

Central Michigan University

**State of Michigan CAFR Financial
Schedules June 30, 2019**

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Independent Auditor's Report

To the Board of Trustees
Central Michigan University

We have audited the financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component units as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Central Michigan University's basic financial statements, and have issued our report thereon dated September 19, 2019, which contained unmodified opinions on the financial statements of Central Michigan University. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) or The Institute for Excellence in Education (IEE), which represent all the balances of the assets, net assets, and revenue 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 have not performed any procedures with respect to the audited financial statements subsequent to September 19, 2019.

Report on the State of Michigan CAFR Financial Schedules

The accompanying State of Michigan CAFR financial schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are presented for the purpose of conforming the University's financial statements with the State of Michigan Comprehensive Annual Financial Report format. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the State of Michigan CAFR financial schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the University, the State of Michigan Department of Management and Budget, the Office of Financial Management, and the State of Michigan Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 19, 2019

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2019

EXHIBIT I

| | University Financial Report | Discrete Component Units | Eliminations | Total University | Adjustments and Reclassifications | | SOMCAFR Format |
|--|-----------------------------------|--------------------------------|------------------|----------------------|--------------------------------------|----------------------|----------------------|
| | | | | | Debit | Credit | |
| | | | | | | | |
| ASSETS | | | | | | | |
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents | \$ 26,800,207 | \$ 2,670,025 | | \$ 29,470,232 | | \$ 29,470,232 | 1 |
| Accounts receivable, net | 20,278,095 | 3,913,216 | \$ (809,054) | 23,382,257 | | 23,382,257 | 2 |
| State appropriations receivable, SBA | 6,398,547 | 0 | | 6,398,547 | | 6,398,547 | 2 |
| State appropriations receivable, operations | 16,112,998 | 0 | | 16,112,998 | | 16,112,998 | 2 |
| State appropriations receivable, Charter Schools | 38,936,835 | 0 | | 38,936,835 | | 38,936,835 | 2 |
| Inventories | 3,629,509 | 66,766 | | 3,696,275 | | 3,696,275 | 1 |
| Other assets | 5,651,048 | 1,342,117 | | 6,993,165 | | 6,993,165 | 2 |
| Total current assets | 117,807,239 | 7,992,124 | (809,054) | 124,990,309 | | | |
| CURRENT ASSETS | | | | | | | |
| Cash | | | | \$ 29,470,232 | 1 | | \$ 29,470,232 |
| Amounts due from primary government | | | | 61,645,652 | 2 | | 61,645,652 |
| Amounts due from federal government | | | | 2,239,336 | 2 | | 2,239,336 |
| Amounts due from local units | | | | | | | |
| Inventories | | | | 3,696,275 | 1 | | 3,696,275 |
| Investments (Note 8) | | | | | | | |
| Securities lending collateral | | | | | | | |
| Other Current Assets | | | | 27,938,814 | 2 | | 27,938,814 |
| Total Current Assets | 117,807,239 | 7,992,124 | (809,054) | 124,990,309 | 124,990,309 | 124,990,309 | 124,990,309 |
| NONCURRENT ASSETS: | | | | | | | |
| Restricted cash and cash equivalents | 1,213 | 0 | | 1,213 | | 1,213 | 1 |
| Pledges receivable, net | 5,178,387 | 0 | | 5,178,387 | | 5,178,387 | 1 |
| Endowment investments | 189,791,919 | 0 | | 189,791,919 | | 189,791,919 | 3 |
| Medical Education Receivable, net | | 1,584,462 | | 1,584,462 | | 1,584,462 | 1 |
| Other long-term investments | 216,260,667 | 848,563 | | 217,109,230 | | 217,109,230 | 3 |
| Capital assets, net | 557,791,096 | 4,375,358 | | 562,166,454 | | 562,166,454 | 4 |
| RESTRICTED ASSETS | | | | | | | |
| Cash and cash equivalents | | | | 1,213 | 1 | | 1,213 |
| INVESTMENTS | | | | | | | |
| | | | | 406,901,149 | 3 | | 406,901,149 |
| CAPITAL ASSETS: | | | | | | | |
| Land and other non depreciable assets | | | | 13,775,774 | 4 | | 13,775,774 |
| Buildings, equipment and other depreciable assets | | | | 973,108,743 | 4 | | 973,108,743 |
| Less accumulated depreciation | | | | | | 461,822,392 | (461,822,392) |
| Construction in progress | | | | 37,104,329 | 4 | | 37,104,329 |
| Net capital assets | | | | | | | 562,166,454 |
| Other noncurrent assets | | | | 6,762,849 | 1 | | 6,762,849 |
| Total noncurrent assets | 969,023,282 | 6,808,383 | | 975,831,665 | 1,437,654,057 | 1,437,654,057 | 975,831,665 |
| TOTAL ASSETS | 1,086,830,521 | 14,800,507 | (809,054) | 1,100,821,974 | 1,562,644,366 | 1,562,644,366 | 1,100,821,974 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | |
| Accumulated change in fair value of hedging derivatives and deferred on bond refunding | 7,588,239 | | | 7,588,239 | | | 7,588,239 |
| Deferred outflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability | 14,619,044 | | | 14,619,044 | | 1,206,509 | 13,412,535 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 22,207,283 | | | 22,207,283 | | 1,206,509 | 21,000,774 |

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2019

EXHIBIT I

| | University Financial Report | Discrete Component Units | Eliminations | Total University | Adjustments and | | SOMCAFR Format |
|---|-----------------------------------|--------------------------------|------------------|-----------------------|-----------------------|--------|---------------------------|
| | | | | | Reclassifications | | |
| | | | | | Debit | Credit | |
| LIABILITIES: | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts payable and accrued liabilities | 74,928,448 | 3,490,207 | (543,376) | 77,875,279 | 77,875,279 | 5 | |
| Unearned revenue | 11,116,798 | 870,225 | | 11,987,023 | 11,987,023 | 1 | |
| Deposits | 1,244,319 | 0 | | 1,244,319 | 1,244,319 | 5 | |
| Long term liabilities - current portion | 6,151,291 | 271,544 | | 6,422,835 | 6,422,835 | 6 | |
| Total Current Liabilities | 93,440,856 | 4,631,976 | | 97,529,456 | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts payable and other liabilities | | | | | | | 74,658,841 5 74,658,841 |
| Amounts due to primary government | | | | | | | 2,998,932 5 2,998,932 |
| Bond and notes payable | | | | | | | 6,213,323 6 6,213,323 |
| Interest payable | | | | | | | 1,461,825 5 1,461,825 |
| Unearned revenue | | | | | | | 11,987,023 1 11,987,023 |
| Other long term obligations - current portion | | | | | | | 209,512 6 209,512 |
| Total Current Liabilities | 93,440,856 | 4,631,976 | | 97,529,456 | 97,529,456 | | 97,529,456 |
| Amounts due to CMU | | 265,678 | (265,678) | | | | |
| NONCURRENT LIABILITIES: | | | | | | | |
| Long-term debt, hedging instruments and other obligations | 158,059,187 | 294,224 | | 158,353,411 | 158,353,411 | 7 | |
| Net Pension Liability | 156,499,530 | | | 156,499,530 | 156,499,530 | 7 | |
| Net OPEB Liability | 29,395,383 | | | 29,395,383 | 29,395,383 | 7 | |
| Unearned Revenue | | | | | | | |
| Bonds and notes payable | | | | | | | 146,429,224 7 146,429,224 |
| Noncurrent portion of other long-term obligations | | 200,000 | | 200,000 | | | 197,819,100 7 198,019,100 |
| TOTAL LIABILITIES | 437,394,956 | 5,391,878 | (265,678) | 441,977,780 | 441,777,780 | | 441,977,780 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| Deferred inflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability | 10,546,911 | | | 10,546,911 | 1,206,509 | 9 | 9,340,402 |
| Deferred inflow related to Split Interest Agreements | 5,196,159 | | | 5,196,159 | | 9 | 5,196,159 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 15,743,070 | | | 15,743,070 | 1,206,509 | | 14,536,561 |
| NET POSITION | | | | | | | |
| Net investment in capital assets | 407,670,008 | | | 407,670,008 | 407,670,008 | 1 | |
| Restricted for: | | | | | | | |
| Nonexpendable | | | | | | | |
| Scholarships, fellowships, and research | 62,859,698 | | | 62,859,698 | 62,859,698 | 8 | |
| Expendable | | | | | | | |
| Scholarships, fellowships, research and other | 45,574,932 | | | 45,574,932 | 45,574,932 | 8 | |
| Instructional department uses | 17,872,409 | | | 17,872,409 | 17,872,409 | 8 | |
| Capital projects and debt service | 8,739,620 | | | 8,739,620 | 8,739,620 | 1 | |
| Unrestricted | 113,183,111 | 9,408,629 | | 122,591,740 | 122,591,740 | 1 | |
| Total net position | 655,899,778 | 9,408,629 | | 665,308,407 | 665,308,407 | | |
| NET POSITION | | | | | | | |
| Net investment in capital assets | | | | | | | 407,670,008 1 407,670,008 |
| Restricted for: | | | | | | | |
| Education | | | | | | | 22,780,729 8 22,780,729 |
| Construction and debt service | | | | | | | 8,739,620 1 8,739,620 |
| Other Purposes | | | | | | | 0 1 0 |
| Funds Held as Permanent Investments | | | | | | | |
| Nonexpendable | | | | | | | 62,859,698 8 62,859,698 |
| Expendable | | | | | | | 40,666,612 8 40,666,612 |
| Unrestricted Net Position | | | | | | | 122,591,740 1 122,591,740 |
| TOTAL NET POSITION | \$ 655,899,778 | \$ 9,408,629 | | \$ 665,308,407 | \$ 665,308,407 | | \$ 665,308,407 |

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2019

EXHIBIT I

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

2) Reclassify current receivables

| | Other Receivables | Due from Primary Government | Due from Federal Government |
|--|----------------------|-----------------------------------|-----------------------------------|
| Accounts receivable, net | \$ 23,382,257 | | |
| State appropriations receivable, SBA | 6,398,547 | | |
| State appropriations receivable, operations | 16,112,998 | | |
| State appropriations receivable, Charter Schools | 38,936,835 | | |
| State Appropriations - SBA | (6,398,547) | \$ 6,398,547 | |
| State Appropriations - operations | (16,112,998) | 16,112,998 | |
| State Appropriations - Charter Schools | (38,936,835) | 38,936,835 | |
| State Grants | (197,272) | 197,272 | |
| Federal Agencies | (2,239,336) | | \$ 2,239,336 |
| | <u>20,945,649</u> | <u>\$ 61,645,652</u> | <u>\$ 2,239,336</u> |
| Other current assets | 6,993,165 | | |
| | <u>\$ 27,938,814</u> | | |

3) Reclassify investments

| | Investments |
|--|-----------------------|
| Endowment investments | \$ 189,791,919 |
| Other long-term investments (includes component units) | 217,109,230 |
| Investments | <u>\$ 406,901,149</u> |

4) Reclassify capital assets

| | University Capital Assets | Discrete CU Capital Assets | Total Capital Assets |
|--|------------------------------|-------------------------------|-------------------------|
| Land and other nondepreciable assets | \$ 13,775,774 | | \$ 13,775,774 |
| Buildings, equipment, and other depreciable assets | 959,697,014 | \$ 13,411,729 | 973,108,743 |
| Construction in progress | 37,104,329 | | 37,104,329 |
| Total | <u>1,010,577,117</u> | <u>13,411,729</u> | <u>1,023,988,846</u> |
| Less accumulated depreciation | 452,786,021 | 9,036,371 | 461,822,392 |
| Capital Assets, net | <u>\$ 557,791,096</u> | <u>\$ 4,375,358</u> | <u>\$ 562,166,454</u> |

5) Reclassify current liabilities

| | Accounts Payable and Other Liabilities | Due to Primary Government | Interest Payable |
|--|--|------------------------------|---------------------|
| Accounts payable and accrued liabilities | \$ 77,875,279 | | |
| Deposits | 1,244,319 | | |
| Mich income tax | (65,997) | \$ 65,997 | |
| Payroll Floor UAAL Payment | (2,557,591) | 2,557,591 | |
| Sec 236(4) UAAL Payment | (329,046) | 329,046 | |
| MPERS Member Payments on Accrued Payroll | (22,308) | 22,308 | |
| Mich sales tax owed | (23,990) | 23,990 | |
| Interest | (1,461,825) | | \$ 1,461,825 |
| | <u>\$ 74,658,841</u> | <u>\$ 2,998,932</u> | <u>\$ 1,461,825</u> |

6) Reclassify current portion of debt obligation

| | Long Term Liab Current portion | Bonds & Notes Payable |
|---|-----------------------------------|--------------------------|
| Current portions of long term obligations | \$ 6,422,835 | |
| Bonds and notes payable | (6,213,323) | \$ 6,213,323 |
| | <u>\$ 209,512</u> | <u>\$ 6,213,323</u> |

7) Reclassify noncurrent liabilities

| | Other Long-Term Liabilities | Bonds & Notes Payable |
|--------------------------------------|--------------------------------|--------------------------|
| Long-term debt and other obligations | \$ 158,353,411 | |
| Long-term bonds and notes payable | (146,429,224) | \$ 146,429,224 |
| Net Pension Liability | 156,499,530 | |
| Net OPEB Liability | 29,395,383 | |
| | <u>\$ 197,819,100</u> | <u>\$ 146,429,224</u> |

8) Combine restricted net position

| | Restricted for Endowments | Restricted for Education |
|---|------------------------------|-----------------------------|
| Restricted for: | | |
| Nonexpendable-scholarships, fellowships, research | \$ 62,859,698 | |
| Expendable-scholarships, fellowships, research | 40,666,612 | \$ 4,908,320 |
| Instructional department uses | | 17,872,409 |
| | <u>\$ 103,526,310</u> | <u>\$ 22,780,729</u> |

9) Reclassify Pension Related State Approps Deferred Inflows

| | Deferred Outflow | Deferred Inflow |
|---|----------------------|---------------------|
| Pension & OPEB Related Deferrals | \$ 14,619,044 | \$ 10,546,911 |
| Def Inflows-State Approps Contributions Subsq to Msrmt Date | (1,206,509) | (1,206,509) |
| | <u>\$ 13,412,535</u> | <u>\$ 9,340,402</u> |

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2019

EXHIBIT II

| | University Financial Report | Discrete Component Units | Eliminations | Total University | Adjustments and Reclassifications | | SOMCAFR Format |
|--|-----------------------------------|--------------------------------|--------------|---------------------|--------------------------------------|----------------|-------------------|
| | | | | | Debit | Credit | |
| OPERATING REVENUES | | | | | | | |
| Tuition and fees | \$ 206,411,155 | | | \$ 206,411,155 | \$ 206,411,155 | 1 | |
| Federal grants and contracts | 10,122,035 | \$ 208,365 | | 10,330,400 | 10,330,400 | 2 | |
| State and local grants and contracts | 420,198 | | | 420,198 | 420,198 | 2 | |
| Private grants and contracts | 3,993,223 | | | 3,993,223 | 3,993,223 | 2 | |
| Sales and services of educational activities | 20,114,912 | 6,299,295 | \$ (833,147) | 25,581,060 | 25,581,060 | 1 | |
| Auxiliary enterprises | 73,253,040 | 43,986,338 | | 117,239,378 | 117,239,378 | 1 | |
| Total operating revenues | 314,314,563 | 50,493,998 | (833,147) | 363,975,414 | 363,975,414 | | |
| OPERATING EXPENSES | 459,564,937 | 50,969,972 | (1,333,147) | 509,201,762 | | \$ 509,201,762 | 3 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| State appropriations | 88,710,338 | 500,000 | (500,000) | 88,710,338 | 88,710,338 | 4 | |
| Gifts and pledges net of allowance | 5,826,140 | 318,061 | | 6,144,201 | 6,144,201 | 2 | |
| Investment income net of expense | 19,626,617 | 38,346 | | 19,664,963 | 19,664,963 | 2.5 | |
| Interest on capital assets related debt | (6,170,560) | | | (6,170,560) | | 6,170,560 | 3 |
| Federal Pell grant program | 24,802,492 | | | 24,802,492 | 24,802,492 | 6 | |
| Other nonoperating revenues | 10,700 | 1,183 | | 11,883 | 11,883 | 6 | |
| Net nonoperating revenues | 132,805,727 | 857,590 | (500,000) | 133,163,317 | 139,333,877 | 6,170,560 | |
| OTHER | | | | | | | |
| Capital appropriations | 7,866,546 | | | 7,866,546 | 7,866,546 | 4 | |
| Capital grants and gifts | 4,051,659 | | | 4,051,659 | 4,051,659 | 7 | |
| Additions to permanent endowments | 2,871,715 | | | 2,871,715 | 2,871,715 | 2 | |
| Total other revenues | 14,789,920 | | | 14,789,920 | 14,789,920 | | |
| Increase in net position | 2,345,273 | 381,616 | 0 | 2,726,889 | 518,099,211 | 515,372,322 | |
| EXPENSES | | | | | 515,372,322 | | 3 \$ 515,372,322 |
| PROGRAM REVENUES | | | | | | | |
| Charges for services | | | | | | 349,231,593 | 1 349,231,593 |
| Operating grants/contributions | | | | | | 33,032,718 | 2 33,032,718 |
| Capital grants/contributions | | | | | | 4,051,659 | 7 4,051,659 |
| TOTAL PROGRAM REVENUES | | | | | | 386,315,970 | 386,315,970 |
| NET (EXPENSE) REVENUE | | | | | | | (129,056,352) |
| GENERAL REVENUES | | | | | | | |
| Interest and investment earnings | | | | | | 10,391,982 | 5 10,391,982 |
| Payments from State of Michigan | | | | | | 96,576,884 | 4 96,576,884 |
| Other | | | | | | 24,814,375 | 6 24,814,375 |
| TOTAL GENERAL REVENUES | | | | | | 131,783,241 | 131,783,241 |
| Change in net position | 2,345,273 | 381,616 | | 2,726,889 | | | 2,726,889 |
| Beginning Net Position: | 653,554,505 | 9,027,013 | | 662,581,518 | | | 662,581,518 |
| Ending Net Position | \$ 655,899,778 | \$ 9,408,629 | \$ 0 | \$ 665,308,407 | \$ 0 | \$ 0 | \$ 665,308,407 |

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2019

EXHIBIT II

| | | |
|----|---|---|
| 1) | Charges for services | <u>Charges for Services</u> |
| | Tuition and fees | \$ 206,411,155 |
| | Sales and services of educational activities | 25,581,060 |
| | Auxiliary enterprises | 117,239,378 |
| | | <u>\$ 349,231,593</u> |
| 2) | Operating grants/contributions | <u>Operating Grants/Contributions</u> |
| | Federal grants and contracts | \$ 10,330,400 |
| | State and local grants and contracts | 420,198 |
| | Private grants and contracts | 3,993,223 |
| | Gifts and pledges net of allowance | 6,144,201 |
| | Additions to permanent endowments | 2,871,715 |
| | Investment Income - Exp Rest Fund | 738 |
| | Investment Income - Endowment Fund | 9,272,243 |
| | | <u>\$ 33,032,718</u> |
| 3) | Expenses | <u>Expenses</u> |
| | Operating expenses - CMU | \$ 459,564,937 |
| | Operating expenses - CMU to component unit | (1,333,147) |
| | Operating expenses - component unit (CHAS) | 44,147,490 |
| | Operating expenses - component unit IEE | 6,822,482 |
| | Interest on capital assets, net of related debt | 6,170,560 |
| | | <u>\$ 515,372,322</u> |
| 4) | Revenue from State of Michigan | <u>Revenue from State of Michigan</u> |
| | State appropriations | \$ 87,503,829 |
| | Capital appropriations | 7,866,546 |
| | Section 236(4) retirement contribution | 1,206,509 |
| | | <u>\$ 96,576,884</u> |
| 5) | Interest and investment earnings | <u>Investment Income</u> |
| | Investment Income - Exp Rest Fund | \$ 19,664,963 |
| | Investment Income - Endowment Fund | (738) |
| | | <u>(9,272,243)</u> |
| | | <u>\$ 10,391,982</u> |
| 6) | Other Revenues | <u>Other Revenues</u> |
| | Federal Pell Grant Program | \$ 24,802,492 |
| | Other nonoperating revenues | 11,883 |
| | | <u>\$ 24,814,375</u> |
| 7) | Reclassify financial data into the specified format to be used in the State's CAFR Statement. | |

See notes to supplemental financial statements.

NOTES TO THE STATE OF MICHIGAN CAFR

Central Michigan University

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. The statements incorporate all fund groups utilized internally by the university. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

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

For this financial report the aggregated total of the university, CHAS and IEE is presented.

Cash and Cash Equivalents

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

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

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

Inventories

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

Investments

All investments are stated at fair value.

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Capital Assets

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

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

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

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

For IEE furniture and equipment are stated at cost when purchased or fair value when donated. Furniture and equipment purchases in excess of \$1,000 are depreciated over their estimated useful lives using the straight-line method.

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 and other post-employment benefit (OPEB) liability for the Michigan Public School Employee's Retirement System (MPERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$5,509,327 at June 30, 2019. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$991,060, net of amortization, at June 30, 2019; Series 2005 valued at \$896,883, net of amortization, at June 30, 2019; and Series 2006 valued at \$190,969, net of amortization, at June 30, 2019. The value of the deferred outflows related to the MPERS plan for pensions was \$10,877,586 as of June 30, 2019, and for other post-employment benefits was \$3,741,458 as of June 30, 2019. See Note 28 for additional information on deferred outflows related to the MPERS plan.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 future revenue streams related to split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the university's proportionate share of the net pension and net OPEB liability for the MPSERS plan. Deferred inflows of resources applicable to split-interest agreements were \$5,196,159 at June 30, 2019. At June 30, 2019, deferred inflows related to changes in the pension portion of the MPSERS plan were \$5,342,389 and the value related to changes in the OPEB portion of the MPSERS plan was \$3,998,013. Deferred inflows of resources at June 30, 2019 also include \$1,206,509 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date. See Note 28 for additional information on deferred inflows related to the MPSERS plan.

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.

NOTE 4—ACCOUNTING CHANGES AND RESTATEMENTS

Adoption of New Standard

As of July 1, 2018, the university adopted Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. As a result of the new standard, the university is now disclosing additional information related to debt in Note 14.

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

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 8--DEPOSITS AND INVESTMENTS

The university and its component units had the following investments as of June 30, 2019:

| | <u>Fair Market Value</u> | <u>Investment Maturities (in Years)</u> | | |
|---|--------------------------|---|----------------------|-----------------------|
| | | <u>Less Than 1</u> | <u>1-5</u> | <u>N/A</u> |
| Deposits: | | | | |
| Time deposits | \$ 36,023,350 | \$ 36,023,350 | | |
| Government money market accounts | | | | |
| Investments: | | | | |
| Commercial paper | | | | |
| Short-term notes | | | | |
| Repurchase agreements | | | | |
| Government securities | | | | |
| Insured mortgage backed securities | | | | |
| Government backed securities | | | | |
| Investment agreements | | | | |
| Corporate bonds and notes | | | | |
| Preferred stock | | | | |
| Beneficial interests in split-interest agreements | 4,957,159 | | | \$ 4,957,159 |
| Equities | 141,359,234 | 141,359,234 | | |
| Real estate | 84,806 | 84,806 | | |
| Venture capital & leveraged buyouts | | | | |
| Government money market funds | | | | |
| Mutual bond/equity funds | 188,802,085 | | | 188,802,085 |
| Guaranteed investment contracts | | | | |
| Pooled investment funds | | | | |
| Other Investments | 65,145,960 | | \$ 65,145,960 | |
| Total Investments | <u>\$ 436,372,594</u> | <u>\$ 177,467,390</u> | <u>\$ 65,145,960</u> | <u>\$ 193,759,244</u> |
| Less Investments Reported as "Cash" on Statement of Net Position | | | | |
| Current cash and cash equivalents | \$ 29,470,232 | | | |
| Restricted cash and cash equivalents | 1,213 | | | |
| | <u>29,471,445</u> | | | |
| Total Investments | <u>\$ 406,901,149</u> | | | |
| <u>As Reported on the Statement of Net Position</u> | | | | |
| Current investments | | | | |
| Noncurrent restricted investments | | | | |
| Noncurrent investments | \$ 406,901,149 | | | |
| Total Investments | <u>\$ 406,901,149</u> | | | |

Credit Risk

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities of fixed income investments as of June 30, 2019 are as follows:

| Investment Type | June 30, 2019 Fixed Income Investment Maturities | | | | Total |
|----------------------------------|---|----------------------|----------------------|----------------------|-----------------------|
| | Less than 1 year | 1-5 years | 6-10 years | More than 10 years | |
| US Treasury/TIPS | \$ 792,859 | \$ 5,742,670 | \$ 10,498,486 | \$ 2,097,900 | \$ 19,131,915 |
| Core Fixed Income | 1,864,853 | 11,237,184 | 7,289,501 | 4,927,332 | 25,318,870 |
| Short Duration Fixed Income | 2,235,057 | 10,469,410 | 58,717 | 1,276 | 12,764,460 |
| Emerging Market Debt | 788,358 | 755,510 | 1,723,637 | 2,704,904 | 5,972,409 |
| Global Multi-Sector Fixed Income | 7,193,917 | 10,931,844 | 6,307,496 | 1,328,016 | 25,761,273 |
| Absolute Return Fixed Income | 3,990,207 | 8,800,382 | 7,512,187 | 2,537,561 | 22,840,337 |
| Total | <u>\$ 16,865,251</u> | <u>\$ 47,937,000</u> | <u>\$ 33,390,024</u> | <u>\$ 13,596,989</u> | <u>\$ 111,789,264</u> |

Concentration of Credit Risk

Deliberate management of the asset mix among classes of investments is a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political or social developments is a highly desirable objective. The university's general policy shall be to diversify investments within both equity and fixed income securities to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. Accordingly, the university did not have investments in any one issuer that represented 5% or more of total investments at June 30, 2019.

Foreign Currency Risk

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

Custodial Credit Risk

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name. The carrying amount of deposits, excluding those classified as investments, was \$21,907,931 at June 30, 2019. The deposits were reflected in the accounts of the banks at \$25,659,772 at June 30, 2019. Of the bank balance, \$25,159,772 at June 30, 2019 was uninsured and uncollateralized.

For CHAS deposits reflected in the accounts of the banks were \$2,403,226 at June 30, 2019. Of the bank balance, \$2,059,547 at June 30, 2019, was uninsured and uncollateralized.

For IEE deposits reflected in the accounts of the banks were \$532,945 at June 30, 2019. Of the bank balance, \$32,945 at June 30, 2019, was uninsured and uncollateralized.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The university had custodial credit risk of \$186.3 million at June 30, 2019, in its investment portfolios held by various investment managers as the counterparty.

NOTE 9--CAPITAL ASSETS

Capital assets, net of depreciation, for the university and its component units consist of the following as of June 30, 2019:

| | Beginning Balance July 1, 2018 | Additions | Reductions | Ending Balance June 30, 2019 |
|--------------------------------------|--------------------------------------|----------------------|---------------------|------------------------------------|
| Non-depreciated capital assets: | | | | |
| Land | \$ 12,927,599 | | | \$ 12,927,599 |
| Capitalized Collections | 833,520 | \$ 15,300 | \$ 645 | 848,175 |
| Total non-depreciated capital assets | <u>13,761,119</u> | <u>15,300</u> | <u>645</u> | <u>13,775,774</u> |
| Depreciated capital assets: | | | | |
| Land Improvements | 32,965,529 | 6,606,079 | 760,345 | 38,811,263 |
| Infrastructure | 23,567,646 | 1,128,246 | 159,896 | 24,535,996 |
| Buildings | 778,387,991 | 5,039,386 | 5,531,301 | 777,896,076 |
| Leasehold Improvements | 346,256 | | | 346,256 |
| Furniture and Equipment | 84,250,102 | 3,597,281 | 1,667,710 | 86,179,673 |
| Library Materials | 30,102,092 | 900,952 | | 31,003,044 |
| Intangible Assets | 924,706 | | | 924,706 |
| CHAS Leasehold Imp, Furniture, Equip | 5,903,519 | 290,602 | | 6,194,121 |
| IEE Furniture & Equipment | 209,838 | | 394 | 209,444 |
| IEE Intangible Assets | 4,836,847 | 800,875 | | 5,637,722 |
| IEE Goodwill | 1,370,442 | | | 1,370,442 |
| | <u>962,864,968</u> | <u>18,363,421</u> | <u>8,119,646</u> | <u>973,108,743</u> |
| Less accumulated depreciation: | | | | |
| Land Improvements | 26,283,754 | 2,048,436 | 760,345 | 27,571,845 |
| Infrastructure | 12,109,214 | 1,098,990 | 13,991 | 13,194,213 |
| Buildings | 302,016,021 | 17,794,359 | 3,857,275 | 315,953,105 |
| Leasehold Improvements | 147,947 | 25,050 | | 172,997 |
| Furniture and Equipment | 64,567,514 | 4,923,869 | 1,578,215 | 67,913,168 |
| Library Materials | 26,154,788 | 1,010,603 | | 27,165,391 |
| Intangible Assets | 807,522 | 7,780 | | 815,302 |
| CHAS Leasehold Imp, Furniture, Equip | 4,211,887 | 347,904 | | 4,559,791 |
| IEE Furniture & Equipment | 168,811 | | 620 | 168,191 |
| IEE Intangible Assets | 2,777,225 | 708,899 | | 3,486,124 |
| IEE Goodwill | 685,221 | 137,044 | | 822,265 |
| Total depreciated capital assets | <u>439,929,904</u> | <u>28,102,934</u> | <u>6,210,446</u> | <u>461,822,392</u> |
| Construction In Progress | <u>13,730,844</u> | <u>27,336,651</u> | <u>3,963,166</u> | <u>37,104,329</u> |
| Capital Assets, Net | <u>\$ 550,427,027</u> | <u>\$ 17,612,438</u> | <u>\$ 5,873,011</u> | <u>\$ 562,166,454</u> |

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 10--RETIREMENT PLANS

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

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

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

The university also sponsors the Retirement Service Award program covering certain employees hired before a specific date in 1976 and certain maintenance and food service employees. The plan provides for distributions to qualifying employees at retirement based principally on length of service and salary at retirement. Liabilities of \$858,188 for fiscal year 2019 related to this program are included in the university Statements of Net Position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with long-term debt, hedging instruments and other long-term obligations in the Statements of Net Position. During fiscal year 2019, the university updated and recorded the expected liability for this program.

MPERS – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

The university participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit and defined contribution public employee retirement system governed by the State of Michigan that covers some employees of the university. Employees hired on or after January 1, 1996 cannot participate in MPERS, unless they previously were enrolled in the plan at Central Michigan University, or one of the other six universities that are part of MPERS.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 portion of future pensions and health benefits. Public Act 136 of 2016 sets a rate cap of 25.73 percent for university employer UAAL contributions. In addition, the new law establishes a requirement for a payroll floor. In a given fiscal year, each university owes UAAL contributions based on the greater of its payroll floor or its actual payroll. The payroll floor was \$52,562,142 for fiscal year 2019. Contribution rates are adjusted annually by the ORS. The rates for the defined benefit plan are as follows:

| | Normal Pension Rate | Unfunded Pension Rate | Normal Health Rate | Unfunded Health Rate |
|---------------------|------------------------|-----------------------------|-----------------------|-------------------------|
| 10/01/18 – 06/30/19 | 5.29% | 19.74% | 0.43% | 5.99% |
| 10/01/17 – 09/30/18 | 4.87% | 19.60% | 0.31% | 6.13% |

Employees starting between January 1, 1990, and December 31, 1995, are required to contribute between 3.0% and 4.87% of their annual pay. During the period February 1, 2013 through June 30, 2013 employees could transition to a defined contribution plan.

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

Net Pension Liability, Deferrals, and Pension Expense

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

For the year ended June 30, 2019, the university recognized pension expense of \$29,146,907. At June 30, 2019, the university also reported a payable of \$329,046 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2019.

At June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to pensions a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

Net OPEB Liability, Deferrals, and OPEB Expense

At June 30, the university reported a liability of \$29,395,383 for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPSERS. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

liability was determined by an actuarial valuation as of September 30, 2017, that used update procedures to roll forward the estimated liability to September 30, 2018. The university's proportion of the net OPEB liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2018 the university's proportion was 24.78 percent of the universities reporting unit.

For the year ended June 30, 2019 the university recognized OPEB expense of \$(1,271,151).

At June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

NOTE 12--LEASE COMMITMENTS

The university has entered into various operating leases, primarily for Global Campus degree program facilities and College of Medicine office space. CHAS has entered into various leases primarily for educational, clinical and office space. IEE has entered into a lease for office space. The following is a schedule of the aggregate minimum commitments for leases for each of the succeeding five years ending June 30 and thereafter:

| | | |
|-----------|----|--------------------------|
| 2020 | \$ | 2,890,506 |
| 2021 | | 2,539,477 |
| 2022 | | 1,869,835 |
| 2023 | | 993,365 |
| 2024 | | 849,006 |
| 2025-2029 | | <u>2,779,000</u> |
| | \$ | <u><u>11,921,189</u></u> |

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

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

| | Beginning Balance July 1, 2018 | Additions | Reductions | Ending Balance June 30, 2019 | Current Portion |
|----------------------------------|--------------------------------------|---------------------|---------------------|------------------------------------|---------------------|
| General Revenue Bonds: | | | | | |
| Series 2008A Series Bonds | \$ 21,310,000 | | \$ 505,000 | \$ 20,805,000 | \$ 430,000 |
| Series 2009A Series Bonds | 20,395,000 | | 1,850,000 | 18,545,000 | 1,935,000 |
| Series 2009A Unamortized Premium | 1,419,000 | | 172,000 | 1,247,000 | 172,000 |
| Series 2012A Series Bonds | 21,750,000 | | 690,000 | 21,060,000 | 580,000 |
| Series 2014: | | | | | |
| Series Bonds | 41,635,000 | | 1,605,000 | 40,030,000 | 1,680,000 |
| Term Bonds | 22,105,000 | | | 22,105,000 | |
| Series 2014 Unamortized Premium | 7,140,000 | | 272,000 | 6,868,000 | 272,000 |
| Series 2016 Series Bonds | 19,415,000 | | 710,000 | 18,705,000 | 740,000 |
| Series 2016 Unamortized Premium | <u>2,691,000</u> | | <u>156,000</u> | <u>2,535,000</u> | <u>156,000</u> |
| Total Long-Term Debt | 157,860,000 | | 5,960,000 | 151,900,000 | 5,965,000 |
| Other Obligations: | | | | | |
| Note Payable | 1,008,710 | | 266,163 | 742,547 | 248,323 |
| Hedging Instruments | 4,540,943 | \$ 968,384 | | 5,509,327 | |
| Compensated Absences | 5,865,058 | 9,953 | 265,627 | 5,609,384 | 193,296 |
| Retirement Service Programs | 1,387,582 | | 388,810 | 998,772 | |
| Other Obligations | <u>40,191</u> | <u>51,466</u> | <u>75,441</u> | <u>16,216</u> | <u>16,216</u> |
| Total | \$ <u>170,702,484</u> | \$ <u>1,029,803</u> | \$ <u>6,956,041</u> | \$ <u>164,776,246</u> | \$ <u>6,422,835</u> |

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 2019 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

| | Bonds | | | | Notes from Direct Borrowings and Direct Placements | |
|------------------------|----------------|---------------|-----------------------------|----------------|--|-----------|
| | Principal | Interest | Interest Rate Swaps, Net | Total | Principal | Interest |
| 2020 | \$ 5,365,000 | \$ 5,638,193 | \$ 821,875 | \$ 11,825,068 | \$ 248,323 | \$ 19,128 |
| 2021 | 5,860,000 | 5,491,016 | 1,091,461 | 12,442,477 | 255,958 | 11,355 |
| 2022 | 5,990,000 | 5,231,392 | 1,092,564 | 12,313,956 | 238,266 | 3,287 |
| 2023 | 6,420,000 | 4,957,241 | 1,091,036 | 12,468,277 | | |
| 2024 | 6,565,000 | 4,680,009 | 1,086,809 | 12,331,818 | | |
| 2025-2029 | 38,610,000 | 18,865,476 | 5,140,410 | 62,615,886 | | |
| 2030-2034 | 43,760,000 | 10,594,501 | 2,293,389 | 56,647,890 | | |
| 2035-2039 | 14,230,000 | 4,413,750 | | 18,643,750 | | |
| 2040-2044 | 11,795,000 | 1,760,125 | | 13,555,125 | | |
| 2045 | 2,655,000 | 53,100 | | 2,708,100 | | |
| Total | 141,250,000 | \$ 61,684,803 | \$ 12,617,544 | \$ 215,552,347 | \$ 742,547 | \$ 33,770 |
| Unamortized Premium | 10,650,000 | | | | | |
| | \$ 151,900,000 | | | | | |

HEDGING INSTRUMENTS

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

Under 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) (1.08383% at June 30, 2019). The swap agreement matures on October 1, 2032. The university received \$3,806,000 from the counterparty which was used to terminate the original swap with Lehman Brothers. Effective November 7, 2008, the swap agreement was assumed by Deutsche Bank AG. The swap provisions and termination date remain unchanged.

As of June 30, 2019, the swap agreement had a notional amount of \$20,675,000 and was in a negative position of \$5,509,327. As long as the variable rate portion of the swap being received by the university is less than the fixed rate being paid, the university will continue to be in a negative position on the swap.

The pay-fixed, receive-variable, interest rate swap is considered a cash flow hedge. The change in fair value was an increase to deferred outflows of \$968,384 for fiscal year 2019. The accumulated change in fair value of (\$5,509,327) is recorded in deferred outflows at June 30, 2019.

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

default swaps in the market for entities of similar type and rating are used. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

Credit Risk

As of June 30, 2019, the hedging derivative instrument is a liability and therefore the university is not exposed to the credit risk of its swap counterparties. However, should interest rates change and the fair value of the swap become positive, the university would be exposed to credit risk in the amount of the hedging instrument's fair value. As of June 30, 2019, 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, CMU could be forced to terminate a derivative in a liability position.

Rollover Risk

Rollover risk is the risk that a hedging instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. As of June 30, 2019, the university does not believe that rollover risk is significant.

Foreign Currency Risk

All hedging instruments are denominated in US dollars and therefore the university is not exposed to foreign currency risk.

Market Access Risk

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

Credit Limit

The university entered into a commercial card services agreement as of January 28, 2011 and amended as of July 16, 2013 and December 21, 2017, which supports the university business card program. As part of the agreement, the university has an available credit limit in the amount of \$8 million as of June 30, 2019. The outstanding balance is due monthly. Due to the timing of the monthly close for the credit card

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

statements, the university had an outstanding balance of \$121,618 as of June 30, 2019 under the credit limit.

Letter of Credit

On June 6, 2019, the university signed a new stand by Letter of Credit agreement with a new counter party in the amount of outstanding bond principal plus 35 days interest equal to \$21,004,500 to provide credit enhancement and liquidity support for certain General Revenue Refunding Bonds, Series 2008A. The expiration date of the stand by Letter of Credit is July 3, 2024.

OTHER OBLIGATIONS

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

NOTE 25--COMMITMENTS AND CONTINGENCIES

One of the critical factors in continuing the quality of the university's academic programs, research programs and residential life is the development and renewal of its capital assets. Construction in progress at June 30, 2019 primarily consists of the construction costs for the Center for Integrated Health Studies building of \$16.9 million, Chippewa Champions Center project of \$4.5 million, Residence Life Facilities Infrastructure Improvements of \$4.3 million, Powerhouse upgrade to the 1250 ton absorption chiller of \$1.6 million and other projects including maintenance and remodeling of approximately \$9.8 million.

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

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Health Professions Building, Education Building and Biosciences Building. The university is in negotiations for a similar lease related to the Center for Integrated Health Studies Building. The projects were financed with SBA Revenue Bonds and state appropriations. The buildings are recorded as assets of the university.

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

NOTE 26--RISK MANAGEMENT

The university participates with other Michigan public universities in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.). This corporation's purpose is to provide insurance coverage for errors and omissions liability, commercial general liability, automobile physical damage and automobile liability. M.U.S.I.C. retains the first layer of coverage for losses exceeding retention levels in a group risk-sharing pool, and they purchase additional layers of excess insurance through commercial carriers for the aforementioned coverages. The payments made to M.U.S.I.C. and premiums to excess carriers reflect the liability risk exposures and claims experience of each university.

Additionally, the university either self-insures or purchases commercially available coverage for exposures outside of the M.U.S.I.C. program, some of which are: property insurance, medical malpractice, workers compensation and cyber insurance. The university has reserve accounts from which it pays its retention amounts for losses related to errors and omissions, commercial general liability, auto and property claims.

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Professional Liability Insurance

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

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

| | <u>June 30, 2019</u> |
|---|----------------------|
| Estimated professional liability under self-insurance | \$ 200,000 |
| Less: Investments under professional liability funding arrangement – held by the trustee, at fair value | <u>(788,418)</u> |
| Estimated over funding of liability | <u>\$ (588,418)</u> |

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

Effective November 1, 2012, CHAS purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$2,000,000 per occurrence with an annual aggregate \$12,000,000.

Malpractice and other claims have been asserted against CHAS by various claimants. Such claims are in various stages of processing and some may be litigated. Accordingly, management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of management, all such matters are adequately covered by prior and existing insurance policies and the Self-Insurance Trust Fund.

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 28--DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Accumulated fair value of hedging derivatives | \$ 5,509,327 | |
| Gain on Defeasance of Debt | 2,078,912 | |
| Split Interest Agreements | | \$ 5,196,159 |
| Pension Related: | | |
| Differences between expected and actual experience | | 121,378 |
| Changes of assumptions | 1,255,282 | |
| Net difference between projected and actual earnings on pension plan assets | | 5,176,821 |
| Changes in proportion and differences between contributions and proportionate share of contributions | | 44,190 |
| Contributions subsequent to the measurement date | 8,415,795 | |
| OPEB Related: | | |
| Differences between expected and actual experience | | 2,312,768 |
| Changes of assumptions | 1,255,706 | |
| Net difference between projected and actual earnings on OPEB plan assets | | 1,674,828 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 44,875 | 10,417 |
| Contributions subsequent to the measurement date | 2,440,877 | |
| Total | <u>\$ 21,000,774</u> | <u>\$ 14,536,561</u> |

Deferred outflows of resources and deferred inflows of resources do not include \$1,206,509 of UAAL stabilization funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date.

NOTE 29--SUBSEQUENT EVENTS

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