that CMU is a community partner in spurring economic development activities in order 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:

	2017	2016	2015
Current assets	$ 134.5	$ 116.2	$ 113.2
Noncurrent assets			
Capital assets, net	551.6	545.6	506.1
Other	362.2	334.3	369.8
TOTAL ASSETS	1,048.3	996.1	989.1
DEFERRED OUTFLOWS	19.1	20.6	17.9
Current liabilities	90.0	93.2	111.6
Noncurrent liabilities	308.6	308.9	282.6
TOTAL LIABILITIES	398.6	402.1	394.2
DEFERRED INFLOWS	1.0	2.4	9.0
TOTAL NET POSITION	$ 667.8	$ 612.2	$ 603.8

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 2017, total assets increased $52.2 million. Significant changes in assets occurred in the following areas:

- Cash and cash equivalents increased $8.1 million primarily due to $2.6 million in investment sales/redemptions and $5 million in receipts on plant fund receivables.
- Accounts receivable increased $15.1 million due primarily 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.
- State appropriations receivable decreased $5.0 million due to payments received from the State Building Authority for expenditure reimbursements relating to the Biosciences Building.
- Endowment Investments increased $25.2 million due primarily to appreciation of investments due to favorable market conditions and continued investment of a refund from the State of Michigan in a quasi-endowment based on a previous decision of the Board of Trustees.
- Capital assets increased $6.0 million due to a net increase of $31.8 million in capitalized construction project costs, land improvements, and equipment less $25.8 million in depreciation.

In 2016, total assets increased $7.0 million due primarily to the combined effect of a decrease of $24.4 million in cash and cash equivalents related to spent bond proceeds restricted for the Biosciences Building project; a decrease in loans receivable of $6.1 million due to the liquidation of the university's Federal Perkins loan program; an increase of $5.4 million in State Building Authority receivable for expenditure reimbursements relating to the Biosciences Building; an increase of $39.5 million in capital assets due to a net increase of $63.1 million in capitalized construction project costs, land improvements, and equipment less $23.6 million in depreciation; an increase of $22.2 million in endowment investments due to the Board of Trustees' decision to invest a refund from the State of Michigan in a quasi-endowment, donor gifts and the university's commitment to continued investment in scholarship support through endowments; and a decrease of $26.9 million in other long-term investments due to unfavorable market conditions and the use of investments to eliminate $13.1 million in debt for a line of credit and support capital projects.

Capital Assets

At June 30 2017, the university had $964.7 million invested in capital assets and accumulated depreciation of $413.1 million. Depreciation totaled $25.8 million for the current fiscal year compared to $23.6 million last year. Refer to Note 5 to the financial statements for details regarding capital assets.

The university had a couple of significant projects in progress as of June 30, 2017:

- Grawn Hall Renovation and Expansion ($8.0 million of construction in progress). The $10.8 million project will include a 6,600-square-foot, two-story addition, including a new main entry and multifunctional space for lectures, events and group study. The renovation of the pre-existing 16,200 square feet will update corridors, add fire suppression, replace windows, and include new student service and collaboration spaces.
- Center for Integrated Health Studies ($0.3 million of construction in progress). The $26.5 million project will include about 62,000 square feet of space and will be located in Central's health professions corridor. Students in the center will be part of a patient-centered medical home model, that emphasizes the teamwork needed among all health care professionals.

The university had three significant projects that were in-service and capitalized as of June 30, 2017:

- Biosciences Building was completed in September of 2016 accounting for $81.5 million in capitalized expenditures. This building is the largest capital project ever in CMU's 124 year history. The four-story, 158,000-square-foot building will address escalating student and faculty demand for lab space and dramatically improve the quality and quantity of instructional learning and scientific research space.
- Student Activity Center (SAC) Pool Upgrade was completed and accounted for $2.6 million in capitalized expenditures. The SAC pool upgrade included handicap accessibility, LED lighting, new filtration and chemical treatment system, energy saving mechanical systems, and a new pool deck and shell.
- The turf at Kelly/Shorts Stadium was completed and accounted for $0.6 million in capitalized expenditures. The project included the manufacturing and installation of a new playing surface.

In 2016, capital assets increased $39.5 million due to a net increase of $63.1 million in capitalized construction project costs, land improvements, and equipment less $23.6 million in depreciation.

Endowment Investments

During 2017, endowment investments increased $25.2 million as a result of investment appreciation due to favorable market conditions, the Board of Trustees' previous decision to invest a refund from the State of Michigan in a quasi-endowment and donor gifts. Investment income for 2017 is comprised of a $31.3 million increase in market value within the investment portfolio, $3.2 million of investment income net of financial fees, and $5.7 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, was $4.8 million. This spending distribution was offset by gifts received for endowments of $3.7 million and a change in cash on hand of $0.6 million.

During 2016, endowment investments increased $22.2 million as a result of the Board of Trustees' decision to invest a refund from the State of Michigan in a quasi-endowment, donor gifts and CMU endowment commitment designated for scholarship support, offset by unfavorable market conditions. Investment income for 2016 is comprised of a $15.4 million decrease in market value within the investment portfolio, $3.2 million of investment income net of financial fees, and $4.3 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, was $4.2 million. This spending distribution was offset by gifts received for endowments of $5.6 million and a change in cash on hand of $1.5 million.

DEFERRED OUTFLOWS

During 2017, deferred outflows decreased by $1.5 million due primarily to a $2.1 million change in market value position of hedging derivatives on variable rate debt reducing the deferral of expense, offset by an additional $0.8 million deferral of expense related to changes in the valuation of the university's proportionate share of the Michigan Public School Employee's Retirement System (MPSERS) plan net pension liability. Refer to Note 9 to the financial statements for detail regarding the MPSERS plan.

During 2016, deferred outflows increased by $2.7 million due primarily to the deferral of expense related to changes in the valuation of the university's proportionate share of the Michigan Public School Employee's Retirement System (MPSERS) plan net pension 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 2017, current liabilities decreased $3.2 million. Significant changes in current liabilities occurred in the following areas as of June 30, 2017:

- Accrued wages and benefits increased $0.5 million due to the timing of payroll periods resulting in an additional day accrued.
- Accrued payables to charter schools increased $1.3 million due to increases in state aid.
- Accrued payables to vendors decreased $5.0 million primarily due to a decrease in vendor accruals for building projects as the Biosciences Building project was put in-service.

In 2016, the current liabilities decreased $18.4 million primarily due to accrued wages and benefits decreasing $1.6 million due to the timing of payroll periods, resulting in one less bi-weekly pay accrual; the university paying off $13.1 million in principal on the line of credit that was taken out to complete the Graduate Student Housing project; and the current portion of long-term debt decreasing $3.2 million due to completion payments of $1.8 million for the Series 1990 Capital Appreciation bond, and $0.8 million in 2005 Series Bonds and $0.7 million in 2006 Series Bonds also being paid off.

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 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 2017, noncurrent liabilities decreased $0.2 million. Significant changes in noncurrent liabilities occurred in the following areas as of June 30, 2017:

- Debt service of $5.4 million was recorded on outstanding bond and note principal, and premium amortization.
- Market value of hedging derivatives decreased by $2.2 million.
- Recorded $8.3 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan.

During 2016, noncurrent liabilities increased $26.2 million primarily due to debt service of $8.1 million paid on outstanding bond principal; issuance of $20.75 million in bonds to refinance $23.3 million in bonds previously issued in 2006; and recording $35.5 million in net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPSERS) plan.

DEFERRED INFLOWS

During 2017 and 2016, deferred inflows decreased $1.4 million and $6.6 million, respectively due to 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. 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:

	2017	2016	2015
Invested in capital assets	$ 551.6	$ 545.6	$ 506.1
Debt related to capital assets	(164.2)	(169.6)	(166.1)
Deferred outflow on defeased debt	2.4	2.5	2.4
Net invested in capital assets	389.8	378.5	342.4
Restricted for:			
Nonexpendable	57.0	53.1	48.2
Expendable	53.3	45.5	52.0
Unrestricted	167.7	135.1	161.2
TOTAL NET POSITION	$ 667.8	$ 612.2	$ 603.8

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 $11.3 million in 2017 due primarily to the capitalization of the Biosciences Building project, continued construction on the Grawn Renovation project and a reduction in debt due to annual debt service payments. During 2016, net invested in capital assets increased $36.1 million due primarily to significant construction progress on the Biosciences Building project, the initiation of construction on the Grawn Renovation project and a reduction in debt due to the elimination of the line of credit for the Graduate Student Housing project.

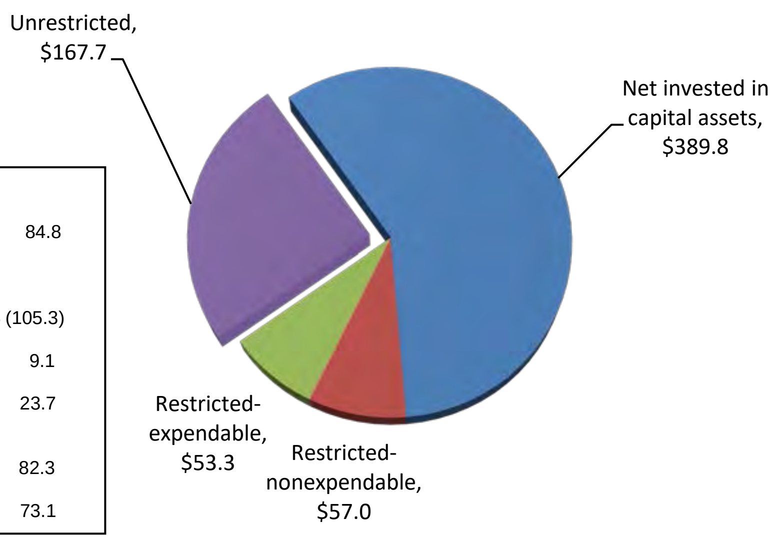
Restricted nonexpendable net position represents the historical value of gifts to the university's permanent endowment funds. Increases in restricted nonexpendable net position are primarily due to additions to permanent endowment funds.

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 2017 restricted expendable net position increased $7.8 million primarily due to an increase in grant funding and favorable market conditions. During 2016 restricted expendable net position decreased $6.5 million primarily due to use of net position to support additional scholarships, fellowships, and research.

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 2017 unrestricted net position increased primarily due 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, favorable market conditions on investments and changes in the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan. During 2016, unrestricted net position decreased primarily due to the recording of the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPSERS) plan.

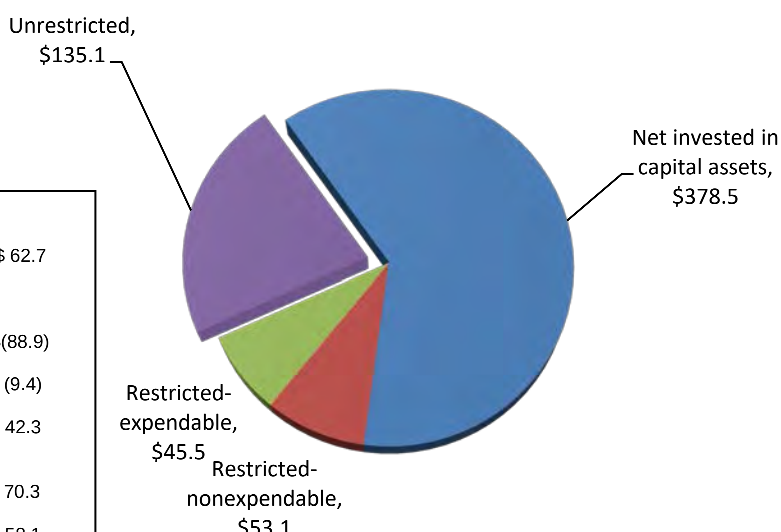
The following is a breakdown of net position at June 30, 2017 (shown in millions).

Unrestricted Net Position	
Capital projects	$ 84.8
Debt stabilization, pension obligation & insurance reserves	$ (105.3)
Unrealized gains (loss)	$ 9.1
Contractual commitments	$ 23.7
Working capital balances for departmental & auxiliary	$ 82.3
Quasi endowment funds	$ 73.1



The following is a breakdown of net position at June 30, 2016 (shown in millions).

Unrestricted Net Position	
Capital projects	$ 62.7
Debt stabilization, pension obligation & insurance reserves	$(88.9)
Unrealized gains (loss)	$ (9.4)
Contractual commitments	$ 42.3
Working capital balances for departmental & auxiliary	$ 70.3
Quasi endowment funds	$ 58.1



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:

	2017	2016	2015
OPERATING REVENUES			
Tuition, net	$ 218.9	$ 221.5	$ 223.6
Grants and contracts	13.0	11.7	12.5
Auxiliary enterprises, net	81.9	81.7	80.6
Other operating revenues	19.7	19.1	19.4
TOTAL OPERATING REVENUES	333.5	334.0	336.1
OPERATING EXPENSES	470.7	445.1	451.9
OPERATING LOSS	(137.2)	(111.1)	(115.8)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	85.1	81.4	80.8
Other nonoperating revenues	86.9	28.6	35.4
Interest on debt	(6.0)	(3.9)	(5.3)
NET NONOPERATING REVENUES	166.0	106.1	110.9
INCOME (LOSS) BEFORE OTHER REVENUES	28.8	(5.0)	(4.9)
OTHER REVENUES			
Capital appropriations	21.2	5.4	
Capital grants and gifts	1.9	2.4	1.6
Additions to permanent endowments	3.7	5.6	4.6
TOTAL OTHER REVENUES	26.8	13.4	6.2
INCREASE IN NET POSITION	55.6	8.4	1.3
NET POSITION			
NET POSITION AT BEGINNING OF YEAR	612.2	603.8	693.9
ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE			(91.4)
NET POSITION AT END OF YEAR	$ 667.8	$ 612.2	$ 603.8

OPERATING REVENUES

Operating revenues for fiscal year ending June 30, 2017 decreased slightly compared to fiscal year 2016. Gross tuition for fiscal years ended June 30, 2017, 2016, and 2015 were $273.6 million, $273.4 million, and $270.0 million, respectively. Scholarship allowances for fiscal years ended June 30, 2017, 2016, and 2015 were $54.7 million, $51.9 million, and $46.4 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 2017, operating revenues decreased $0.5 million. Significant changes in operating revenues occurred in the following areas as of June 30, 2017:

- Tuition before scholarship allowance increased by $0.2 million due to lower enrollment and a modest tuition rate increase, however an increase in scholarship allowances resulted in a decrease in net tuition of $2.6 million.
- Grants and contracts operating revenues increased $1.3 million.

During 2016, tuition before scholarship allowance increased by $3.4 million due to relatively stable enrollment and a modest tuition rate increase, however an increase in scholarship allowances resulted in a decrease in net tuition of $2.1 million. Auxiliary enterprise operating revenues, before room and board discount, increased $3.6 million primarily due to an increase in residence hall occupancy and a modest increase in room and board rates.

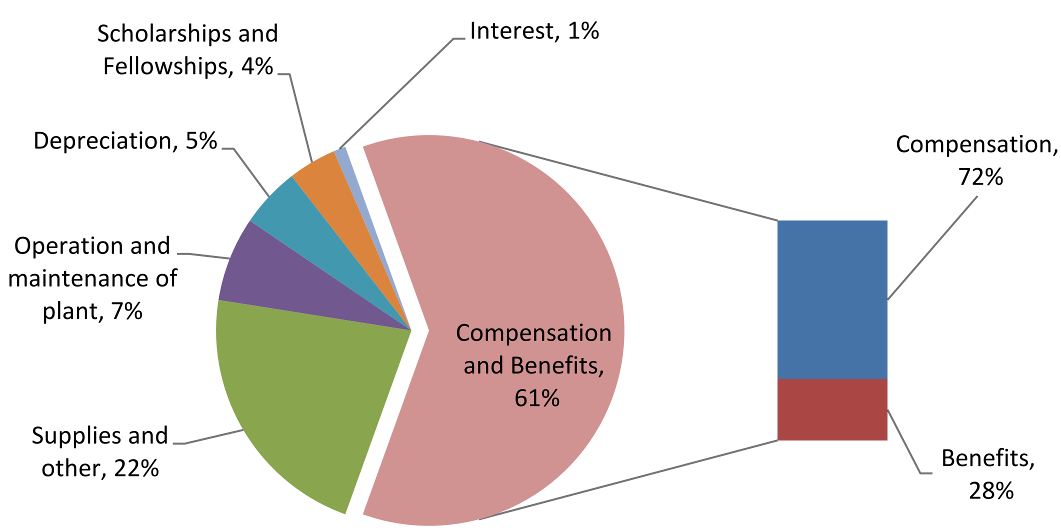
OPERATING EXPENSES

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:

	2017	2016	2015
Operating			
Compensation and benefits	$ 292.2	$ 281.6	$ 277.0
Supplies and other	102.4	97.7	103.1
Operation and maintenance of plant	33.7	25.8	25.6
Depreciation	25.7	23.6	25.9
Scholarships and fellowships	16.7	16.4	20.3
TOTAL OPERATING EXPENSES	470.7	445.1	451.9
Nonoperating			
Interest	6.0	3.9	5.3
TOTAL EXPENSES	$ 476.7	$ 449.0	$ 457.2

A summary of the expenses by natural classification for the year ended June 30, 2017, excluding component unit expenses is as follows:



Significant changes in operating expenses occurred in the following areas as of June 30, 2017:

- Compensation and benefit expenses increased $10.6 million. Of this increase, the university compensation increased 2.9% and benefits increased 5.9% primarily as a result of annual increases, an increase in the number of filled faculty 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.
- Supplies and other increased $4.7 million or 4.8% primarily due to expense recorded for changes in the Michigan Public School Employee’s Retirement System (MPSERS) net pension liability.
- Operation and maintenance of plant expenses increased $7.9 million due primarily to furnishings, equipment and technology expenses related to placing the BioSciences building in service and other maintenance and repair projects completed during the fiscal year.
- Depreciation increased 9.0% primarily due to additional depreciation for the BioSciences building that was placed in service during fiscal year 2017.

During 2016, compensation and benefit expenses increased $4.6 million. Of this increase, the university compensation increased 2.2% and benefits increased 0.4% primarily as a result of annual increases and a slight increase in the number of filled employee positions. Supplies and other decreased $5.4 million or 5.2% primarily due to continued efforts to achieve operational efficiencies and implement additional cost-saving measures. Depreciation decreased 8.9% primarily due to a significant amount of furniture and equipment disposals in fiscal year 2015, which resulted in a reduction of depreciation expense in fiscal year 2016.

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

	2017		2016		2015	
Instruction	$ 153.6	32 %	$ 167.6	37 %	$ 163.2	36 %
Research	13.5	3	13.1	3	11.7	2
Public Service	17.3	4	17.8	4	18.0	4
Academic Support	50.8	11	42.8	9	38.7	9
Student Services	27.5	6	22.6	5	20.8	4
Institutional Support	36.7	8	31.2	7	35.1	8
Scholarships and Fellowships	15.8	3	16.8	4	18.7	4
Operation and Maintenance of Plant	33.7	7	25.8	6	25.6	6
Auxiliary Services	89.9	19	88.0	20	91.8	20
Student Loan Provision, Cancellation			0.9		0.1	
Depreciation	25.7	5	23.6	5	25.9	6
Other	6.2	1	(5.1)	-1	2.3	
Interest Expense	6.0	1	3.9	1	5.3	1
Total Expenses by Function	$ 476.7	100 %	$ 449.0	100 %	$ 457.2	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, 2017:

- Instructional expenses decreased $14.0 million while academic support, student services and institutional support expenses increased $8.0 million, $4.9 million and $5.5 million, respectively. These changes are due primarily to integration of the global campus organization shifting organizational alignment to the academic support, student services and institutional support functions. All four functions also experienced increases in benefit costs.
- Operation and maintenance of plant expenses increased $7.9 million due primarily to furnishings, equipment and technology expenses related to placing the BioSciences building in service and other maintenance and repair projects completed during the fiscal year.

During 2016, research expenses increased $1.3 million primarily due to continued university investment in research support. Academic support expenses increased $4.1 million due to the restructuring of the college of graduate studies creating additional academic support organizations. Student services expenses increased $1.9 million largely due to investment in additional personnel for areas such as the offices of student success, international affairs, and diversity. Institutional support expenses decreased $4.0 million primarily due to the restructuring of the college of graduate studies shifting organizational alignment to academic support and student services functions. Auxiliary Services expenses decreased $3.7 million primarily due to cost containment measures and the closing of two College of Medicine clinics.

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, 2017:

- Gifts and pledges (net of allowance) decreased $2.5 million primarily due to fewer donations towards operating initiatives and capital projects such as the baseball performance center and Grawn Hall renovation.
- Investment income increased $48.1 million due to favorable market conditions.
- Other non-operating revenues increased $14.2 million due 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.

During 2016, gifts and pledges (net of allowance) increased $5.2 million primarily due to donations towards capital projects such as the baseball performance center and Grawn Hall renovation. Investment income decreased $10.5 million due to unfavorable market conditions. Federal Pell grant program decreased $1.5 million due to fewer eligible students.

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 2017 increased $13.4 million primarily due to capital appropriations from the State Building Authority related to the Biosciences Building increasing $15.9 million. Additions to permanent endowments decreased $1.9 million.

During 2016, other revenue increased $7.2 million primarily due to capital appropriations from the State Building Authority related to the Biosciences Building in the amount of $5.4 million. Additions to permanent endowments increased $1.0 million.

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STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present the 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:

	2017	2016	2015
Cash received from operations	$ 330.6	$ 337.0	$ 338.8
Cash expended for operations	(445.4)	(394.0)	(416.6)
NET CASH USED BY OPERATING ACTIVITIES	(114.8)	(57.0)	(77.8)
Net cash provided by noncapital financing activities	121.7	120.7	117.6
Net cash used by capital financing activities	(14.4)	(84.9)	(24.6)
Net cash provided (used) by investing activities	15.6	(3.1)	0.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8.1	(24.3)	15.8
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	31.8	56.1	40.3
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 39.9	$ 31.8	$ 56.1

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 $114.8 million ($57.0 million at June 30, 2016). To offset this, the net cash provided from noncapital financing activities, consisting primarily of state appropriations, was $121.7 million ($120.7 million at June 30, 2016).

Cash used by capital financing activities was $14.4 million ($84.9 million at June 30, 2016), primarily the result of the investment in major capital construction projects offset by capital appropriations received.

Cash provided by investing activities was $15.6 million ($3.1 million used by investment activities at June 30, 2016) due to favorable market conditions.

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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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, 2017 and 2016, 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 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.

To the Board of Trustees
Central Michigan University

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, 2017 and 2016 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the University has a change in reporting entity for reporting a component unit. The Institute for Excellence in Education (IEE) is now presented as a discretely presented component unit; in the prior year it was excluded. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, and schedule of 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 on our consideration of 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 21, 2017

STATEMENTS OF NET POSITION

Central Michigan University

	YEAR ENDED JUNE 30 2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 39,902,801	$ 31,794,336
Accounts and pledges receivable, net	30,671,917	19,008,700
State appropriations receivable, SBA	313,132	5,351,747
State appropriations receivable, operations	15,518,754	14,750,383
State appropriations receivable, Charter Schools	40,234,270	38,938,560
Inventories	5,201,428	5,525,016
Other assets	2,702,490	876,904
TOTAL CURRENT ASSETS	134,544,792	116,245,646
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	250	3
Pledges receivable, net	3,411,110	
Endowment investments	156,167,451	130,956,607
Other long-term investments	202,665,895	203,309,735
Capital assets, net	551,551,483	545,596,418
TOTAL NONCURRENT ASSETS	913,796,189	879,862,763
TOTAL ASSETS	1,048,340,981	996,108,409
DEFERRED OUTFLOWS		
Deferred Outflows of Resources	19,114,472	20,568,754
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	69,047,585	72,191,763
Unearned revenue	12,107,278	12,370,444
Deposits	2,523,615	2,780,129
Current portion of long-term debt and other obligations	6,287,628	5,873,098
TOTAL CURRENT LIABILITIES	89,966,106	93,215,434
NONCURRENT LIABILITIES:		
Long-term debt, hedging instruments, and other obligations	171,453,563	179,957,909
Net Pension Liability	137,188,658	128,881,423
TOTAL NONCURRENT LIABILITIES	308,642,221	308,839,332
TOTAL LIABILITIES	398,608,327	402,054,766
DEFERRED INFLOWS		
Deferred Inflows of Resources	1,016,886	2,419,577
NET POSITION		
Net investment in capital assets	389,766,116	378,536,413
Restricted for:		
Nonexpendable		
Scholarships, fellowships and research	57,008,198	53,090,283
Expendable		
Scholarships, fellowships and research	30,659,252	25,896,923
Instructional department uses	17,922,748	13,668,440
Capital projects	4,724,383	5,910,761
Unrestricted	167,749,543	135,100,000
TOTAL NET POSITION	$ 667,830,240	$ 612,202,820

See notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Central Michigan University

	YEAR ENDED JUNE 30 2017	YEAR ENDED JUNE 30 2016
REVENUES		
OPERATING REVENUES:		
Tuition	$ 273,578,258	$ 273,373,822
Less: Scholarship allowances	54,715,671	51,899,421
Net tuition	218,862,587	221,474,401
Federal grants and contracts	7,513,164	6,879,248
State and local grants and contracts	1,795,905	1,421,011
Nongovernmental grants and contracts	3,657,170	3,421,641
Sales and services of educational activities	19,764,931	19,109,092
Auxiliary enterprises (net of room & board allowances of $11,206,824 in 2017 and $10,630,002 in 2016)	81,883,130	81,720,240
TOTAL OPERATING REVENUES	333,476,887	334,025,633
EXPENSES		
OPERATING EXPENSES:		
Compensation:		
Faculty	104,030,504	100,991,808
Staff	91,336,909	88,061,892
Benefits	81,073,526	76,570,456
Student	15,727,347	15,992,959
Scholarships and fellowships	16,656,623	16,349,483
Utilities	8,160,787	9,110,710
Supplies and other	94,246,901	88,599,276
Operation and maintenance of plant expenses	33,701,181	25,770,083
Depreciation	25,756,326	23,627,065
TOTAL OPERATING EXPENSES	470,690,104	445,073,732
OPERATING LOSS	(137,213,217)	(111,048,099)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	85,117,246	81,466,520
Gifts and pledges (net of allowance)	7,078,577	9,559,115
Investment income (net of investment expense)	40,207,725	(7,886,974)
Interest on capital assets related debt	(6,062,704)	(3,935,628)
Federal Pell grant program	25,479,834	26,866,147
Other nonoperating revenues	14,192,309	35,312
NET NONOPERATING REVENUES (EXPENSES)	166,012,987	106,104,492
INCOME (LOSS) BEFORE OTHER REVENUES	28,799,770	(4,943,607)
OTHER REVENUES		
Capital appropriations	21,236,908	5,351,747
Capital grants and gifts	1,864,896	2,433,529
Additions to permanent endowments	3,725,846	5,602,773
TOTAL OTHER REVENUES	26,827,650	13,388,049
INCREASE IN NET POSITION	55,627,420	8,444,442
NET POSITION		
NET POSITION AT BEGINNING OF YEAR	612,202,820	603,758,378
NET POSITION AT END OF YEAR	$ 667,830,240	$ 612,202,820

See notes to the financial statements.

STATEMENTS OF CASH FLOWS – DIRECT METHOD

Central Michigan University

	YEAR ENDED JUNE 30	
	2017	**2016**
CASH FLOW FROM OPERATING ACTIVITIES		
Tuition	$ 216,300,104	$ 221,949,220
Grants and contracts	12,184,551	11,928,933
Payments to suppliers	(126,551,897)	(117,479,911)
Payments for utilities	(8,160,788)	(9,110,710)
Payments to employees	(210,650,678)	(206,640,113)
Payments for benefits	(81,257,240)	(77,170,820)
Payments for scholarships and fellowships	(16,656,623)	(16,349,483)
Loans to students	(156,145)	1,014,077
Auxiliary activities	82,485,013	82,499,777
Sales and services of educational activities	19,689,589	19,163,161
Other receipts	(2,012,892)	418,285
MPSERS Pension Refund		32,728,364
NET CASH USED BY OPERATING ACTIVITIES	(114,787,006)	(57,049,220)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	84,521,523	81,100,686
William D. Ford PLUS direct lending receipts	129,830,779	134,144,068
William D. Ford PLUS direct lending disbursements	(129,830,779)	(134,144,068)
Federal Pell grant program	25,479,834	26,866,147
Other nonoperating revenue	28,804	35,312
Gifts for other than capital purposes	7,938,792	7,118,619
Gifts for endowment purposes	3,725,846	5,602,773
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	121,694,799	120,723,537
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt		270,708
Capital appropriations	26,275,523	
Capital grants and gifts received	2,582,529	3,714,895
Purchases of capital assets	(31,970,858)	(63,261,314)
Principal paid on capital debt and leases	(4,820,000)	(21,330,000)
Interest paid on capital debt and leases	(6,517,343)	(4,282,024)
Insurance proceeds	10,348	3,954
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(14,439,801)	(84,883,781)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	752,851,965	799,792,522
Income on investments, net	8,881,358	7,541,458
Purchase of investments	(746,092,603)	(810,477,053)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	15,640,720	(3,143,073)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,108,712	(24,352,537)
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	31,794,339	56,146,876
CASH AND CASH EQUIVALENTS-END OF THE YEAR	$ 39,903,051	$ 31,794,339

See notes to the financial statements.

STATEMENTS OF CASH FLOWS – DIRECT METHOD
Central Michigan University

	YEAR ENDED JUNE 30	
	2017	**2016**
RECONCILIATION OF NET OPERATING REVENUES		
(EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (137,213,217)	$ (111,048,099)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense and loss on disposal of capital assets	26,015,793	23,742,738
Change in assets, liabilities and deferred resources:		
Receivables, net	(3,794,727)	2,576,807
Inventories	323,588	1,812,443
Other assets	(1,825,586)	(178,369)
Accounts payable, accrued liabilities and deposits	(3,400,692)	(1,583,393)
Unearned revenue	(263,166)	(612,229)
Retirement service award program	(250,154)	(874,851)
Compensated absences	838	256,024
Other obligations	(110,734)	207,372
Loans to students	(156,145)	1,014,077
Net pension liability	8,307,235	35,515,457
Deferred resources - pension	(2,420,039)	(7,877,197)
NET CASH USED BY OPERATING ACTIVITIES	$ (114,787,006)	$ (57,049,220)

See notes to the financial statements.

STATEMENTS OF NET ASSETS

Central Health Advancement Solutions

		YEAR ENDED JUNE 30	
		2017	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$	3,540,114 $	3,432,850
Patient accounts receivable, less allowance for doubtful accounts of $265,012 in 2017 and $215,571 in 2016		1,088,016	1,453,713
Other receivables		935,425	536,309
Prepaid expenses and other assets		643,582	755,624
TOTAL CURRENT ASSETS		6,207,137	6,178,496
ASSETS WHOSE USE IS LIMITED:			
By the Board of Trustees		121,735	148,280
Under professional liability funding arrangement-held by the trustee		700,336	629,842
TOTAL ASSETS WHOSE USE IS LIMITED:		822,071	778,122
Medical education funding receivables, less allowance of $1,038,544 in 2017 and $1,397,291 in 2016		518,695	518,695
Leasehold improvements, furniture, and equipment, net		1,771,529	1,423,709
TOTAL ASSETS	$	9,319,432 $	8,899,022
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	$	452,925 $	787,943
Other accrued liabilities		34,026	34,026
Payroll and related liabilities		1,496,863	1,205,335
TOTAL CURRENT LIABILITIES		1,983,814	2,027,304
Estimated professional liability under self-insurance		75,900	163,892
Unearned revenue			9,959
Payable to CMU		270,556	84,957
TOTAL LIABLITIES		2,330,270	2,286,112
NET ASSETS			
Unrestricted			
Undesignated		6,989,162	6,593,625
Temporarily restricted			19,285
TOTAL NET ASSETS		6,989,162	6,612,910
TOTAL LIABLITIES AND NET ASSETS	$	9,319,432 $	8,899,022

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 2017	2016
UNRESTRICTED REVENUES AND OTHER SUPPORT		
Member hospitals	$ 16,075,308	$ 15,492,619
Net patient service revenue	11,408,467	9,674,146
Interest income	90	363
Professional liability fund	28,682	13,562
Contracts and other revenue	8,531,210	7,482,410
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	36,043,757	32,663,100
OPERATING EXPENSES		
Salaries, wages, and payroll taxes	22,824,783	20,835,945
Employee benefits	4,425,495	3,114,883
Recruiting	453,858	284,431
Facility and equipment	1,496,426	1,457,804
Consumable supplies	617,883	500,796
Educational supplies and services	544,722	528,257
Consulting and contractual services	2,170,606	2,370,705
Communications	291,857	198,683
Educational conferences and travel	721,348	680,732
Grant expenses	556,443	470,511
Other expenses	132,015	120,342
Contribution to CMU Endowment		1,000,000
Professional liability insurance expense	654,430	689,829
Depreciation	319,926	258,828
Provision for bad debts	473,504	354,936
Professional liability expense	28,535	10,031
TOTAL OPERATING EXPENSES	35,711,831	32,876,713
Unrestricted revenues and other support over (under) operating expenses	331,926	(213,613)
Net unrealized gain (loss) on investments whose use is limited	44,326	(7,088)
Net assets released from restrictions	19,285	
Increase (decrease) in unrestricted net assets	395,537	(220,701)
NET ASSETS		
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	6,593,625	6,814,326
UNRESTRICTED NET ASSETS AT END OF YEAR	6,989,162	6,593,625
TEMPORARILY RESTRICTED NET ASSETS		19,285
NET ASSETS AT END OF YEAR	$ 6,989,162	$ 6,612,910

STATEMENTS OF NET ASSETS

The Institute for Excellence in Education

	YEAR ENDED JUNE 30 2017	2016
ASSETS		
CURRENT ASSETS:		
Cash	$ 376,544	$ 312,611
Accounts receivable, net allowance	614,450	869,738
Accounts receivable - related party		
Central Michigan University	90,910	90,910
The Center for Charter Schools	16,150	22,950
Inventory	31,222	16,598
Prepaid expenses	110,128	94,529
TOTAL CURRENT ASSETS	1,239,404	1,407,336
Property and equipment, net	61,894	75,544
Intangible assets, net	1,886,497	1,806,185
Goodwill, net	822,265	959,309
TOTAL ASSETS	$ 4,010,060	$ 4,248,374
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 302,403	$ 201,877
Note payable, current portion	133,861	127,740
Accrued liabilities	325,820	280,071
Compensated absences	99,117	77,376
Unearned revenue	92,521	123,439
TOTAL CURRENT LIABILITIES	953,722	810,503
Note payable, net of current portion	583,572	716,177
TOTAL LIABLITIES	1,537,294	1,526,680
NET ASSETS		
Unrestricted	2,472,766	2,721,694
TOTAL NET ASSETS	2,472,766	2,721,694
TOTAL LIABLITIES AND NET ASSETS	$ 4,010,060	$ 4,248,374

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 2017	2016
OPERATING REVENUE AND OTHER SUPPORT		
State Appropriations - related party		
Central Michigan University	$ 500,000	$ 500,000
Service Revenue	5,248,242	5,515,218
Contributions	303,551	354,600
Book revenue, net of cost of goods sold	4,424	4,110
Other revenue	6,341	2,149
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	6,062,558	6,376,077
OPERATING EXPENSES		
Compensation	3,735,028	3,503,614
Benefits	589,546	485,862
Interest	39,893	47,678
Occupancy	93,140	90,341
Services and fees	216,459	139,646
Supplies and other	206,736	218,231
Telephone	23,630	29,905
Marketing	95,300	54,191
Travel	549,164	507,291
Bad Debt		4,550
Loss on disposal of property and equipment	3,521	9,738
TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	5,552,417	5,091,047
CHANGE IN NET ASSETS FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION	510,141	1,285,030
Depreciation	23,549	24,395
Amoritization	735,520	620,663
CHANGE IN NET ASSETS	(248,928)	639,972
NET ASSETS		
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	2,721,694	2,081,722
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 2,472,766	$ 2,721,694

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 to be 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 by the Board of Directors of the corporation to be appropriate. 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 20 and 21 for CHAS financial statements). The June 30, 2017 audited financial statements for CHAS can be found at: www.cmich.edu

- The CMU College of Business Administration Foundation (CBAF) is a Michigan nonprofit corporation established January 28, 2011 and is 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 is organized and to be operated is 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 is blended into the university's financial statements because CBAF provides services entirely to the university and it is not significant.

  During fiscal year 2017 it was determined that given the modest gifts, grants and contributions received, the CBAF has 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 will be completed in fiscal year 2018 once a response is received from the Michigan Department of the Attorney General.

  Audited financial statements for CBAF for years prior to fiscal year 2017 can be found at: www.cmich.edu.

Condensed financial information for CBAF is provided below:

CMU College of Business Administration Foundation (CBAF)

Condensed Statements of Net Assets

	YEAR ENDED JUNE 30 2017	2016
ASSETS		
Other assets	$ 477,840	$ 198,302
Investments		372,396
TOTAL ASSETS	477,840	570,698
LIABILITIES		
Other liabilities	553	420
TOTAL LIABILITIES	553	420
NET ASSETS		
Unrestricted	477,287	381,127
Temporarily restricted		189,151
TOTAL NET ASSETS	$ 477,287	$ 570,278

CBAF Condensed Statements of Revenues, Expenses and Changes in Net Assets

	YEAR ENDED JUNE 30 2017	2016
OPERATING EXPENSES		
Supplies and other	$ 24,174	$ 19,926
TOTAL OPERATING EXPENSES	24,174	19,926
OPERATING LOSS	(24,174)	(19,926)
NONOPERATING REVENUES		
Gifts	18,134	14,974
Investment income	51,100	2,728
TOTAL NONOPERATING REVENUES	69,234	17,702
OTHER REVENUES		
Capital grants and gifts		11,424
TOTAL OTHER REVENUES		11,424
TRANSFERS		
Transfers to the University	(138,051)	(60,000)
TOTAL TRANSFERS	(138,051)	(60,000)
DECREASE IN NET ASSETS	(92,991)	(50,800)
NET ASSETS		
NET ASSETS AT BEGINNING OF PERIOD	570,278	621,078
NET ASSETS AT END OF PERIOD	$ 477,287	$ 570,278

CBAF Condensed Statements of Cash Flows

	YEAR ENDED JUNE 30 2017	2016
Net Cash Provided by Noncapital Financing Activities	$ 53,894	$ 84,076
Net Cash Used by Capital Financing Activities		(50,000)
Net Cash Provided (Used) by Investing Activities	413,695	(28,427)
Net Increase (Decrease) in Cash and Cash Equivalents	467,589	5,649
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	10,251	4,602
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 477,840	$ 10,251

- The CMU Foundation (Foundation) is a Michigan nonprofit corporation established during fiscal year 1998. The purpose for which the corporation is organized and to be 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, 2017 and 2016. In accordance with the provisions of GASB Statement No. 61, the Foundation is blended into the university's financial statements because the Foundation provides services entirely to the university. There was no activity to be reported for the years 2017 and 2016.

- 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 2017 is the sixteenth year of the commitment. At June 30, 2017, and 2016, the net assets of CMURC were $1,665,380 and $1,598,037, 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 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 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, 2017, and 2016.

  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 of June 30, 2017, IEE has been determined to be a significant discretely presented component unit due to the continued growth of IEE. As a result, IEE is now shown discretely presented at June 30, 2017 (refer to pages 22 and 23 for IEE financial statements); in prior years IEE was excluded.

- 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.

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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:

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

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 and 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 $75 thousand at June 30, 2017, $165 thousand at June 30, 2016 and is included in the member hospital and malpractice fund liability. Additionally, CHAS has malpractice funding held by trustee of approximately $700 thousand at June 30, 2017 and $630 thousand at June 30, 2016.

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 so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 liability for the Michigan Public School Employee's Retirement System (MPSERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of $5,877,946 at June 30, 2017, and $8,031,567 at June 30, 2016. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at $1,140,654 and $1,215,451, net of amortization, at June 30, 2017 and 2016, respectively; Series 2005 valued at $1,014,507 and $1,073,319, net of amortization, at June 30, 2017 and 2016 respectively; and Series 2006 valued at $214,473 and $226,224, net of amortization, at June 30, 2017 and 2016. The value of the deferred outflows related to the MPSERS plan was $10,866,892 and $10,022,193 as of June 30, 2017 and 2016. 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 so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of deferred resources related to the university's proportionate share of the net pension liability for the Michigan Public School Employee's Retirement System (MPSERS) plan. See Note 9 for additional information on deferred inflows related to the MPSERS plan. Deferred inflows of resources at June 30, 2017 include $1,016,886 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date. Deferred inflows of resources at June 30, 2016 include $844,238 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date and $1,575,339 related to changes to the pension plan described in Note 9.

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 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, 2017 and June 30, 2016 include Medicare (16.5% and 23.1%), Blue Cross (8.6% and 10.2%), Medicaid (28.0% and 25.1%) and other commercial insurers and self-pay (46.9% and 41.6%), 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 allowance for doubtful accounts of $1,303,556 at June 30, 2017 and $1,612,862 at June 30, 2016.

Donor Restricted Endowments

Under Michigan law set forth in the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan in 2009 ("UPMIFA."), 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 and 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.

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 securities deemed prudent by the investment managers. The weighted average credit quality is to be no less than AAA for the short-term investment pool accounts, AA for the intermediate-term investment pool accounts and A for the long-term investment pool accounts. The weighted average credit quality is to be no less than B for the non-investment grade long-term investment pool accounts. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be A for the short-term investment pool accounts and BBB for the intermediate-term and long-term investment pool accounts.

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 2017. 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 $26,060,369 at June 30, 2017, and $19,389,689 at June 30, 2016. The net appreciation is a component of restricted, expendable net positions. The yields of the endowment investments were as follows:

	June 30	
	2017	2016
Interest and Dividends	0.7 %	0.9 %
Net Realized and Unrealized Gains	12.4 %	(5.1) %
Total Return	13.1 %	(4.2) %

The university and CBAF, a blended component unit, had the following investments:

	Fair Market Value June 30	
	2017	2016
Investments:		
Bonds (Including Bonds, Mutual Funds, & ETFs)	$ 93,367,782	$ 95,567,789
Equities (Including Equities, Mutual Funds, & ETFs)	211,682,382	193,915,802
Real Estate	19,942	42,587
Life Insurance Policies	358,786	388,332
Alternative Investments	47,318,425	38,789,880
Cash Equivalents-Endowments	6,086,279	5,561,955
Cash Equivalents	25,248,682	2,871,090
Cash Deposits	14,654,119	28,923,246
Total Investments	$ 398,736,397	$ 366,060,681
As Reported on the Statements of Net Position		
Current Investments:		
Cash and Cash Equivalents	$ 39,902,801	$ 31,794,336
Noncurrent Investments:		
Restricted Cash and Cash Equivalents	250	3
Endowment Investments	156,167,451	130,956,607
Other Long-Term Investments	202,665,895	203,309,735
Total Noncurrent Investments	358,833,596	334,266,345
Total Investments	$ 398,736,397	$ 366,060,681

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 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, 2017, the university only had holdings in the GovMIC daily liquidity fund of the MILAF portfolio.

Credit Risk

The university's investment policy requires that all bond investments have a Standard and Poor's or a Moody's Investors Service rating of A or better. The debt investments held by the university as of June 30, 2017, that mature by June 30, 2018, were rated by Moody's with ratings of A, AA, and A+.

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, 2017 and 2016 are as follows:

June 30, 2017
Fixed Income Investment Maturities

Investment Type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
US Treasury Index	$ 11,667	$ 3,150,519	$ 1,944,528		$ 5,106,714
Core Fixed Income	1,336,309	8,431,132	4,678,417	$ 3,371,808	17,817,666
Short Duration Fixed Income	2,729,581	9,451,741	9,753		12,191,075
TIPS	1,008,239	3,136,743	4,705,113	2,352,557	11,202,652
Global Multi-Sector Fixed Income	6,268,907	8,630,920	7,988,525	1,606,174	24,494,526
Absolute Return Fixed Income	1,808,923	8,295,784	9,071,681	3,378,761	22,555,149
Total	$ 13,163,626	$ 41,096,839	$ 28,398,017	$ 10,709,300	$ 93,367,782

June 30, 2016
Fixed Income Investment Maturities

Investment Type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
US Treasury Index	$ 23,811	$ 3,134,998	$ 2,008,066		$ 5,166,875
Core Fixed Income	2,023,357	8,713,133	4,572,891	$ 3,431,119	18,740,500
Short Duration Fixed Income	2,114,351	10,006,149	7,282	9,710	12,137,492
TIPS	2,337,192	3,227,550	2,337,192	3,227,550	11,129,484
Global Multi-Sector Fixed Income	7,038,547	9,216,110	5,399,317	2,384,123	24,038,097
Absolute Return Fixed Income	9,381,678	7,416,201	6,388,406	1,169,056	24,355,341
Total	$ 22,918,936	$ 41,714,141	$ 20,713,154	$ 10,221,558	$ 95,567,789

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, 2017, or June 30, 2016.

Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2017 and June 30, 2016, 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 $14,654,119 at June 30, 2017, and $28,923,246 at June 30, 2016. The deposits were reflected in the accounts of the banks at $17,927,624 at June 30, 2017, and $36,706,011 at June 30, 2016. Of the bank balance, $17,177,624 at June 30, 2017, and $35,956,011 at June 30, 2016, 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 $168.5 million at June 30, 2017, and $122.5 million at June 30, 2016, 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 $2,498,757 at June 30, 2017, and $2,024,756 at June 30, 2016.

During the fiscal year, the university received approximately $232,866,000 ($223,896,000 in fiscal year 2016) of state appropriations, which were forwarded to sixty-two charter schools.

	June 30	
	2017	2016
Tuition, Room and Board	$ 5,359,931	$ 3,190,687
Contracts and Grants	2,413,671	2,040,738
Sales and Services	17,637,327	3,461,534
Insurance Proceeds	9,402	5,989
Pledges	6,751,570	8,329,419
Agency Activities	1,911,126	1,980,333
Total	34,083,027	19,008,700
State Appropriations-SBA	313,132	5,351,747
State Appropriations-Operations	15,518,754	14,750,383
State Appropriations-Charter Schools	40,234,270	38,938,560
Total Receivable	$ 90,149,183	$ 78,049,390

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. Certain pledges are recorded at present value calculated using a discount rate of the average interest rate for bonded debt of 3.90% at June, 2017 and 3.89% at June 30, 2016. The present value of pledges outstanding is $6,751,570 at June 30, 2017 and $8,329,419 at June 30, 2016.

Payments on pledged receivables at June 30, 2017 are expected to be received in the following fiscal years:

2018	$ 3,340,460
2019 and after	3,411,110
	$ 6,751,570

NOTE 5--CAPITAL ASSETS

Capital assets, net of depreciation, consist of the following as of June 30, 2017:

	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017
Non-depreciated capital assets:				
Land	$ 12,943,827		$ 16,228	$ 12,927,599
Capitalized Collections	764,766		60,601	704,165
Construction In Progress	87,946,027	$ 3,698,710	75,546,168	16,098,569
Total non-depreciated capital assets	101,654,620	3,698,710	75,622,997	29,730,333
Depreciated capital assets:				
Land Improvements	28,830,311	3,425,245		32,255,556
Infrastructure	20,825,562	1,530,144		22,355,706
Buildings	667,802,267	93,894,256		761,696,523
Leasehold Improvements	346,256			346,256
Furniture and Equipment	81,066,544	4,347,716	2,625,020	82,789,240
Library Materials	45,402,189	620,955	11,451,907	34,571,237
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	23,346,268	1,453,967		24,800,235
Infrastructure	9,980,163	1,042,275		11,022,438
Buildings	267,386,172	16,923,096		284,309,268
Leasehold Improvements	97,847	25,050		122,897
Furniture and Equipment	58,580,019	5,248,200	2,442,382	61,385,837
Library Materials	41,073,606	1,055,958	11,451,907	30,677,657
Intangible Assets	791,962	7,780		799,742
Total depreciated capital assets	443,941,798	78,061,990	182,638	521,821,150
Capital Assets, Net	$ 545,596,418	$ 81,760,700	$ 75,805,635	$ 551,551,483

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Capital assets, net of depreciation, consist of the following as of June 30, 2016:

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016
Non-depreciated capital assets:				
Land	$ 12,943,827			$ 12,943,827
Capitalized Collections	780,446	$	$ 15,680	764,766
Construction In Progress	46,949,991	47,690,844	6,694,808	87,946,027
Total non-depreciated capital assets	60,674,264	47,690,844	6,710,488	101,654,620
Depreciated capital assets:				
Land Improvements	25,055,179	3,775,132		28,830,311
Infrastructure	19,415,842	1,409,720		20,825,562
Buildings	656,128,116	11,674,151		667,802,267
Leasehold Improvements	95,759	250,497		346,256
Furniture and Equipment	78,681,232	4,125,286	1,739,974	81,066,544
Library Materials	46,614,917	1,030,492	2,243,220	45,402,189
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	22,161,362	1,184,906		23,346,268
Infrastructure	9,018,789	961,374		9,980,163
Buildings	252,252,328	15,133,844		267,386,172
Leasehold Improvements	86,981	10,866		97,847
Furniture and Equipment	54,993,074	5,226,926	1,639,981	58,580,019
Library Materials	42,215,457	1,101,369	2,243,220	41,073,606
Intangible Assets	784,182	7,780		791,962
Total depreciated capital assets	445,403,578	(1,361,787)	99,993	443,941,798
Capital Assets, Net	$ 506,077,842	$ 46,329,057	$ 6,810,481	$ 545,596,418

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, 2017 primarily consists of the construction costs for Grawn renovation of $8.0 million, Theunissen Stadium Baseball Performance Enhancement Center of $2.0 million, capitalized interest of $0.6 million, Powers domestic water replacement of $0.6 million, Health Professions Anatomy Lab HVAC of $0.4 million and other projects including maintenance and remodeling of approximately $4.5 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 $55.9 million as of June 30, 2017 ($53.6 million as of June 30, 2016).

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Health Professions Building, and Education Building. The university is in negotiations for a similar lease related to the Biosciences 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.

	2017	2016
University Wages and Benefits	$ 8,783,227	$ 8,273,543
University Supplies	20,029,535	24,979,240
Charter Schools	40,234,270	38,938,560
Total University	69,047,032	72,191,343
CBAF Other	553	420
Total	$ 69,047,585	$ 72,191,763

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, 2017:

	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	$ 22,140,000		$ 350,000	$ 21,790,000	$ 480,000
Series 2009A Series Bonds	23,825,000		1,670,000	22,155,000	1,760,000
Series 2009A Unamortized Premium	1,763,000		172,000	1,591,000	172,000
Series 2012A Series Bonds	23,015,000		560,000	22,455,000	705,000
Series 2014:					
Series Bonds	44,665,000		1,490,000	43,175,000	1,540,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	7,684,000		272,000	7,412,000	272,000
Series 2016 Series Bonds	20,750,000		650,000	20,100,000	685,000
Series 2016 Unamortized Premium	3,003,000		156,000	2,847,000	156,000
Total Long-Term Debt	168,950,000		5,320,000	163,630,000	5,770,000
Other Obligations:					
Note Payable	625,000		100,000	525,000	100,000
Hedging Instruments	8,031,567		2,153,621	5,877,946	
Compensated Absences	5,688,867	$ 838		5,689,705	57,595
Federal Portion of Perkins Loan Program	156,145		156,145		
Retirement Service Programs	2,172,056		250,154	1,921,902	278,917
Other Obligations	207,372	66,358	177,092	96,638	81,116
Total	$ 185,831,007	$ 67,196	$ 8,157,012	$ 177,741,191	$ 6,287,628

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Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2016:

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Current Portion
General Revenue Bonds:					
Series 1990 Capital Appreciation	$ 1,787,072	$ 32,928	$ 1,820,000		
Series Bonds	825,000		825,000		
Term Bonds					
Series 2006:					
Series Bonds	6,730,000		6,730,000		
Term Bonds	17,325,000		17,325,000		
Series 2008A Series Bonds	25,310,000		3,170,000	$ 22,140,000	$ 350,000
Series 2009A Series Bonds	25,410,000		1,585,000	23,825,000	1,670,000
Series 2009A Unamortized Premium	1,935,000		172,000	1,763,000	172,000
Series 2012A Series Bonds	23,015,000			23,015,000	560,000
Series 2014:					
Series Bonds	44,665,000			44,665,000	1,490,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	7,956,000		272,000	7,684,000	272,000
Series 2016 Series Bonds		20,750,000		20,750,000	650,000
Series 2016 Unamortized Premium		3,077,805	74,805	3,003,000	156,000
Total Long-Term Debt	177,063,072	23,860,733	31,973,805	168,950,000	5,320,000
Other Obligations:					
Note Payable	725,000		100,000	625,000	100,000
Line of Credit	13,100,000		13,100,000		
Hedging Instruments	6,738,707	1,292,860		8,031,567	
Compensated Absences	5,432,843	256,024		5,688,867	86,546
Federal Portion of Perkins Loan Program	5,256,797		5,100,652	156,145	156,145
Retirement Service Programs	3,046,907		874,851	2,172,056	66,741
Other Obligations		207,372		207,372	143,666
Total	$ 211,363,326	$ 25,616,989	$ 51,149,308	$ 185,831,007	$ 5,873,098

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 year 2017 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 2017 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 2.00% and 3.75% and mature in fiscal year 2017 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 2017 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 2017 through 2033. Proceeds from this issuance were $43,025,000 of principal. The proceeds from the sale of the bonds were used to retire the 2002 Select Auction Variable Rate Securities (SAVRS) Series A and B bonds. The university retained the related swaps, and these swaps are now designated as a hedge against the General Revenue Bonds, Series 2008A as a means to fix the variable rate bond, and minimize long-term interest rate risk.

On January 1, 2006, the university issued $28,915,000 in General Revenue Bonds, Series 2006. Bonds issued in January 2006 were refunded by the General Revenue Refunding Bonds, Series 2016 issued in January 2016.

On January 1, 2005, the university issued $31,820,000 in General Revenue Bonds, Series 2005. The General Revenue Bonds issued in January 2005 were refunded by the General Revenue and Refunding Bonds, Series 2014 issued in October 2014, except for one final payment made on October 1, 2015. The bonds matured in fiscal year 2016.

General Revenue Bond Series 1990 are capital appreciation bonds. The bonds matured in fiscal year 2016.

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, 2017 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
2018	$ 5,170,000	$ 5,896,965	$ 1,053,457	$ 12,120,422
2019	5,360,000	5,746,311	1,042,169	12,148,480
2020	5,365,000	5,528,134	1,033,193	11,926,327
2021	5,860,000	5,285,606	1,020,431	12,166,037
2022	5,990,000	5,028,485	1,007,819	12,026,304
2023-2027	35,010,000	20,933,921	4,743,481	60,687,402
2028-2032	45,160,000	13,417,108	2,964,217	61,541,325
2033-2037	25,395,000	6,152,052	77,931	31,624,983
2038-2042	10,805,000	2,748,125		13,553,125
2043-2045	7,665,000	467,900		8,132,900
Total	151,780,000	$ 71,204,607	$ 12,942,698	$ 235,927,305
Unamortized Premium	11,850,000			
	$ 163,630,000			

HEDGING INSTRUMENTS

The university has one pay-fixed, receive-variable, interest rate swap at June 30, 2017. 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 the March 2002 swap, the university pays the counterparty a fixed payment of 4.44% and receives a variable payment of 67% of the London Interbank Offered Rate (LIBOR) (0.49547% at June 30, 2017). 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, 2017, the swap agreement had a notional amount of $21,650,000 and was in a negative position of $5,877,946. 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 a decrease to deferred outflows of $2,153,621 for fiscal year 2017. The accumulated change in fair value of ($5,877,946) and ($8,031,567) is recorded in deferred outflows at June 30, 2017 and 2016, 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, 2017, 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, 2017, the derivative counterparty is currently 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 increase (decrease). 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 swaps 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, 2017, 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.

Letter of Credit

In June 2016, the university extended a stand by letter of credit agreement, dated May 1, 2008, as amended by a First Amendment agreement dated August 1, 2010 and a Second Amendment agreement dated June 28, 2013, in the amount of outstanding bond principal plus 35 days interest equal to $21,946,709 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 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. During fiscal year 2016, the university liquidated its Federal Perkins loan program.

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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, 2017:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Fair Market Measurements Using: 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	$ 22,137,769	$ 22,137,769		
Domestic intermediate duration	4,823,389	4,464,603		$ 358,786
Global and unconstrained duration	37,865,500	37,865,500		
Total debt securities	64,826,658	64,467,872		358,786
Equity securities				
Domestic	70,113,488	70,113,488		
Global	344,933	344,933		
Total equity securities	70,458,421	70,458,421		
Real asset funds				
Domestic	19,943	19,943		
Total real asset funds	19,943	19,943		
Alternative Strategies				
Multi-asset class funds	33,374,793	33,374,793		
Total alternative strategies	33,374,793	33,374,793		
Total investments by fair value level	$ 168,679,815	$ 168,321,029	$	$ 358,786
Investments measured at the net asset value (NAV)				
Debt Securities - domestic/global	17,817,666			
Equity securities - domestic/global	103,445,706			
Private investments - domestic/global	8,766,832			
Equity long/short hedge funds	12,647,798			
Event-driven hedge funds	1,877,981			
Multi-strategy hedge funds	18,169,654			
Multi-asset class funds	15,606,115			
Real asset funds	5,856,160			
Total investments measured at the NAV	184,187,912			
Total investments measured at fair value	$ 352,867,727			
Hedging derivative instruments				
Interest rate swaps - effective	$ (5,877,946)		$ (5,877,946)	
Total hedging derivatives	$ (5,877,946)		$ (5,877,946)	

The university has the following recurring fair value measurements as of June 30, 2016:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Market Measurements Using: 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	$ 16,020,902	$ 16,020,902		
Domestic intermediate duration	20,509,131	4,385,784	$ 15,735,015	$ 388,332
Global and unconstrained duration	48,393,439	48,393,439		
Total debt securities	84,923,472	68,800,125	15,735,015	388,332
Equity securities				
Domestic	70,622,203	70,622,203		
Global	9,090,478	9,090,478		
Total equity securities	79,712,681	79,712,681		
Real asset funds				
Domestic	42,587	42,587		
Total real asset funds	42,587	42,587		
Alternative Strategies				
Multi-asset class funds	43,991,290	43,991,290		
Total alternative strategies	43,991,290	43,991,290		
Total investments by fair value level	$ 208,670,030	$ 192,546,683	$ 15,735,015	$ 388,332
Investments measured at the net asset value (NAV)				
Equity securities - domestic/global	81,341,315			
Private investments - domestic/global	2,499,077			
Equity long/short hedge funds	10,281,054			
Event-driven hedge funds	1,934,444			
Multi-strategy hedge funds	20,081,821			
Real asset funds	3,993,484			
Total investments measured at the NAV	120,131,195			
Total investments measured at fair value	$ 328,801,225			
Hedging derivative instruments				
Interest rate swaps - effective	$ (8,031,567)		$ (8,031,567)	
Total hedging derivatives	$ (8,031,567)		$ (8,031,567)	

The fair value of debt and equity securities classified in Level 1 at June 30, 2017 and 2016 was valued using prices quoted in active markets for those securities.

The fair value of debt securities classified in Level 2 at June 30, 2017 and 2016 was valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices given that it is not a holding available to be bought or sold in active markets (i.e. the holding does not trade using a ticker symbol).

The fair value of debt and equity securities classified in Level 3 at June 30, 2017 and 2016 was valued using otherwise unobservable inputs. The securities (life insurance policies) were valued using their cash surrender value.

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

The fair value of hedging derivative instruments classified in Level 2 at June 30, 2017 and 2016 was 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 year end, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	June 30, 2017	June 30, 2016		June 30, 2017
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible
Debt securities	$ 17,817,666	$		Daily to Monthly
Equity securities	103,445,706	81,341,315		Daily to Monthly
Private Investments	8,766,832	2,499,077	$ 10,595,168	N/A
Equity long/short hedge fund	12,647,798	10,281,054		Quarterly to Semi-Annually
Event driven hedge fund	1,877,981	1,934,444		Rolling 2 Year
Multi-strategy hedge fund	18,169,654	20,081,821		Quarterly to Annually
Multi-asset class fund	15,606,115			Daily to Monthly
Real asset funds	5,856,160	3,993,484	1,880,373	N/A
Total	$ 184,187,912	$ 120,131,195	$ 12,475,541	

Private equity funds - international

The debt securities class includes two 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 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 seven 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 eight 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 thirteen 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 real asset funds class includes four 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 established retirement plans for all qualified employees. Full-time faculty and professional administrators have the option to participate in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF) and/or Fidelity Investment Tax Exempt Services Company. The university contributes 12% of each qualified employee's pay to these defined contribution plans. For new hires on or after January 1, 1996, the university contributes 10% for all salaried employees and 10% for hourly staff. University contributions begin immediately for all employees.

Hourly employees hired prior to January 1, 1996, and other eligible employees choosing this option, participate in the Michigan Public School Employees' Retirement System (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 2017 are summarized as follows:

	TIAA-CREF	Fidelity	MPSERS	University Total
Pension Contributions				
University Defined Contribution	$ 13,970,360	$ 2,705,448	$ 8,766	$ 16,684,574
University Normal Defined Benefit			681,080	681,080
Required Employee DB			465,770	
University DB UAAL			8,700,443	8,700,443
Stablization UAAL Contribution			1,016,886	1,016,886
Health Contributions				
University Personal Health Fund DC			11,641	11,641
Required Employee PHF DC			11,641	
University Normal Defined Benefit			71,926	71,926
Required Employee DB			459,949	
University UAAL			3,387,067	3,387,067
Stablization UAAL Contribution			378,402	378,402
Covered Payroll	134,786,934	26,878,719	15,531,104	177,196,757

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 $1,384,204 for fiscal year 2017 ($1,720,532 for fiscal year 2016) 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. Separate pension 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 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 $52,547,000 and $50,770,000 for fiscal year 2017 and 2016, 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
10/01/16 – 06/30/17	4.30%	18.75%	0.38%	6.98%
10/01/15 – 09/30/16	4.87%	17.73%	0.78%	8.00%
07/01/15 – 09/30/15	4.80%	17.72%	0.89%	10.53%

Employees starting between January 1, 1990, and December 31, 1995, are required to contribute between 3.0% and 4.3% 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 $681,080 in fiscal year 2017 and $814,129 in fiscal year 2016. Required employee contributions were $465,770 in fiscal year 2017 and $487,413 in fiscal year 2016. The university's contributions to the unfunded MPSERS defined benefit pensions totaled $8,700,443 in fiscal year 2017 and $8,827,623 in fiscal year 2016. The university also recorded $1,395,288 and $1,215,605 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, 2017 and June 30, 2016, respectively. The university's contributions toward the MPSERS defined contribution plan totaled $8,766 in fiscal year 2017 and $9,734 in fiscal year 2016.

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, 2017 and June 30, 2016, the university reported a liability of $137,188,658 and $128,881,423, 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 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, that used update procedures to roll forward the estimated liability to September 30, 2016. The net pension liability for fiscal year 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, that used update procedures to roll forward the estimated liability to September 30, 2015. 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, 2016 and September 30, 2015, the university's proportion was 24.49 percent and 23.49 percent, respectively of the universities reporting unit.

For the year ended June 30, 2017 and June 30, 2016, the university recognized pension expense of $16,927,600 and $36,766,983, respectively.

During fiscal year 2016, the university received $32,728,364 from the plan for a plan error in requiring excess contributions. The refund reduced the plan's net position and impacted the university's net pension liability as of June 30, 2016.

At June 30, 2017 and June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 219,647		$ 1,770,264	
Changes of assumptions				
Net difference between projected and actual plan investment earnings	1,330,055		373,233	
Changes in proportion and differences between contributions and proportionate share of contributions	1,086,429		51,647	$ 1,575,339
Contributions subsequent to the measurement date	8,230,761		7,827,049	844,238
Total	$ 10,866,892	$	$ 10,022,193	$ 2,419,577

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
2017	972,987
2018	(333,089)
2019	1,874,646
2020	121,587
Total	$ 2,636,131

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

Actuarial Assumptions

The total pension liability as of September 30, 2016 and September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2015 and September 30, 2014, and rolled forward.

Actuarial cost method	Entry age normal cost actuarial cost method
Assumed rate of return	8.00 percent, net of investment expenses based on the groups
Rate of pay increases	3.50 percent
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, 2015 and September 30, 2014 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 8.00 percent at September 30, 2015 and 2014. 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 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension 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, 2016		Plan Year September 30, 2015	
Investment Category	Target Allocation	Expected Real Rate of Return	Target Allocation	Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%	28.0%	5.9%
Alternative Investment Pools	18.0%	9.2%	18.0%	9.2%
International Equity Pools	16.0%	7.2%	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%	10.5%	0.9%
Real Estate & Infrastructure Pools	10.0%	4.3%	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%	2.0%	0.0%
Total	100.0%		100.0%	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending September 30, 2017.

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 discount rate of 8.00 percent, 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 (7.00 percent) or 1.00 percentage point higher (9.00 percent) than the current rate:

	1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
Net Pension Liability	$ 160,306,670	$ 137,188,658	$ 117,207,877

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, 2016 and October 1, 2015 the university contribution rate was 6.98% and 9.13% (revised retroactively to 8.00% in September 2016), 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 excluding state rate stabilization payments, aggregated to $3,458,993 during the 2016-2017 university fiscal year and $4,397,540 during the 2015-2016 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 $11,641 and $13,344 for the university fiscal years ended June 30, 2017 and June 30, 2016, respectively.

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, the university is of the opinion that the outcome thereof will not have a material effect on the financial statements.

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:

2018	$	2,191,087
2019		1,547,055
2020		1,367,926
2021		1,112,606
2022		486,722
2023-2027		70,005
	$	6,775,401

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

On June 23, 2017, the university's main campus in Mt. Pleasant, Michigan experienced an excessive amount of rainfall which affected numerous facilities on campus to varying degrees. As a result, university capital assets had indicators for accounting impairment in accordance with GASB 42, but did not meet both impairment requirements to warrant recording an impairment charge because the decline in service utility was not considered significant. Expected insurance recovery is $3,250,000. Much of the repair effort will occur during fiscal year 2018.

Effective January 28, 2011, Central Health Advancement Solutions (CHAS) 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, CHAS management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of CHAS management, all such matters are adequately covered by prior and existing insurance programs.

NOTE 13--FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

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

2017	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	$ 153,649,237	$ 137,681,412	$ 10,667,199	$ 5,019,864	$ 280,762	
Research	13,469,684	6,496,159	6,426,480	547,045		
Public Service	17,324,809	9,512,085	7,329,236	61,571	421,917	
Academic Support	50,753,483	35,785,168	14,764,256	170,340	33,719	
Student Services	27,458,669	20,622,050	6,753,802	82,731	86	
Institutional Support	36,666,818	25,930,186	10,710,472	10,400	15,760	
Scholarships & Fellowships	15,827,203	909,895	44,566	14,871,899	843	
Operations and Maintenance of Plant	33,701,181	10,936,055	22,759,746		5,380	
Auxiliary Enterprises	89,921,019	44,075,145	42,550,781	(4,107,227)	7,402,320	
Student Loan						
Depreciation	25,756,326					$ 25,756,326
Other	6,155,635	220,131	5,935,504			
Subtotal	470,684,064	$ 292,168,286	$ 127,942,042	$ 16,656,623	$ 8,160,787	$ 25,756,326
Component Units	6,040					
Total Operating Expenses	470,690,104					
Interest Expense	6,062,704					
Total Expenses	$ 476,752,808					

2016	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	$ 167,577,771	$ 146,783,810	$ 20,163,733	$ 172,625	$ 457,603	
Research	13,070,387	6,090,653	6,961,984	17,750		
Public Service	17,827,434	9,295,215	8,093,842	5,000	433,377	
Academic Support	42,794,976	28,162,902	14,593,274	7,300	31,500	
Student Services	22,668,451	16,123,165	6,459,586	85,700		
Institutional Support	31,179,348	21,915,780	3,868,331	5,383,424	11,813	
Scholarships & Fellowships	16,774,041	1,096,661	742,664	14,933,399	1,317	
Operations and Maintenance of Plant	25,770,082	10,225,921	15,535,303		8,858	
Auxiliary Enterprises	88,037,447	42,005,222	42,121,698	(4,255,715)	8,166,242	
Student Loan	879,053	8,996	870,057			
Depreciation	23,627,065					$ 23,627,065
Other	(5,138,983)	(91,210)	(5,047,773)			
Subtotal	445,067,072	$ 281,617,115	$ 114,362,699	$ 16,349,483	$ 9,110,710	$ 23,627,065
Component Units	6,660					
Total Operating Expenses	445,073,732					
Interest Expense	3,935,628					
Total Expenses	$ 449,009,360					

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NOTE 14--NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the university to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan Public School Employees' Retirement System (MPSERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The university is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which addresses the recognition and measurement of irrevocable split-interest agreements where the government is a beneficiary of the agreement. This standard will require the university to recognize on the face of the financial statements any assets, liabilities, and deferred inflows of resources at the inception of the agreement. The university is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2018.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations,* which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The university is currently evaluating the impact of this standard, specifically related to certain underground storage tanks and the university's two power plants. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2019.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities,* which establishes 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)

	2016	2015	2014
University's proportion of the Universities collective MPSERS net pension liability: As a percentage	24.49%	23.49%	24.89%
Amount	$137,188,658	$128,881,423	$93,365,966
University's covered employee payroll	$16,617,274	$17,475,499	$18,193,215
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll	825.58%	737.50%	513.19%
MPSERS fiduciary net position as a percentage of the total pension liability	46.77%	47.45%	63.00%

Schedule of Institution Contributions

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

	2017	2016	2015
Statutorily required contribution	$10,398,409	$9,124,243	$8,048,600
Contributions in relation to the actuarially determined contractually required contribution	$10,398,409	$9,124,243	$8,048,600
Contribution deficiency (excess)			
Covered employee payroll	$15,531,104	$16,818,249	$17,559,308
Contributions as a percentage of covered employee payroll	66.95%	54.25%	45.84%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2017

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

Changes of assumptions: There were no changes of assumptions in 2016, 2015 or 2014.