

**Central Michigan University**

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**State of Michigan CAFR Financial Schedules**

**June 30, 2015**

**Contents**

<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements</b>	
Exhibit I – Reclassified Statement of Net Assets and Reclassifying Entries	2-4
Exhibit II – Reclassified Statement of Activities and Reclassifying Entries	5-6
Notes to State of Michigan CAFR	7-19

## Independent Auditor's Report

To the Board of Trustees  
Central Michigan University

We have audited the financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component unit as of and for the year ended June 30, 2015, 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 October 16, 2015, which contained unmodified opinions on the financial statements of Central Michigan University. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) which represents all the balances of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHAS, is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to October 16, 2015.

### **Report on the State of Michigan CAFR Financial Schedules**

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

### **Restriction on Use**

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

*Plante & Moran, PLLC*

October 16, 2015

## STATE OF MICHIGAN

## STATEMENT OF NET POSITION

EXHIBIT I

## STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY

June 30, 2015

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ 31,370,702	\$ 4,696,245		\$ 36,066,947		\$ 36,066,947	1
Accounts receivable, net	20,135,158	1,700,735	\$ (293,720)	21,542,173		21,542,173	2
State appropriations receivable, operations	14,384,549			14,384,549		14,384,549	2
State appropriations receivable, Charter Schools	39,233,733			39,233,733		39,233,733	2
Inventories	7,337,459			7,337,459		7,337,459	1
Other assets	698,535	779,515		1,478,050		1,478,050	2
Total current assets	113,160,136	7,176,495	(293,720)	120,042,911			
<b>CURRENT ASSETS</b>							
Cash					\$ 36,066,947		\$ 36,066,947
Amounts due from other funds							
Amounts due from primary government					54,001,469		54,001,469
Amounts due from federal government					1,010,150		1,010,150
Amounts due from local units							
Inventories					7,337,459		7,337,459
Investments (Note 8)							
Securities lending collateral							
Other Current Assets					21,626,886		21,626,886
Total Current Assets	113,160,136	7,176,495	(293,720)	120,042,911	120,042,911	120,042,911	120,042,911
<b>NONCURRENT ASSETS:</b>							
Restricted cash and cash equivalents	24,776,174			24,776,174		24,776,174	1
Endowment investments	108,759,993			108,759,993		108,759,993	3
Loans receivable, net	6,114,729			6,114,729		6,114,729	1
Medical Education Receivable, net		518,695		518,695		518,695	1
Other long-term investments	230,250,249	756,192		231,006,441		231,006,441	3
Capital assets, net	506,077,842	925,198		507,003,040		507,003,040	4
<b>RESTRICTED ASSETS</b>							
Cash and cash equivalents					24,776,174		24,776,174
Mortgages and loan receivable					6,114,729		6,114,729
<b>INVESTMENTS</b>							
					339,766,434		339,766,434
<b>CAPITAL ASSETS:</b>							
Land and other non depreciable assets					13,724,273		13,724,273
Buildings, equipment and other depreciable assets					831,824,584		831,824,584
Less accumulated depreciation						385,495,808	(385,495,808)
Construction in progress					46,949,991		46,949,991
Net capital assets							507,003,040
Other noncurrent assets					518,695		518,695
Total noncurrent assets	875,978,987	2,200,085		878,179,072	1,263,674,880	1,263,674,880	878,179,072
<b>TOTAL ASSETS</b>	<b>989,139,123</b>	<b>9,376,580</b>	<b>(293,720)</b>	<b>998,221,983</b>	<b>1,383,717,791</b>	<b>1,383,717,791</b>	<b>998,221,983</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Accumulated change in fair value of hedging derivatives and deferred on bond refunding	9,161,086			9,161,086			9,161,086
Deferred outflow related to CMU's proportionate share of the MPSERS net pension liability	8,701,721			8,701,721			8,701,721
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>9,161,086</b>			<b>9,161,086</b>			<b>17,862,807</b>

See notes to supplemental financial statements.

STATE OF MICHIGAN  
STATEMENT OF NET POSITION  
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY  
June 30, 2015

EXHIBIT I

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
<b>LIABILITIES:</b>							
<b>CURRENT LIABILITIES</b>							
Accounts payable and accrued liabilities	74,212,091	1,930,389		76,142,480	76,142,480	5	
Unearned revenue	12,982,673			12,982,673	12,982,673	1	
Deposits	2,343,194			2,343,194	2,343,194	5	
Long term liabilities - current portion	22,119,946			22,119,946	22,119,946	6	
<b>Total Current Liabilities</b>	<b>111,657,904</b>	<b>1,930,389</b>		<b>113,588,293</b>			
<b>CURRENT LIABILITIES</b>							
Accounts payable and other liabilities							76,822,958
Amounts due to primary government							67,461
Bond and notes payable							21,741,072
Interest payable							1,595,255
Unearned revenue							12,982,673
Other long term obligations - current portion							378,874
<b>Total Current Liabilities</b>	<b>111,657,904</b>	<b>1,930,389</b>		<b>113,588,293</b>	<b>113,588,293</b>		<b>113,588,293</b>
Amounts due to CMU		293,720	(293,720)				
<b>NONCURRENT LIABILITIES:</b>							
Long-term debt, hedging instruments and other obligations	189,243,380			189,243,380	189,243,380	7	
Net Pension Liability	93,365,966			93,365,966	93,365,966	7	
Unearned Revenue		72,744		72,744			72,744
Bonds and notes payable							169,147,000
Noncurrent portion of other long-term obligations		246,116		246,116			113,462,346
<b>TOTAL LIABILITIES</b>	<b>394,267,250</b>	<b>2,542,969</b>	<b>(293,720)</b>	<b>396,516,499</b>	<b>396,197,639</b>		<b>396,516,499</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflow related to CMU's proportionate share of the MPERS net pension liability	8,976,302			8,976,302			8,976,302
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>8,976,302</b>			<b>8,976,302</b>			<b>8,976,302</b>
<b>NET POSITION</b>							
Net investment in capital assets	317,612,149			317,612,149	317,612,149	1	
Restricted for:							
Nonexpendable							
Scholarships, fellowships, and research	48,216,634			48,216,634	48,216,634	8	
Expendable							
Scholarships, fellowships, research and other	31,589,849			31,589,849	31,589,849	8	
Instructional department uses	9,811,940			9,811,940	9,811,940	8	
Loans	1,057,279			1,057,279	1,057,279	8	
Capital projects and debt service	34,248,432			34,248,432	34,248,432	1	
Temporarily Restricted		19,285		19,285	19,285	1	
Unrestricted	161,222,095	6,814,326		168,036,421	168,036,421	1	
<b>Total net position</b>	<b>603,758,378</b>	<b>6,833,611</b>		<b>610,591,989</b>	<b>610,591,989</b>		
<b>NET POSITION</b>							
Net investment in capital assets							317,612,149
Restricted for:							
Education							17,502,016
Construction and debt service							34,248,432
Other Purposes							19,285
Funds Held as Permanent Investments							
Nonexpendable							48,216,634
Expendable							24,957,052
Unrestricted Net Position							168,036,421
<b>TOTAL NET POSITION</b>	<b>\$ 603,758,378</b>	<b>\$ 6,833,611</b>		<b>\$ 610,591,989</b>	<b>\$ 610,591,989</b>		<b>\$ 610,591,989</b>

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, 2015

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	\$ 21,542,173		
State appropriations receivable, operations	14,384,549		
State appropriations receivable, Charter Schools	39,233,733		
State Appropriations	(14,384,549)	\$ 14,384,549	
State Appropriations - Charter Schools	(39,233,733)	39,233,733	
State Grants	(383,187)	383,187	
Federal Agencies	(1,010,150)		1,010,150
	<u>20,148,836</u>	<u>\$ 54,001,469</u>	<u>\$ 1,010,150</u>
Other current assets	1,478,050		
	<u>\$ 21,626,886</u>		

3) Reclassify investments

	Investments
Endowment investments	\$ 108,759,993
Other long-term investments	231,006,441
Investments	<u>\$ 339,766,434</u>

4) Reclassify capital assets

	University Capital Assets	Discrete CU Capital Assets	Total Capital Assets
Land and other nondepreciable assets	\$ 13,724,273	\$	\$ 13,724,273
Buildings, equipment, and other depreciable assets	826,915,751	4,908,833	831,824,584
Construction in progress	46,949,991		46,949,991
Total	<u>887,590,015</u>	<u>4,908,833</u>	<u>892,498,848</u>
Less accumulated depreciation	381,512,173	3,983,635	385,495,808
Capital Assets, net	<u>\$ 506,077,842</u>	<u>\$ 925,198</u>	<u>\$ 507,003,040</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 76,142,480		
Deposits	2,343,194		
Mich income tax	(67,376)	\$ 67,376	
Mich sales tax owed	(85)	85	
Interest	(1,595,255)		\$ 1,595,255
	<u>\$ 76,822,958</u>	<u>\$ 67,461</u>	<u>\$ 1,595,255</u>

6) Reclassify current portion of debt obligation

	Long Term Liab Current portion	Bonds & Notes Payable
Current portions of long term obligations	\$ 22,119,946	
Bonds and notes payable	(21,741,072)	\$ 21,741,072
	<u>\$ 378,874</u>	<u>\$ 21,741,072</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds & Notes Payable
Long-term debt and other obligations	\$ 189,243,380	
Long-term bonds and notes payable	(169,147,000)	\$ 169,147,000
Net Pension Liability	93,365,966	
	<u>\$ 113,462,346</u>	<u>\$ 169,147,000</u>

8) Combine restricted net position

	Restricted for Endowments	Restricted for Education
Restricted for:		
Nonexpendable-scholarships, fellowships, research	\$ 48,216,634	
Expendable-scholarships, fellowships, research	24,957,052	6,632,797
Instructional department uses		9,811,940
Expendable-loans		1,057,279
	<u>\$ 73,173,686</u>	<u>17,502,016</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, 2015

EXHIBIT II

	University Financial Report	Discrete Component Units	Total University	Adjustments and Reclassifications		SOMCAFR Format
				Debit	Credit	
<b>OPERATING REVENUES</b>						
Tuition and fees	\$ 223,630,000		\$ 223,630,000	\$ 223,630,000	1	
Federal grants and contracts	6,824,504		6,824,504	6,824,504	2	
State and local grants and contracts	2,087,662		2,087,662	2,087,662	2	
Private grants and contracts	3,581,401		3,581,401	3,581,401	2	
Sales and services of educational activities	19,434,555		19,434,555	19,434,555	1	
Auxiliary enterprises	80,565,486	\$ 34,184,868	114,750,354	114,750,354	1	
Total operating revenues	336,123,608	34,184,868	370,308,476	370,308,476		
<b>OPERATING EXPENSES</b>	451,906,237	32,246,716	484,152,953		\$ 484,152,953	3
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State appropriations	80,753,001		80,753,001	80,753,001	4	
Gifts and pledges net of allowance	4,389,410		4,389,410	4,389,410	2	
Investment income net of expense	2,644,746	14,497	2,659,243	2,659,243	2,5	
Interest on capital assets related debt	(5,266,509)		(5,266,509)			3
Federal Pell grant program	28,358,142		28,358,142	28,358,142	6	
Other nonoperating revenues	25,316		25,316	25,316	6	
Net nonoperating revenues	110,904,106	14,497	110,918,603	116,185,112		5,266,509
<b>OTHER</b>						
Capital appropriations					4	
Capital grants and gifts	1,615,764		1,615,764	1,615,764	7	
Additions to permanent endowments	4,598,096		4,598,096	4,598,096	2	
Total other revenues	6,213,860		6,213,860	6,213,860		
Increase in net position	1,335,337	1,952,649	3,287,986	492,707,448		489,419,462
<b>EXPENSES</b>				489,419,462	3	\$ 489,419,462
<b>PROGRAM REVENUES</b>						
Charges for services						357,814,909
Operating grants/contributions						22,477,244
Capital grants/contributions						1,615,764
<b>NET (EXPENSE) REVENUE</b>						
Business-type activities						381,907,917
<b>GENERAL REVENUES</b>						
Interest and investment earnings						1,663,072
Payments from State of Michigan						80,753,001
Other						28,383,458
<b>TRANSFERS</b>						
Total general revenues and transfers						110,799,531
Change in net position	1,335,337	1,952,649	3,287,986			3,287,986
Net position -- beginning	693,933,936	4,880,962	698,814,898			698,814,898
Adjustment for change in Accounting Principle (Note 4)	(91,510,895)		(91,510,895)			(91,510,895)
Net position -- ending	\$ 603,758,378	\$ 6,833,611	\$ 610,591,989	\$ 0	\$ 0	\$ 610,591,989

See notes to supplemental financial statements.

STATE OF MICHIGAN  
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES  
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY  
JUNE 30, 2015

EXHIBIT II

1)	Charges for services	Charges for Services
	Tuition and fees	\$ 223,630,000
	Sales and services of educational activities	19,434,555
	Auxiliary enterprises	114,750,354
		<u>\$ 357,814,909</u>
2)	Operating grants/contributions	Operating Grants/Contributions
	Federal grants and contracts	\$ 6,824,504
	State and local grants and contracts	2,087,662
	Private grants and contracts	3,581,401
	Gifts and pledges net of allowance	4,389,410
	Additions to permanent endowments	4,598,096
	Investment Income - Exp Rest Fund	1,362
	Investment Income - Student Loan Fund	54,329
	Investment Income - Endowment Fund	940,480
		<u>\$ 22,477,244</u>
3)	Expenses	Expenses
	Operating expenses	\$ 484,152,953
	Interest on capital assets, net of related debt	5,266,509
		<u>\$ 489,419,462</u>
4)	Payments from State of Michigan	Payments from State of Michigan
	State appropriations	\$ 79,138,800
	Capital appropriations	
	Section 236(4) retirement contribution	1,614,201
		<u>\$ 80,753,001</u>
5)	Interest and investment earnings	Investment Income
	Investment Income - Exp Rest Fund	\$ 2,659,243
	Investment Income - Student Loan Fund	(1,362)
	Investment Income - Endowment Fund	(54,329)
		(940,480)
		<u>\$ 1,663,072</u>
6)	Other Revenues	Other Revenues
	Federal Pell Grant Program	\$ 28,358,142
	Other nonoperating revenues	25,316
		<u>\$ 28,383,458</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

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### NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

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

The university reports under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting research bulletins of the American Institute of Certified Public Accountants (AICPA), Committee or Accounting Procedure

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

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

#### Cash and Cash Equivalents

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

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

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

#### Inventories

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

#### Investments

All investments are stated at fair value.

#### Capital Assets

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

## NOTES TO THE STATE OF MICHIGAN CAFR (continued)

### Central Michigan University

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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

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

#### Deferred Outflows and 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. A portion of the deferred outflows of resources is a result of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$6,738,707 at June 30, 2015. Also included in deferred outflows is the gain on the defeasance of the General Revenue Bonds Series 2002A valued at \$1,290,248, net of amortization, at June 30, 2015 and the gain on the defeasance of the General Revenue Bonds Series 2005 valued at \$1,132,131, net of amortization, at June 30, 2015. The last portion of the deferred outflows is related to the university's proportionate share of the net pension liability for the Michigan Public School Employee's Retirement (MPSERS) plan. The university recorded deferred outflows related to the pension plan of \$8,701,721 at June 30, 2015. See Note 27 for additional information.

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 the deferred resources related to the university's proportionate share of the net pension liability for the Michigan Public School Employee's Retirement (MPSERS) plan. The deferred inflows were \$8,976,302 as of June 30, 2015.

#### Operating and Non-operating Revenues

Operating revenues of the university consist of tuition, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 34, including state appropriations, Federal Pell grant revenue, gifts and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient university department within the guidelines of donor restrictions, if any.

# NOTES TO THE STATE OF MICHIGAN CAFR (continued)

## Central Michigan University

### NOTE 4--ACCOUNTING CHANGES AND RESTATEMENTS

#### Adoption of New Standard

The GASB issued GASB Statement No. 68, Accounting and Financial Reporting that requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. In accordance with the statement, the university has reported a Net Pension Liability of \$91.5 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014. This amount includes \$6.0 million in required contributions made after the end of the plan period, but before July 1, 2014. Amounts as of June 30, 2014 have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ended June 30, 2014.

### NOTE 8--DEPOSITS AND INVESTMENTS

The university and its component units had the following investments:

	Fair Market Value	Investment Maturities (in Years)				N/A
		Less Than 1	1-5	6-10	More Than 10	
Deposits:						
Time deposits	\$ 67,096,905	\$ 67,096,905				
Government money market accounts						
Investments:						
Commercial paper						
Short-term notes						
Repurchase agreements						
Government securities						
Insured mortgage backed securities						
Government backed securities						
Investment agreements						
Corporate bonds and notes						
Preferred stock						
Equities	89,253,997	89,253,997				
Real estate	30,689	30,689				
Venture capital & leveraged buyouts						
Government money market funds						
Mutual bond/equity funds	222,286,327					\$ 222,286,327
Guaranteed investment contracts						
Pooled investment funds						
Other Investments	21,941,636		\$ 21,941,636			
Total Investments	400,609,555	156,381,591	21,941,636			222,286,327
Less Investments Reported as "Cash" on Statement of Net Position						
Current cash and cash equivalents	36,066,947					
Restricted cash and cash equivalents	24,776,174					
	60,843,121					
Total Investments	\$ 339,766,434					
<u>As Reported on the Statement of Net Position</u>						
Current investments						
Noncurrent restricted investments	\$ 73,173,686					
Noncurrent investments	266,592,748					
Total Investments	\$ 339,766,434					

#### Credit Risk

The university's investment policy requires that all bond investments have a Standard and Poor's or a Moody's Investors Service rating of A or better. Debt investments held by the university as of June 30, 2015, that mature by June 30, 2016, were rated by Moody's with a rating of Aaa.

## **NOTES TO THE STATE OF MICHIGAN CAFR (continued)**

### **Central Michigan University**

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#### **Interest Rate Risk**

The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All government securities have a maturity of less than one year.

#### **Concentration of Credit Risk**

Deliberate management of the asset mix among classes of investments is a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political or social developments is a highly desirable objective. The university's general policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. Accordingly, the university did not have investments in any one issuer that represented 5% or more of total investments at June 30, 2015.

#### **Foreign Currency Risk**

The university's holding in foreign investments was made primarily in equities, which approximated \$89.2 million at June 30, 2015.

#### **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. For the university, the carrying amount of deposits, excluding those classified as investments, was \$42,403,308 at June 30, 2015. The deposits were reflected in the accounts of the banks at \$28,024,351 at June 30, 2015. Of the bank balance, \$27,274,351 at June 30, 2015, was uninsured and uncollateralized.

For CHAS deposits reflected in the accounts of the banks were \$4,694,895 at June 30, 2015. Of the bank balance, \$4,444,895 at June 30, 2015, 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 \$79.0 million at June 30, 2015, in its investment portfolios held by various investment managers as the counterparty.

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**NOTES TO THE STATE OF MICHIGAN CAFR (continued)**

**Central Michigan University**

**NOTE 9--CAPITAL ASSETS**

Capital assets, net of depreciation, for the university and its component units consist of the following as of June 30, 2015:

	Beginning Balance <u>July 1, 2014</u>	Additions	Reductions	Ending Balance <u>June 30, 2015</u>
Non-depreciated capital assets:				
Land	\$ 12,943,827			\$ 12,943,827
Capitalized Collections	630,446	\$ 150,000		780,446
Total non-depreciated capital assets	<u>13,574,273</u>	<u>150,000</u>		<u>13,724,273</u>
Depreciated capital assets:				
Land Improvements	25,912,636	366,401	\$ 1,223,858	25,055,179
Infrastructure	14,909,310	4,526,264	19,732	19,415,842
Buildings	633,168,349	23,679,007	719,240	656,128,116
Leasehold Improvements	95,759			95,759
Furniture and Equipment	84,916,905	3,412,309	9,647,982	78,681,232
Library Materials	46,171,141	1,006,581	562,805	46,614,917
Intangible Assets	924,706			924,706
CHAS Leasehold Imp, Furniture, Equip	4,582,981	325,852		4,908,833
	<u>810,681,787</u>	<u>33,316,414</u>	<u>12,173,617</u>	<u>831,824,584</u>
Less accumulated depreciation:				
Land Improvements	21,820,163	1,003,413	662,214	22,161,362
Infrastructure	8,133,874	895,193	10,278	9,018,789
Buildings	235,463,967	17,505,024	716,663	252,252,328
Leasehold Improvements	77,406	9,575		86,981
Furniture and Equipment	59,091,647	5,316,552	9,415,125	54,993,074
Library Materials	41,644,248	1,134,014	562,805	42,215,457
Intangible Assets	776,402	7,780		784,182
CHAS Leasehold Imp, Furniture, Equip	4,026,668		43,033	3,983,635
Total depreciated capital assets	<u>371,034,375</u>	<u>25,871,551</u>	<u>11,410,118</u>	<u>385,495,808</u>
Construction In Progress	<u>20,834,872</u>	<u>35,263,334</u>	<u>9,148,215</u>	<u>46,949,991</u>
Capital Assets, Net	<u>\$ 474,056,557</u>	<u>\$ 42,858,197</u>	<u>\$ 9,911,714</u>	<u>\$ 507,003,040</u>

## NOTES TO THE STATE OF MICHIGAN CAFR (continued)

### Central Michigan University

#### NOTE 10--RETIREMENT PLANS

In addition to the Michigan Public School Employees' Retirement System (MPERS), the university has established retirement plans for all qualified employees. Full-time faculty and professional administrators have the option to participate in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF) and/or Fidelity Investment Tax Exempt Services Company. The university contributes 12% of each qualified employee's pay to these defined contribution plans. For new hires on or after January 1, 1996, the university contributes 10% for all salaried employees and 8.5%-10% for hourly staff. University contributions begin immediately for all employees.

Contributions and covered payroll under all plans in fiscal year 2015 are summarized as follows:

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPERS</u>	<u>University Total</u>
University Contributions	\$ 12,884,692	\$ 2,607,753	\$ 766,415	\$ 16,258,860
Required Employee Contributions			494,894	494,894
University Health Contributions			17,208	17,208
Employee Health Contributions			518,218	518,218
Covered Payroll	124,092,484	25,922,321	17,559,308	167,574,113

The university also sponsors the Retirement Service Award program covering certain employees hired before a specific date in 1976 and certain maintenance and food service employees. The plan provides for distributions to qualifying employees at retirement based principally on length of service and salary at retirement. Liabilities of \$2,425,700 for fiscal year 2015 related to this program are included in the university statements of net position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with long-term debt, hedging instruments and other long-term obligations in the statements of net positions. During fiscal year 2015, 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 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.

#### 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 MPERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rates for the defined benefit plan are as follows:

	<u>Normal Pension Cost</u>	<u>Unfunded Portion</u>
10/01/14 – 06/30/15	4.8%	17.72%
10/01/13 – 09/30/14	3.0%	16.61%

## NOTES TO THE STATE OF MICHIGAN CAFR (continued)

### Central Michigan University

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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 contributions to MPERS normal pension costs, totaled \$766,415 in fiscal year 2015. Required employee contributions were \$494,894 in fiscal year. The university's contributions to the unfunded MPERS pensions, not included in the table above, totaled \$7,282,185 in fiscal year 2015. Contributions include \$1,614,201 of stabilization rate revenue received from the State of Michigan to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2015.

#### Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2015, the university reported a liability of \$93,365,966 for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPERS. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, which used update procedures to roll forward the estimated liability to September 30, 2014. 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, 2014, the university's proportion was 24.89 percent, of the universities reporting unit.

For the year ended June 30, 2015, the university recognized pension expense of \$10,179,119. This amount includes a minor adjustment for the difference in required contributions between the plan calculation date of September 30, 2014 and the university's fiscal period of June 30, 2015. At June 30, 2015, the university also 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 27 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, technology equipment and College of Medicine office space. CHAS has entered into various leases primarily for clinical and office space. The following is a schedule of the aggregate minimum commitments for leases for each of the succeeding five years ending June 30 and thereafter:

2016	\$	3,510,953
2017		2,534,406
2018		1,914,743
2019		924,712
2020		740,241
2021-2025		1,644,996
2026-2030		596,736
	\$	<u>11,866,787</u>

**NOTES TO THE STATE OF MICHIGAN CAFR (continued)**

**Central Michigan University**

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

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2015:

	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Current Portion
General Revenue Bonds:					
Series 1990 Capital Appreciation	\$ 3,449,929	\$ 157,143	\$ 1,820,000	\$ 1,787,072	\$ 1,787,072
Series 2005:					
Series Bonds	5,325,000		4,500,000	825,000	825,000
Term Bonds	21,675,000		21,675,000		
Series 2006:					
Series Bonds	7,430,000		700,000	6,730,000	730,000
Term Bonds	17,325,000			17,325,000	
Series 2008A Series Bonds	28,215,000		2,905,000	25,310,000	3,170,000
Series 2009A Series Bonds	26,920,000		1,510,000	25,410,000	1,585,000
Series 2009A Unamortized Premium	2,107,000		172,000	1,935,000	172,000
Series 2012A Series Bonds	23,015,000			23,015,000	
Series 2014:					
Series Bonds		44,665,000		44,665,000	
Term Bonds		22,105,000		22,105,000	
Series 2014 Unamortized Premium		8,135,032	179,032	7,956,000	272,000
Total Long-Term Debt	135,461,929	75,062,175	33,461,032	177,063,072	8,541,072
Note Payable	825,000		100,000	725,000	100,000
Line of Credit	16,100,000		3,000,000	13,100,000	13,100,000
Hedging Instruments	6,755,144		16,437	6,738,707	
Compensated Absences	5,591,370		158,527	5,432,843	51,173
Federal Portion of Perkins					
Loan Program	5,480,208		223,411	5,256,797	
Retirement Service Award Program	3,175,886		128,979	3,046,907	327,701
	<u>37,927,608</u>	<u>-</u>	<u>3,627,354</u>	<u>34,300,254</u>	<u>13,578,874</u>
Total	<u>\$ 173,389,537</u>	<u>\$ 75,062,175</u>	<u>\$ 37,088,386</u>	<u>\$ 211,363,326</u>	<u>\$ 22,119,946</u>

General Revenue Bond Series 1990 are capital appreciation bonds recorded in the following table at their accreted year-end book value. The bonds bear an interest rate between 7.30% and 7.35% and mature in fiscal year 2016. The table, which follows, summarizes capital appreciation bonds at June 30, 2015.

Maturity Date	Accreted Value	Ultimate Maturity Value
10-1-2015	1,787,072	1,820,000
Total	\$ <u>1,787,072</u>	\$ <u>1,820,000</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, 2015 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
2016 \$	8,097,072	\$ 6,174,754	\$ 1,026,623	\$ 15,298,449
2017	4,825,000	5,985,330	973,146	11,783,476
2018	5,275,000	5,802,595	964,261	12,041,856
2019	5,470,000	5,602,955	953,056	12,026,011
2020	5,480,000	5,386,983	943,945	11,810,928
2021-2025	32,495,000	23,107,905	4,501,181	60,104,086
2026-2030	41,345,000	15,878,337	3,600,955	60,824,292
2031-2035	40,360,000	8,607,261	810,911	49,778,172
2036-2040	11,540,000	3,772,450		15,312,450
2041-2045	12,285,000	1,267,700		13,552,700
Total	167,172,072	\$ 81,586,270	\$ 13,774,078	\$ 262,532,420
Unamortized Premium	9,891,000			
	\$ 177,063,072			

### HEDGING INSTRUMENTS

The university has two pay-fixed, receive-variable, interest rate swaps at June 30, 2015. The objective of these swaps is to hedge interest rate risk on the Series 2008A bonds. A description of the swaps is as follows:

Under the March 2002 swap, the university pays the counterparty a fixed payment of 4.44% and receives a variable payment of 67% of the London Interbank Offered Rate (LIBOR) (0.12563% at June 30, 2015). The notional amount of the swap at June 30, 2015 is \$22,000,000. The swap agreement matures on October 1, 2032. The university received \$3,806,000 from the counterparty which was used to terminate the original swap with Lehman Brothers. Effective November 7, 2008, the swap agreement was assumed by Deutsche Bank AG. The swap provisions and termination date remain unchanged.

Under the October 2000 swap, the university pays the counterparty a fixed payment of 5.49% and receives a variable payment of the lesser of the BMA Index or 65% of LIBOR (0.1219% at June 30, 2015). The notional amount of the swap at June 30, 2015 is \$3,145,000. The swap agreement matures on October 1, 2015. The university received \$756,000 from the counterparty at the execution of the swap agreement. The original swap agreement was with Lehman Brothers. Effective August 16, 2004, the swap agreement was assumed by JPMorgan, Michigan. The swap provisions and termination date remain unchanged.

As of June 30, 2015, the swap agreements had a total notional amount of \$25,145,000 and were in a negative position of \$6,738,707 (\$6,682,335 for the 2002 swap and \$56,372 for the 2000 swap). As long as the variable rate portion of the swap being received by the university is less than the fixed rate being paid, the university will continue to be in a negative position on the swap.

The pay-fixed, receive-variable, interest rate swaps are considered cash flow hedges. The change in fair value was a decrease to deferred outflows of \$16,437 for fiscal year 2015. The fair value of \$6,738,707 is recorded in deferred outflows at June 30, 2015.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

## **NOTES TO THE STATE OF MICHIGAN CAFR (continued)**

### **Central Michigan University**

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#### **Credit Risk**

As of June 30, 2015, all hedging instruments are liabilities; therefore the university is not exposed to the credit risk of its swap counterparties. However, should interest rates change and the fair value of the swap become positive, the university would be exposed to credit risk in the amount of the hedging instrument's fair value. As of June 30, 2015, all of the university's interest rate swap counterparties are rated A- or higher which suggests a strong capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparties from complying with the terms of the derivative agreements. The university monitors counterparty credit risk on an ongoing basis for any significant adverse changes.

#### **Interest Rate Risk**

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

#### **Basis Risk**

The variable rate debt hedged by the interest rate swaps is weekly-resetting variable rate demand obligation (VRDO) 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 counterparties may terminate a hedging instrument if the other party fails to perform under the terms of the contract. In addition, the university's swap counterparties have the right to terminate a hedging instrument if the credit rating of the university's unenhanced, unlimited tax general obligation bonds is withdrawn or reduced by any two of Fitch, Moody's, and S&P below BBB/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, 2015, 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.

#### **OTHER OBLIGATIONS**

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

## **NOTES TO THE STATE OF MICHIGAN CAFR (continued)**

### **Central Michigan University**

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#### **NOTE 24--COMMITMENTS AND CONTINGENCIES**

One of the critical factors in continuing the quality of the university's academic programs, research programs and residential life is the development and renewal of its capital assets. Construction in progress at June 30, 2015 primarily consists of the construction costs for Biosciences building of \$34.0 million, Lacrosse, Soccer and Recreation Facility of \$3.8 million, Music Building roof replacement of \$1.0 million, capitalized interest of \$1.8 million of which \$1.0 million is related to the Biosciences building, and other projects including maintenance and remodeling of approximately \$6.4 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 \$90.0 million as of June 30, 2015.

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Health Professions Building, and Education Building. The projects were financed with SBA Revenue Bonds and state appropriations. The buildings are recorded as assets of the university.

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

In the normal course of its activities, the university is a party in various legal and administrative actions. The university has not experienced significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, the university is of the opinion that the outcome thereof will not have a material effect on the financial statements.

#### **NOTE 25--RISK MANAGEMENT**

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

#### **Professional Liability Insurance**

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

- 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.

## NOTES TO THE STATE OF MICHIGAN CAFR (continued)

### Central Michigan University

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	June 30	
	2015	2014
Estimated professional liability under self-insurance	\$ 246,116	\$ 393,596
Total malpractice assets:		
Investments under professional liability funding arrangement – held by the trustee, at fair value	626,209	614,345
Over funding of liability	\$ (380,093)	\$ (220,749)

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

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

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

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

#### **Managed Care Risk Pool Liability**

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

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**NOTES TO THE STATE OF MICHIGAN CAFR (continued)****Central Michigan University**

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**NOTE 27--DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

For the year ended June 30, 2015, the university reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Accumulated fair value of hedging derivatives	\$ 6,738,707	
Gain on Defeasance of Debt	2,422,379	
Pension Related:		
Changes of assumptions	2,781,565	
Net difference between projected and actual earnings on pension plan assets		\$ 8,976,302
Changes in proportion and differences between contributions and proportionate share of contributions	4,867	
Contributions subsequent to the measurement date	5,915,289	
Total	<u>\$ 17,862,807</u>	<u>\$ 8,976,302</u>

**NOTE 28--SUBSEQUENT EVENTS**

On September 30, 2015, the university received \$32.0 million from the MPSERS plan for a plan error in requiring excess contributions. This refund reduced the plan's net position and will impact the university's net pension liability as of June 30, 2016.