

Central Michigan University

State of Michigan CAFR Financial Schedules

June 30, 2020

Contents

Independent Auditor's Report	1
Basic Financial Statements	
Exhibit I – Reclassified Statement of Net Position and Reclassifying Entries	2-4
Exhibit II – Reclassified Statement of Activities and Reclassifying Entries	5-6
Notes to State of Michigan CAFR	7-20

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, 2020 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 24, 2020, 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) 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 24, 2020.

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.

Emphasis of Matter

As discussed in Note 1 to the financial statements of the University and Note 1 to the State of Michigan CAFR Financial Schedules, the COVID-19 pandemic has impacted the operations of the University. Our opinion is not modified with respect to this matter.

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

December 7, 2020

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2020

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	\$ 36,613,261	\$ 10,137,385		\$ 46,750,646		\$ 46,750,646	1
Accounts receivable, net	22,477,355	2,179,090	\$(883,183)	23,773,262		23,773,262	2
State appropriations receivable, SBA	705,263	0		705,263		705,263	2
State appropriations receivable, operations	6,628,552	0		6,628,552		6,628,552	2
State appropriations receivable, Charter Schools	35,437,290	0		35,437,290		35,437,290	2
Inventories	3,003,824	55,452		3,059,276		3,059,276	1
Other assets	7,400,881	834,970		8,235,851		8,235,851	2
Total current assets	112,266,426	13,206,897	\$(883,183)	124,590,140			
CURRENT ASSETS							
Cash				\$ 46,750,646	1		\$ 46,750,646
Amounts due from primary government				43,134,457	2		43,134,457
Amounts due from federal government				4,546,780	2		4,546,780
Amounts due from local units							
Inventories				3,059,276	1		3,059,276
Investments (Note 8)							
Securities lending collateral							
Other Current Assets				27,098,981	2		27,098,981
Total Current Assets	112,266,426	13,206,897	\$(883,183)	124,590,140	124,590,140	124,590,140	124,590,140
NONCURRENT ASSETS:							
Restricted cash and cash equivalents	1,582,082	0		1,582,082		1,582,082	1
Pledges receivable, net	4,458,122	0		4,458,122		4,458,122	1
Endowment investments	188,557,082	0		188,557,082		188,557,082	3
Other assets		13,540		13,540		13,540	1
Other long-term investments	215,467,849	815,760		216,283,609		216,283,609	3
Capital assets, net	570,423,512	4,958,371		575,381,883		575,381,883	4
RESTRICTED ASSETS							
Cash and cash equivalents				1,582,082	1		1,582,082
INVESTMENTS							
				404,840,691	3		404,840,691
CAPITAL ASSETS:							
Land and other non depreciable assets				14,226,062	4		14,226,062
Buildings, equipment and other depreciable assets				1,009,601,688	4		1,009,601,688
Less accumulated depreciation						485,236,015	(485,236,015)
Construction in progress				36,790,148	4		36,790,148
Net capital assets							575,381,883
Other noncurrent assets				4,471,662	1		4,471,662
Total noncurrent assets	980,488,647	5,787,671		986,276,318	1,471,512,333	1,471,512,333	986,276,318
TOTAL ASSETS	1,092,755,073	18,994,568	\$(883,183)	1,110,866,458	1,596,102,473	1,596,102,473	1,110,866,458
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated change in fair value of hedging derivatives and deferred on bond refunding	8,505,939			8,505,939			8,505,939
Deferred outflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability	12,740,460			12,740,460		1,244,765	11,495,695
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,246,399			21,246,399		1,244,765	20,001,634

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2020

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	77,476,720	3,710,373	(883,183)	80,303,910	80,303,910	5	
Unearned revenue	14,944,894	621,241		15,566,135	15,566,135	1	
Deposits	1,934,450	0		1,934,450	1,934,450	5	
Long term liabilities - current portion	7,176,905	5,641,020		12,817,925	12,817,925	6	
Total Current Liabilities	101,532,969	9,972,634	(883,183)	110,622,420	110,622,420		
CURRENT LIABILITIES							
Accounts payable and other liabilities							77,307,726 5 77,307,726
Amounts due to primary government							3,457,838 5 3,457,838
Bond and notes payable							12,250,296 6 12,250,296
Interest payable							1,472,796 5 1,472,796
Unearned revenue							15,566,135 1 15,566,135
Other long term obligations - current portion							567,629 6 567,629
Total Current Liabilities	101,532,969	9,972,634	(883,183)	110,622,420	110,622,420		110,622,420
Amounts due to CMU		0	0				
NONCURRENT LIABILITIES:							
Long-term debt, hedging instruments and other obligations	164,293,247	488,796		164,782,043	164,782,043	7	
Net Pension Liability	164,606,252			164,606,252	164,606,252	7	
Net OPEB Liability	22,739,133			22,739,133	22,739,133	7	
Unearned Revenue							
Bonds and notes payable							151,739,796 7 151,739,796
Noncurrent portion of other long-term obligations		200,000		200,000			200,387,632 7 200,587,632
TOTAL LIABILITIES	453,171,601	10,661,430	(883,183)	462,949,848	462,749,848		462,949,848
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow on bond refunding	984,464			984,464			984,464
Deferred inflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability	6,329,192			6,329,192	1,244,765	9	5,084,427
Deferred inflow related to Split Interest Agreements	4,566,335			4,566,335			4,566,335
TOTAL DEFERRED INFLOWS OF RESOURCES	11,879,991			11,879,991	1,244,765		10,635,226
NET POSITION							
Net investment in capital assets	413,351,598			413,351,598	413,351,598	1	
Restricted for:							
Nonexpendable							
Scholarships, fellowships, and research	65,219,062			65,219,062	65,219,062	8	
Expendable							
Scholarships, fellowships, research and other	43,723,144			43,723,144	43,723,144	8	
Instructional department uses	20,080,130			20,080,130	20,080,130	8	
Capital projects and debt service	7,377,858			7,377,858	7,377,858	1	
Unrestricted	99,198,088	8,333,138		107,531,226	107,531,226	1	
Total net position	648,949,880	8,333,138		657,283,018	657,283,018		
NET POSITION							
Net investment in capital assets							413,351,598 1 413,351,598
Restricted for:							
Education							24,651,134 8 24,651,134
Construction and debt service							7,377,858 1 7,377,858
Other Purposes							0 1 0
Funds Held as Permanent Investments							
Nonexpendable							65,219,062 8 65,219,062
Expendable							39,152,140 8 39,152,140
Unrestricted Net Position							107,531,226 1 107,531,226
TOTAL NET POSITION	\$ 648,949,880	\$ 8,333,138		\$ 657,283,018	\$ 657,283,018		\$ 657,283,018

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, 2020

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	\$ 23,773,262		
State appropriations receivable, SBA	705,263		
State appropriations receivable, operations	6,628,552		
State appropriations receivable, Charter Schools	35,437,290		
State Appropriations - SBA	(705,263)	\$ 705,263	
State Appropriations - operations	(6,628,552)	6,628,552	
State Appropriations - Charter Schools	(35,437,290)	35,437,290	
State Grants	(363,352)	363,352	
Federal Agencies	(4,546,780)		\$ 4,546,780
	<u>18,863,130</u>	<u>\$ 43,134,457</u>	<u>\$ 4,546,780</u>
Other current assets	8,235,851		
	<u>\$ 27,098,981</u>		

3) Reclassify investments

	Investments
Endowment investments	\$ 188,557,082
Other long-term investments (includes component units)	216,283,609
Investments	<u>\$ 404,840,691</u>

4) Reclassify capital assets

	University Capital Assets	Discrete CU Capital Assets	Total Capital Assets
Land and other nondepreciable assets	\$ 14,226,062		\$ 14,226,062
Buildings, equipment, and other depreciable assets	994,404,414	\$ 15,197,274	1,009,601,688
Construction in progress	36,790,148		36,790,148
Total	<u>1,045,420,624</u>	<u>15,197,274</u>	<u>1,060,617,898</u>
Less accumulated depreciation	474,997,112	10,238,903	485,236,015
Capital Assets, net	<u>\$ 570,423,512</u>	<u>\$ 4,958,371</u>	<u>\$ 575,381,883</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 80,303,910		
Deposits	1,934,450		
Mich income tax	(52,832)	\$ 52,832	
Payroll Floor UAAL Payment	(3,140,186)	3,140,186	
Sec 236(4) UAAL Payment	(226,320)	226,320	
MPERS Member Payments on Accrued Payroll	(19,199)	19,199	
Mich sales tax owed	(19,301)	19,301	
Interest	(1,472,796)		\$ 1,472,796
	<u>\$ 77,307,726</u>	<u>\$ 3,457,838</u>	<u>\$ 1,472,796</u>

6) Reclassify current portion of debt obligation

	Long Term Liab Current portion	Bonds & Notes Payable
Current portions of long term obligations	\$ 12,817,925	
Bonds and notes payable	(12,250,296)	\$ 12,250,296
	<u>\$ 567,629</u>	<u>\$ 12,250,296</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds & Notes Payable
Long-term debt and other obligations	\$ 164,782,043	
Long-term bonds and notes payable	(151,739,796)	\$ 151,739,796
Net Pension Liability	164,606,252	
Net OPEB Liability	22,739,133	
	<u>\$ 200,387,632</u>	<u>\$ 151,739,796</u>

8) Combine restricted net position

	Restricted for Endowments	Restricted for Education
Restricted for:		
Nonexpendable-scholarships, fellowships, research	\$ 65,219,062	
Expendable-scholarships, fellowships, research	39,152,140	\$ 4,571,004
Instructional department uses		20,080,130
	<u>\$ 104,371,202</u>	<u>\$ 24,651,134</u>

9) Reclassify Pension Related State Approps Deferred Inflows

	Deferred Outflow	Deferred Inflow
Pension & OPEB Related Deferreds	\$ 12,740,460	\$ 6,329,192
Def Inflows-State Approps Contributions Subsq to Msrmt Date	(1,244,765)	(1,244,765)
	<u>\$ 11,495,695</u>	<u>\$ 5,084,427</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, 2020

EXHIBIT II

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
OPERATING REVENUES							
Tuition and fees	\$ 190,226,622			\$ 190,226,622	\$ 190,226,622	1	
Federal grants and contracts	9,434,499	\$ 849,367		10,283,866	10,283,866	2	
State and local grants and contracts	729,341			729,341	729,341	2	
Private grants and contracts	4,359,377			4,359,377	4,359,377	2	
Sales and services of educational activities	22,274,159	6,057,710	\$ (289,357)	28,042,512	28,042,512	1	
Auxiliary enterprises	62,508,124	46,377,963		108,886,087	108,886,087	1	
Total operating revenues	289,532,122	53,285,040	(289,357)	342,527,805	342,527,805		
OPERATING EXPENSES	446,770,579	54,917,244	(734,357)	500,953,466		\$ 500,953,466	3
NONOPERATING REVENUES (EXPENSES)							
State appropriations	80,864,527	445,000	(445,000)	80,864,527	80,864,527	4	
Gifts and pledges net of allowance	13,985,600	102,329		14,087,929	14,087,929	2	
Investment income net of expense	10,965,878	9,134		10,975,012	10,975,012	2.5	
Interest on capital assets related debt	(6,075,061)			(6,075,061)			6,075,061 3
Federal Pell grant program	23,007,753			23,007,753	23,007,753	6	
Federal CARES Act program	10,902,878			10,902,878	10,902,878	6	
Other nonoperating revenues	206,025	250		206,275	206,275	6	
Net nonoperating revenues	133,857,600	556,713	(445,000)	133,969,313	140,044,374		6,075,061
OTHER							
Capital appropriations	10,990,990			10,990,990	10,990,990	4	
Capital grants and gifts	3,244,809			3,244,809	3,244,809	7	
Additions to permanent endowments	2,195,160			2,195,160	2,195,160	2	
Total other revenues	16,430,959			16,430,959	16,430,959		
Increase in net position	(6,949,898)	(1,075,491)	0	(8,025,389)	499,003,138	507,028,527	
EXPENSES					507,028,527	3	\$ 507,028,527
PROGRAM REVENUES							
Charges for services						327,155,221	1 327,155,221
Operating grants/contributions						35,432,721	2 35,432,721
Capital grants/contributions						3,244,809	7 3,244,809
TOTAL PROGRAM REVENUES						365,832,751	365,832,751
NET (EXPENSE) REVENUE							(141,195,776)
GENERAL REVENUES							
Interest and investment earnings						7,197,964	5 7,197,964
Payments from State of Michigan						91,855,517	4 91,855,517
Other						34,116,906	6 34,116,906
TOTAL GENERAL REVENUES						133,170,387	133,170,387
Change in net position	(6,949,898)	(1,075,491)		(8,025,389)			(8,025,389)
Beginning Net Position:	655,899,778	9,408,629		665,308,407			665,308,407
Ending Net Position	\$ 648,949,880	\$ 8,333,138	\$ 0	\$ 657,283,018	\$ 0	\$ 0	\$ 657,283,018

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2020

EXHIBIT II

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 190,226,622
	Sales and services of educational activities	28,042,512
	Auxiliary enterprises	108,886,087
		<u>\$ 327,155,221</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 10,283,866
	State and local grants and contracts	729,341
	Private grants and contracts	4,359,377
	Gifts and pledges net of allowance	14,087,929
	Additions to permanent endowments	2,195,160
	Investment Income - Exp Rest Fund	247
	Investment Income - Endowment Fund	3,776,801
		<u>\$ 35,432,721</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses - CMU	\$ 446,770,579
	Operating expenses - CMU to component unit	(734,357)
	Operating expenses - component unit (CHAS)	47,872,525
	Operating expenses - component unit IEE	7,044,719
	Interest on capital assets, net of related debt	6,075,061
		<u>\$ 507,028,527</u>
4)	Revenue from State of Michigan	<u>Revenue from State of Michigan</u>
	State appropriations	\$ 79,619,762
	Capital appropriations	10,990,990
	Section 236(4) retirement contribution	1,244,765
		<u>\$ 91,855,517</u>
5)	Interest and investment earnings	<u>Investment Income</u>
	Investment Income - Exp Rest Fund	\$ 10,975,012
	Investment Income - Endowment Fund	(247)
		<u>(3,776,801)</u>
		<u>\$ 7,197,964</u>
6)	Other Revenues	<u>Other Revenues</u>
	Federal Pell Grant Program	\$ 23,007,753
	Federal CARES Act Program	10,902,878
	Other nonoperating revenues	206,275
		<u>\$ 34,116,906</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 cash held in trust accounts related to bonded debt and unspent bond proceeds.

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.

The remainder of this page intentionally left blank

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	10 years
Land Improvements	8 years
Intangible Assets	40 years or indefinite
Equipment – Digital TV	20 years
Equipment	8 years
Library books	8 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 that time. Deferred outflows of resources consist of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method, gains or losses 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 \$6,572,388 at June 30, 2020. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$916,263, net of amortization, at June 30, 2020; Series 2005 valued at \$838,071, net of amortization, at June 30, 2020; and Series 2006 valued at \$179,217, net of amortization, at June 30, 2020. The value of the deferred outflows related to the MPERS plan for pensions was \$9,717,976 as of June 30, 2020, and for other post-employment benefits was \$3,022,484 as of June 30, 2020. 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 of future revenue streams related to the defeasance of debt and 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. The university recorded deferred inflows of resources related to the gain or loss on the defeasance of the General Revenue Bonds Series 2009 valued at \$984,464, net of amortization, at June 30, 2020. Deferred inflows of resources applicable to split-interest agreements were \$4,566,335 at June 30, 2020. At June 30, 2020, deferred inflows related to changes in the pension portion of the MPSERS plan were \$2,979,059 and the value related to changes in the OPEB portion of the MPSERS plan was \$2,105,368. Deferred inflows of resources at June 30, 2020 also include \$1,244,765 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.

Significant Events Impacting the Organization

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries implemented measures to combat the outbreak which impacted business operations globally. Effective March 16, 2020, Central Michigan University leveraged its Global Campus infrastructure to quickly pivot on campus classes to online education for the remainder of the spring 2020 semester. Students were encouraged not to return to campus housing after spring break ended on March 15, resulting in large room and board refunds and significant losses of other auxiliary revenues. An abundance of resources continues to be allocated toward responding to this global pandemic to ensure operational sustainability.

No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding the situation, management's professional perspective regarding this could change in the future.

NOTE 4—ACCOUNTING CHANGES AND RESTATEMENTS

Adoption of New Standard

No new standards were adopted for the fiscal year ended June 30, 2020.

The remainder of this page intentionally left blank

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, 2020:

	<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	\$ 49,516,109	\$ 49,516,109		
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	4,339,831			\$ 4,339,831
Equities	130,566,975	130,566,975		
Real estate	51,385	51,385		
Venture capital & leveraged buyouts				
Government money market funds				
Mutual bond/equity funds	200,741,845			200,741,845
Guaranteed investment contracts				
Pooled investment funds				
Other Investments	67,957,274		\$ 67,957,274	
Total Investments	<u>\$ 453,173,419</u>	<u>\$ 180,134,469</u>	<u>\$ 67,957,274</u>	<u>\$ 205,081,676</u>
Less Investments Reported as "Cash" on Statement of Net Position				
Current cash and cash equivalents	\$ 46,750,646			
Restricted cash and cash equivalents	1,582,082			
	<u>48,332,728</u>			
Total Investments	<u>\$ 404,840,691</u>			
<u>As Reported on the Statement of Net Position</u>				
Current investments				
Noncurrent restricted investments				
Noncurrent investments	\$ 404,840,691			
Total Investments	<u>\$ 404,840,691</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, 2020, all University debt instruments fell within the Standard & Poor’s credit rating range of AAA to B.

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, 2020 are as follows:

Investment Type	June 30, 2020 Fixed Income Investment Maturities				Total
	Less than 1 year	1-5 years	5-10 years	More than 10 years	
US Treasury/TIPS	\$ 1,812,666	\$ 7,040,924	\$ 7,655,398	\$ 2,988,418	\$ 19,497,406
Core Fixed Income	2,656,603	12,744,517	6,453,974	5,607,155	27,462,249
Short Duration Fixed Income	2,859,684	10,645,714	(144,186)	1,202	13,362,414
Emerging Market Debt	961,047	633,376	1,413,197	3,094,267	6,101,887
Global Multi-Sector Fixed Income	9,149,694	8,028,391	5,698,900	2,294,530	25,171,515
Absolute Return Fixed Income	1,931,449	10,849,442	7,592,028	3,095,482	23,468,401
Total	\$ 19,371,143	\$ 49,942,364	\$ 28,669,311	\$ 17,081,054	\$ 115,063,872

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, 2020.

Foreign Currency Risk

All of the university’s holdings of foreign investments were in US dollars at June 30, 2020, 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 \$35,402,291 at June 30, 2020. The deposits were reflected in the accounts of the banks at \$37,208,910 at June 30, 2020. Of the bank balance, \$36,787,816 at June 30, 2020 was uninsured and uncollateralized.

For CHAS deposits reflected in the accounts of the banks were \$9,105,232 at June 30, 2020. Of the bank balance, \$8,773,516 at June 30, 2020, was uninsured and uncollateralized.

For IEE deposits reflected in the accounts of the banks were \$1,269,072 at June 30, 2020. Of the bank balance, \$769,072 at June 30, 2020, 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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 \$186.2 million at June 30, 2020, 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, 2020:

	Beginning Balance <u>July 1, 2019</u>	Additions	Reductions	Ending Balance <u>June 30, 2020</u>
Non-depreciated capital assets:				
Land	\$ 12,927,599			\$ 12,927,599
Intangible Assets		\$ 425,936		425,936
Capitalized Collections	<u>848,175</u>	<u>24,352</u>		<u>872,527</u>
Total non-depreciated capital assets	<u>13,775,774</u>	<u>450,288</u>		<u>14,226,062</u>
Depreciated capital assets:				
Land Improvements	38,811,263	4,125,665		42,936,928
Infrastructure	24,535,996	1,161,629		25,697,625
Buildings	777,896,076	30,127,993		808,024,069
Leasehold Improvements	346,256			346,256
Furniture and Equipment	86,179,673	4,501,791	\$ 5,928,647	84,752,817
Library Materials	31,003,044	718,969		31,722,013
Intangible Assets	924,706			924,706
CHAS Leasehold Imp, Furniture, Equip	6,194,121	321,481		6,515,602
IEE Furniture & Equipment	209,444	1,252		210,696
IEE Intangible Assets	5,637,722	1,509,545	46,733	7,100,534
IEE Goodwill	<u>1,370,442</u>			<u>1,370,442</u>
	<u>973,108,743</u>	<u>42,468,325</u>	<u>5,975,380</u>	<u>1,009,601,688</u>
Less accumulated depreciation:				
Land Improvements	27,571,845	2,604,535		30,176,380
Infrastructure	13,194,213	1,132,970		14,327,183
Buildings	315,953,105	18,268,424		334,221,529
Leasehold Improvements	172,997	25,049		198,046
Furniture and Equipment	67,913,168	4,695,183	5,510,431	67,097,920
Library Materials	27,165,391	987,580		28,152,971
Intangible Assets	815,302	7,781		823,083
CHAS Leasehold Imp, Furniture, Equip	4,559,791	381,751		4,941,542
IEE Furniture & Equipment	168,191	17,101		185,292
IEE Intangible Assets	3,486,124	713,369	46,733	4,152,760
IEE Goodwill	<u>822,265</u>	<u>137,044</u>		<u>959,309</u>
Total depreciated capital assets	<u>461,822,392</u>	<u>28,970,787</u>	<u>5,557,164</u>	<u>485,236,015</u>
Construction In Progress	<u>37,104,329</u>	<u>21,167,734</u>	<u>21,481,915</u>	<u>36,790,148</u>
Capital Assets, Net	<u>\$ 562,166,454</u>	<u>\$ 35,115,560</u>	<u>\$ 21,900,131</u>	<u>\$ 575,381,883</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 2020 are summarized as follows:

	<u>TIAA</u>	<u>MPERS</u>	<u>University Total</u>
Pension Contributions			
University Defined Contribution	\$ 16,353,769	\$ 11,509	\$ 16,365,278
University Normal Defined Benefit		661,179	661,179
Required Employee DB		361,653	
University DB UAAL		7,435,521	7,435,521
Payroll Floor UAAL (Estimated)		3,147,756	3,147,756
Stabilization UAAL Contribution		1,244,765	1,244,765
Health Contributions			
University Personal Health Fund DC		10,687	10,687
Required Employee PHF DC		10,687	
University Normal Defined Benefit		57,355	57,355
Required Employee DB		326,835	
University DB UAAL		2,256,270	2,256,270
Payroll Floor UAAL (Estimated)		955,159	955,159
Covered Payroll	159,589,748	11,356,701	170,946,449

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 \$673,716 for fiscal year 2020 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 2020, 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 MPERS 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 \$53,613,315 for fiscal year 2020. 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
10/01/19 – 06/30/20	6.29%	19.74%	0.58%	5.99%
10/01/18 – 09/30/19	5.29%	19.74%	0.43%	5.99%

Employees starting between January 1, 1990, and December 31, 1995, are required to contribute between 3.0% and 6.29% of their annual pay. During the period February 1, 2013 through June 30, 2013 employees could transition to a defined contribution plan.

The university's required defined benefit contributions to MPERS normal pension costs, totaled \$661,719 in fiscal year 2020. Required employee contributions were \$361,653 in fiscal year 2020. The university's contributions to the unfunded MPERS defined benefit pensions totaled \$10,583,277 in fiscal year 2020. The university also recorded \$1,244,765 of stabilization rate revenue from the State of Michigan to assist in funding the MPERS pension Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2020. The university's contributions toward the MPERS defined contribution plan totaled \$11,509 in fiscal year 2020.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2020, the university reported a liability of \$164,606,252 for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPERS. The net pension liability for fiscal year 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, which used update procedures to roll forward the estimated liability to September 30, 2019. 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, 2019, the university's proportion was 24.58 percent, of the universities reporting unit.

For the year ended June 30, 2020, the university recognized pension expense of \$19,283,343. At June 30, 2020, the university also reported a payable of \$226,320 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2020.

At June 30, 2020, 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, 2020 the university reported a liability of \$22,739,133 for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPERS. The net OPEB liability for fiscal year 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

OPEB liability was determined by an actuarial valuation as of September 30, 2018, that used update procedures to roll forward the estimated liability to September 30, 2019. 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, 2019 the university's proportion was 24.78 percent of the universities reporting unit.

For the year ended June 30, 2020 the university recognized OPEB expense of \$(4,597,806).

At June 30, 2020, 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:

2021	\$	2,970,178
2022		2,223,982
2023		1,211,121
2024		872,044
2025		828,000
2026-2030		<u>2,541,005</u>
	\$	<u><u>10,646,330</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, 2020:

	Beginning Balance July 1, 2019	Additions	Reductions	Ending Balance June 30, 2020	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	\$ 20,805,000		\$ 430,000	\$ 20,375,000	\$ 555,000
Series 2009A Series Bonds	18,545,000		18,545,000		
Series 2009A Unamortized Premium	1,247,000		1,247,000		
Series 2012A Series Bonds	21,060,000		580,000	20,480,000	725,000
Series 2014:					
Series Bonds	40,030,000		1,680,000	38,350,000	1,765,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	6,868,000		272,000	6,596,000	272,000
Series 2016 Series Bonds	18,705,000		740,000	17,965,000	780,000
Series 2016 Unamortized Premium	2,535,000		156,000	2,379,000	156,000
Series 2019 Series Bonds		\$ 25,410,000		25,410,000	2,125,000
Series 2019 Unamortized Premium		4,416,750	255,750	4,161,000	292,000
Total Long-Term Debt	<u>151,900,000</u>	<u>29,826,750</u>	<u>23,905,750</u>	<u>157,821,000</u>	<u>6,670,000</u>
Other Obligations:					
Note Payable	742,547	5,674,405	247,860	6,169,092	5,580,296
Hedging Instruments	5,509,327	1,063,061		6,572,388	
Compensated Absences	5,609,384	665,175		6,274,559	392,419
Retirement Service Programs	998,772		239,535	759,237	171,518
Other Obligations	16,216	49,954	62,478	3,692	3,692
Total	<u>\$ 164,776,246</u>	<u>\$ 37,279,345</u>	<u>\$ 24,455,623</u>	<u>\$ 177,599,968</u>	<u>\$ 12,817,925</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, 2020 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
2021	\$ 5,950,000	\$ 5,585,706	\$ 908,852	\$ 12,444,558	\$ 5,580,296	\$ 17,709
2022	6,210,000	5,330,173	895,904	12,436,077	588,796	4,864
2023	6,505,000	5,055,147	878,269	12,438,416		
2024	6,780,000	4,778,129	860,432	12,418,561		
2025	7,120,000	4,487,672	838,703	12,446,375		
2026-2030	40,935,000	17,900,285	3,453,836	62,289,121		
2031-2035	47,505,000	10,206,612	723,042	58,434,654		
2036-2040	11,395,000	3,773,125		15,168,125		
2041-2045	12,285,000	1,267,700		13,552,700		
Total	<u>144,685,000</u>	<u>\$ 58,384,549</u>	<u>\$ 8,559,038</u>	<u>\$ 211,628,587</u>	<u>\$ 6,169,092</u>	<u>\$ 22,573</u>
Unamortized Premium	<u>13,136,000</u>					
	<u>\$ 157,821,000</u>					

HEDGING INSTRUMENTS

The university has one pay-fixed, receive-variable, interest rate swap at June 30, 2020. The objective of this swap is to hedge interest rate risk on the Series 2008A bonds. A description of the swap is as follows:

Under the March 2002 swap, the university pays the counterparty a fixed payment of 4.44% and receives a variable payment of 67% of the London Interbank Offered Rate (LIBOR) (0.08271% at June 30, 2020). 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, 2020, the swap agreement had a notional amount of \$20,250,000 and was in a negative position of \$6,572,388. 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 \$1,063,061 for fiscal year 2020. The accumulated change in fair value of (\$6,572,388) is recorded in deferred outflows at June 30, 2020.

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, 2020, 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, 2020, the derivative counterparty is currently rated Baa3 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, 2020, 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, 2020. 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 \$125,761 as of June 30, 2020 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 \$20,570,377 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.

Line of Credit

On June 25, 2020, the university signed a revolving line of credit agreement by which it can borrow up to \$60 million. Borrowings against the line of credit are payable from general revenues and secured by a pledge of general revenues of equal standing and priority with the pledge of general revenues for general revenue bonds or notes payable. The expiration date of the line of credit is June 24, 2021. Interest will be paid on amounts outstanding at a rate per annum equal to the sum of LIBOR plus 150 basis points. There have been no draws on this line of credit as of June 30, 2020.

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, 2020 primarily consists of the construction costs for the Chippewa Champions Center project of \$22.2 million, Carey Residence Hall remodeling project of \$1.7 million, Powerhouse upgrade to the 1250 ton absorption chiller of \$1.6 million and other projects including maintenance and remodeling of approximately \$11.3 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 \$37.5 million as of June 30, 2020.

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. A similar lease related to the Center for Integrated Health Studies Building is expected to be finalized in August 2020. 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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

mentioned 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.

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, 2020</u>
Estimated professional liability under self-insurance	\$ 200,000
Less: Investments under professional liability funding arrangement – held by the trustee, at fair value	<u>(815,760)</u>
Estimated over funding of liability	<u>\$ (615,760)</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.

The remainder of this page intentionally left blank

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, 2020, 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	\$ 6,572,388	
Gain or Loss on Defeasance of Debt	1,933,551	\$ 984,464
Split Interest Agreements		4,566,335
Pension Related:		
Differences between expected and actual experience Changes of assumptions		
Net difference between projected and actual earnings on pension plan assets		2,979,059
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	8,473,211	
OPEB Related:		
Differences between expected and actual experience		1,404,316
Changes of assumptions	564,511	
Net difference between projected and actual earnings on OPEB plan assets		700,622
Changes in proportion and differences between contributions and proportionate share of contributions		430
Contributions subsequent to the measurement date	2,457,973	
Total	<u>\$ 20,001,634</u>	<u>\$ 10,635,226</u>

Deferred outflows of resources and deferred inflows of resources do not include \$1,244,765 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, 2020, the State of Michigan enacted Public Act 146 of 2020 which decreased university operations appropriations by \$9,821,000 for fiscal year 2020. Due to the timing of the decision, the university received \$1,854,665 in July of 2020 from the State of Michigan which was not due to the university for fiscal year 2020.