

# Fiscal Year 2018 FINANCIAL REPORT

As of and for Years Ended June 30, 2018 and 2017

This fiscal year, Central Michigan University  
celebrated its 125th Anniversary

First established in 1892 as the  
Central Michigan Normal School and Business Institute

Then:

Central Michigan  
State  
Normal School

Class of 1896



And...

Now



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August 2018

To the People of the State of Michigan:

Central Michigan University's financial performance for the fiscal year ending June 30, 2018, again affirms our commitment to you, as Michigan parents, residents and business leaders. These pages detail CMU's ongoing strong financial position as we provide the educational excellence that prepares students for careers and deliver the programs, services and research that address critical business and community needs.

Our legislative appropriations account for less than 18 percent of our operating budget. They cover just 64 days of operation. This places a massive burden on students and families.

To offset that burden, we operate with mindful fiscal conservation. CMU has held the line on tuition, with the lowest cumulative increase the past nine years among all Michigan public universities. In fact, the Central Michigan University Board of Trustees in June approved a zero percent tuition increase. At the same time, we have increased our base scholarship funding 87 percent since 2010.

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

- CMU is among only 5 percent of U.S. universities in the highest two Carnegie research classifications. At CMU, research means even undergraduate students work beside faculty, immersed in hands-on experiences employers value.
- Each year, about 90 percent of our freshmen on campus hail from Michigan. About 80 percent choose to stay here upon graduation, giving back to the communities and people to which they feel connected.
- We step up to meet needs. We were founded 126 years ago when the state was in desperate need of teachers. Likewise, in 2013, CMU opened its College of Medicine to address a growing shortage of physicians in medically underserved communities, rural and urban. Soon, we will launch a Bachelor of Science in Nursing degree completion program and an environmental engineering major.

Through the combined efforts of faculty, staff, students, alumni and the citizens of Michigan, CMU achieves its vision of being an inclusive community of scholars and a national leader that inspires excellence and innovation. We graduate the leaders who focus on solutions, work hard and uphold those around them.

Sincerely,

A handwritten signature in black ink that reads "Barrie J. Wilkes". The signature is written in a cursive, flowing style.

Barrie J. Wilkes  
Vice President for Finance and Administrative Services

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**Financial Statements**  
**Central Michigan University**  
**June 30, 2018**

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## Independent Auditor's Report

To the Board of Trustees  
Central Michigan University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component units as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Central Michigan University's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Central Michigan University and its discretely presented component units as of June 30, 2018 and 2017 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Central Michigan University

***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and Statement No. 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplemental Information*

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

*Other Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 on our consideration of Central Michigan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Michigan University's internal control over financial reporting and compliance.



September 27, 2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Central Michigan University

### INTRODUCTION

This section of the Central Michigan University (the university or CMU) annual financial report presents a discussion and analysis of the financial performance of the university for the fiscal year ended June 30, 2018, with selected comparative information for the years ended June 30, 2017, and 2016. For accurate contextual understanding, read this discussion prepared by management, along with the financial statements and related note disclosures, in its entirety. The discussion and analysis focuses on current activities, resulting changes and currently known facts.

### REPORTING ENTITY

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

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

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

### FACTORS INFLUENCING FUTURE PERIODS

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

The university's state appropriations for fiscal year 2018 were \$2.9 million below its peak appropriations of sixteen years ago. In fiscal year 2018, state appropriations contributed approximately 17.8% of university revenues. In fiscal year 2002, state appropriations contributed approximately 31.5% of university revenues.

The university has a required supplemental contribution to the Michigan Public School Employees' Retirement System (MPERS) for retiree pension and health care benefits that additionally reduces the revenue available for operations. The required contribution was \$15.2 million for fiscal year 2018 compared to \$6.2 million for fiscal year 2002.

The university is committed to preserving academic quality, providing excellent service to our students, and not dramatically increasing tuition and fees for our students and their families. The university is adamant about holding the line related to tuition and fee increases even though state appropriations are less than what they were sixteen years ago. Significant efforts, such as the newly created student financial wellness collaborative, will allow us to better educate and assist students with financial needs while we continue to identify and implement efficient and effective cost-saving measures. Recognizing the continued financial challenges of our students and their families, the university has increased total CMU aid from approximately \$31.2 million in 2008 to \$78.7 million in 2018, making degrees possible for many students who otherwise could not pursue their dream of higher education. Central Michigan University continues to be committed to addressing the financial needs of our students and their families.

### Operating Budget and Deferred Maintenance

The university's Board of Trustees approved the operating budget for fiscal year 2019 of \$480 million. The balanced budget includes increases for employee compensation and other necessary costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

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

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

The campus has many deferred maintenance needs as documented in a detailed audit of each building. Current estimates, adjusted for inflation, of existing deferred maintenance needs for general fund facilities is \$112.6 million and the total is \$228.9 million. Starting with fiscal year 1999, approximately \$4.5 million dollars per year was dedicated toward addressing these needs. Beginning with fiscal year 2007, the amount increased to \$5.5 million, and in 2013, it increased to \$7.0 million. In fiscal years 2014 through 2016, the amount was \$5.7 million per year, in 2017, the amount was \$7.9 million, and in 2018, the amount was \$5.7 million.

During fiscal year 2018, the university expended approximately \$22.3 million on plant related projects. Funding sources included State Building Authority appropriations, gifts, and other university funds.

#### Academic Priorities

The university has a longstanding tradition of enhancing student learning and success as well as contributing to the discovery and dissemination of knowledge. Dedicated faculty, committed to leading-edge research and active teaching methodologies, work to grow the wisdom, technological sophistication and creativity of CMU students. As part of our continuous improvement process, a comprehensive academic organizational review was conducted during the 2017-2018 fiscal year. Three committees addressed academic structure, academic support services, and academic responsibility centered management budgeting, in order to enhance the delivery of quality education. The university plans to implement several recommendations, made by these committees and approved by the Board of Trustees or President, in fiscal year 2018-2019.

#### College of Medicine

The Central Michigan University College of Medicine is the nation's 137th medical school and founded to produce high-quality physicians for underserved rural and urban communities, particularly in central and northern Michigan. In the 2017-2018 academic year, the College of Medicine primarily focused on completing the necessary documentation to prepare for the February 2018 full accreditation site visit by the Liaison Committee for Medical Education (LCME). In June 2018, LCME granted the college's medical education program full accreditation.

The number of applicants to the College of Medicine continues to expand showing great interest in the program. The matriculating class of 2017, selected from over 5443 applicants, includes 13% minority students (10% is the national average). The college repeated the success of the first Match in academic year 2016-2017. In academic year 2017-2018, Match statistics provide evidence that the College of Medicine is advancing the mission of the medical school. Of those eligible for graduation, 100% received residency placement, 75% matched to primary care and 54% matched to a residency program in Michigan. The Great Lakes Bay Region was also impacted, as 10 students matched to CMU Partners.

The Accreditation Council of Graduate Medical Education (ACGME) is the body responsible for reviewing and accrediting residency programs (GME). The CMU College of Medicine is the academic sponsor of seven residency programs based at CMU Partners in Saginaw. All residency programs including family medicine, internal medicine, emergency medicine, emergency medical services, psychiatry, podiatry, and newly reinstated general surgery, are accredited. General Surgery and Podiatry residencies were funded and accredited during academic year 2017-2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

In March 2018 the Accreditation Committee for Continuing Medical Education awarded the college Accreditation with Commendation as a provider of continuing medical education (CME) and supporting sponsorship of educational programs for physicians and other healthcare providers in Michigan's Great Lakes Bay Region and the state.

The significant efforts are ongoing to address working relationships with CMU Partners. By mutual agreement and per direction of the hospital leadership of Covenant Healthcare and Ascension St. Mary, we will be seeking recommendations from national consultants to redesign the governance and operations of CMU Partners. As CMU Partners is the employer of the majority of our clinical faculty and it represents over two thirds of our budget, we have to approach the reorganization in a strategic and careful manner.

Over the next academic year, we will also be evaluating our distributed campus model and seeking strategic clinical affiliations to meet long-term educational and financial needs. The college's learning and working environment remains strong and the focus has shifted to building ongoing curricular continuous quality improvement that sustains the college's ability to attract the best students, to recruit and retain faculty, and engage support staff.

### Enrollment Management

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

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

Several enrollment management efforts are underway through collaborations with national organizations and academic colleagues. CMU is organizing projects to reinvent the early college experience, increase student engagement, and reduce the time to degree attainment. The university's recent academic organizational review included several recommendations that will be implemented in fiscal year 2018-19. Centralizing all student advising and implementing mandatory annual advising, will positively impact retention and student credit hour production as students will receive more frequent and timelier advising to decrease their time to degree completion. Also, all university recruiting will be consolidated into a single department within the ESS Division. The new organization, along with past and continuing partnerships between ESS and University Communications will ensure CMU is identifying and recruiting the *right* students, delivering the *right* programs through the *right* delivery modality.

The university has also made strategic investments in staffing and resources to cultivate and foster strategic partnerships that create enrollment opportunities as well as promote student success. In FY18, formal partnerships were established with Quicken Loans, Ford Motor Company, United Shore, City of Detroit, and Michigan Municipal League. The university is also looking to secure formal partnerships with Fiat-Chrysler Automobiles, General Motors, Blue Cross Blue Shield of Michigan, Auto-Owners Insurance and DTE Energy.

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **Central Michigan University**

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#### **Campus Master Plan and Campus Identity Project**

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

The goal of the Campus Identity Project was to create a campus with an engaging outdoor environment, clear borders, effective signage, and simplified yet strategic landscaping. The landscape will reflect a strong sense of academic impact, with walkways and open spaces that inspire and connect all who visit, study, work, and live here. A multiyear implementation of wayfinding and gateways developed as part of this project will be halfway complete at the end of the 2018 summer.

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

#### **CMU Research Corporation**

Central Michigan University Research Corporation (CMURC) is a coworking space, incubator and accelerator created nearly two decades ago. The organization is a single point of contact for startups and established businesses who want to harness the intellectual, technological, and material resources of Central Michigan University to grow their ideas and businesses. CMURC partners', throughout the Great Lakes Bay Region, with local chambers of commerce along with economic development organizations, to provide critical resources to small businesses. This includes anything from development to assistance in securing financing. Recognized as one of the Michigan Economic Development Corporation's Smart Zones, serving the Governor's Prosperity Region 5, CMURC expanded from the Mount Pleasant location to open a second facility in Uptown Bay City in March 2017. This venture demonstrates that CMU is a community partner in spurring economic development activities in order to graduate and retain more Michigan residents and improve our state's economy and future development.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

#### USING THE ANNUAL REPORT

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

#### STATEMENTS OF NET POSITION

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

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

|                           | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|---------------------------|-----------------|-----------------|-----------------|
| Current assets            | \$ 116.6        | \$ 134.5        | \$ 116.2        |
| Noncurrent assets         |                 |                 |                 |
| Capital assets, net       | 546.0           | 551.6           | 545.6           |
| Other                     | <u>407.1</u>    | <u>362.2</u>    | <u>334.3</u>    |
| <b>TOTAL ASSETS</b>       | <u>1,069.7</u>  | <u>1,048.3</u>  | <u>996.1</u>    |
| <b>DEFERRED OUTFLOWS</b>  | <u>19.8</u>     | <u>19.1</u>     | <u>20.6</u>     |
| Current liabilities       | 87.4            | 90.0            | 93.2            |
| Noncurrent liabilities    | <u>339.9</u>    | <u>308.6</u>    | <u>308.9</u>    |
| <b>TOTAL LIABILITIES</b>  | <u>427.3</u>    | <u>398.6</u>    | <u>402.1</u>    |
| <b>DEFERRED INFLOWS</b>   | <u>8.7</u>      | <u>1.0</u>      | <u>2.4</u>      |
| <b>TOTAL NET POSITION</b> | <u>\$ 653.5</u> | <u>\$ 667.8</u> | <u>\$ 612.2</u> |

#### ASSETS

Current assets consist of cash and cash equivalents, receivables net of the allowance for doubtful accounts, inventories, and prepaid expenses. Noncurrent assets include restricted cash and cash equivalents, pledges receivable, endowment investments at fair value, long-term investments, and capital assets. During 2018, total assets increased \$21.4 million. Significant changes in assets occurred in the following areas:

- Cash and cash equivalents decreased \$4.2 million primarily due to use of cash for construction cash flow needs.
- Accounts receivable decreased \$10.5 million due primarily to the receipt of funds related to the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast.
- State appropriations receivable decreased \$2.5 million due primarily to a decrease in the number of charter schools to which CMU provides oversight and whose state appropriations flow through the university.
- Endowment Investments increased \$26.2 million due primarily to favorable market conditions and investment of proceeds in a new quasi-endowment. The proceeds came from the sale, in the FCC spectrum auction, of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV was previously broadcast.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

- Other Long-Term Investments increased \$17.7 million due primarily to favorable market conditions and recording of \$2.6 million in split interest agreements for the first time.
- Net capital assets decreased \$5.6 million due to higher depreciation than new asset additions.

In 2017, total assets increased \$52.2 million due primarily to the combined effect of an increase of \$8.1 million in cash and cash equivalents related to \$2.6 million in investment sales/redemptions and \$5 million in receipts on plant fund receivables; an increase of \$15.1 million in accounts receivable due primarily to the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast; a decrease in state appropriations receivable of \$5.0 million due to payments received from the State Building Authority for expenditure reimbursements relating to the Biosciences Building; an increase in Endowment Investments of \$25.2 million due primarily to appreciation of investments due to favorable market conditions and continued investment of a refund from the State of Michigan in a quasi-endowment based on a previous decision of the Board of Trustees; and an increase in capital assets of \$6.0 million due to a net increase of \$31.8 million in capitalized construction project costs, land improvements, and equipment less \$25.8 million in depreciation.

### Capital Assets

At June 30, 2018, the university had \$978.0 million invested in capital assets and accumulated depreciation of \$432.1 million. Depreciation totaled \$26.4 million for the current fiscal year compared to \$25.8 million last year. Refer to Note 5 to the financial statements for details regarding capital assets.

The university had a couple of significant projects in progress as of June 30, 2018:

- Center for Integrated Health Studies (\$3.5 million of construction in progress). The \$26.5 million project will include approximately 62,000 square feet of space and will be located in the university's health professions corridor. Students in the program will be part of a patient-centered medical home model that emphasizes the teamwork needed among all health care professionals.
- South Quad Housing (\$1.0 million of construction in progress). Project expenditures include the preliminary design and preconstruction costs, associated with the development of new student housing buildings, a dining renovation and parking lot, necessary for a final decision.
- Upgrade to Gas Turbine Controls (\$0.7 million of construction in progress). The project includes replacement of existing solar turbine controls.

The university had three significant projects that were in-service and capitalized as of June 30, 2018:

- Grawn Hall Renovation and Expansion was completed and accounted for \$9.8 million in capitalized expenditures. The 6,600-square-foot, two-story addition, included a new main entry and multifunctional space for lectures, events and group study. The renovation of the pre-existing 16,200 square feet included updated corridors, new fire suppression, new windows, and new student service and collaboration spaces.
- The Indoor Baseball Performance Enhancement Center was completed and accounted for \$2.0 million in capitalized expenditures. The project included three batting cages, two overhead doors, a mechanical system for heat and ventilation, two exterior doors, power and lighting. This project was fully funded by gifts.
- Powers Hall Domestic Water Replacement was completed and accounted for \$1.3 million in capitalized expenditures.

In 2017, capital assets increased \$6.0 million due to a net increase of \$31.8 million in capitalized construction project costs, land improvements, and equipment less \$25.8 million in depreciation.

### Endowment and Pooled Operating Investments

During 2018, endowment investments increased \$26.2 million, and pooled operating investments increased by \$17.7 million. These increases are a result of investment appreciation due to favorable market conditions, donor gifts, and the Board of Trustees' decision to invest the \$14.1 million in proceeds from the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV was broadcast into a quasi-endowment. Investment income for 2018 within both investment portfolios is comprised of a \$15.3 million increase in market value, \$4.7 million of investment

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

income net of financial fees, and \$9.5 million realized gain from the sale of several long-term investments. Earnings distributed from endowments and annuities for scholarships and fellowships, adjusted for present value, totaled \$6.0 million. This spending distribution was offset by gifts received for endowments of \$2.6 million and a change in cash on hand in the endowment of \$(0.5) million.

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

### DEFERRED OUTFLOWS

During 2018, deferred outflows increased by \$0.7 million due primarily to a \$1.3 million change in market value position of hedging derivatives on variable rate debt reducing the deferral of expense, offset by recording for the first time a \$2.4 million deferral of expense related to statutorily required contributions to the Michigan Public School Employee's Retirement System (MPERS) plan net OPEB liability. Refer to Note 9 to the financial statements for detail regarding the MPERS plan.

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

### LIABILITIES

Current liabilities consist of accounts payable, unearned revenue, deposits, and the current portion of the long-term obligations payable within the next twelve months. During 2018, current liabilities decreased \$2.6 million. Significant changes in current liabilities occurred in the following areas as of June 30, 2018:

- Accrued wages and benefits increased \$1.4 million due primarily to the re-classification of taxes and retirement contributions for faculty on deferred pay as accrued wages and benefits instead of a payable.
- Accrued payables to charter schools decreased \$2.5 million due to a decrease in the number of charter schools to which CMU provides oversight and related decreases in state aid.
- Accrued payables to vendors decreased \$1.7 million primarily due to the re-classification of taxes and retirement contributions for faculty on deferred pay as accrued wages and benefits instead of a payable.

In 2017, the current liabilities decreased \$3.2 million primarily due to accrued wages and benefits increasing \$0.5 million due to the timing of payroll periods resulting in an additional day accrued; accrued payables to charter schools increasing \$1.3 million due to increases in state aid; accrued payables to vendors decreasing \$5.0 million primarily due to a decrease in vendor accruals for building projects as the Biosciences Building project was put in-service.

Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the balance sheet date and net pension and OPEB obligation for the MPERS retirement plan. Included is the Retirement Service Award program, accrued compensated absences, and bonded debt. Refer to Note 7 to the financial statements for the detail regarding the change in long-term debt, hedging instruments, and other obligations. During 2018, noncurrent liabilities increased \$31.3 million. Significant changes in noncurrent liabilities occurred in the following areas as of June 30, 2018:

- Debt service of \$5.9 million was recorded on outstanding bond and note principal, and premium amortization.
- Market value of hedging derivatives decreased by \$1.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

- Recorded \$4.0 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.
- Recorded \$35.1 million in net OPEB liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.

During 2017, noncurrent liabilities decreased \$0.2 million primarily due to debt service of \$5.4 million recorded on outstanding bond and note principal, and premium amortization; market value of hedging derivatives decreasing by \$2.2 million; and recording of \$8.3 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.

### DEFERRED INFLOWS

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

During 2017, deferred inflows decreased \$1.4 million, respectively due to deferral of revenues resulting from recording the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPERS) plan.

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

### NET POSITION

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

|                                   | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|-----------------------------------|-----------------|-----------------|-----------------|
| Invested in capital assets        | \$ 546.0        | \$ 551.6        | \$ 545.6        |
| Debt related to capital assets    | (158.3)         | (164.2)         | (169.6)         |
| Deferred outflow on defeased debt | <u>2.2</u>      | <u>2.4</u>      | <u>2.5</u>      |
| Net invested in capital assets    | 389.9           | 389.8           | 378.5           |
| Restricted for:                   |                 |                 |                 |
| Nonexpendable                     | 59.8            | 57.0            | 53.1            |
| Expendable                        | 63.3            | 53.3            | 45.5            |
| Unrestricted                      | <u>140.5</u>    | <u>167.7</u>    | <u>135.1</u>    |
| <b>TOTAL NET POSITION</b>         | <u>\$ 653.5</u> | <u>\$ 667.8</u> | <u>\$ 612.2</u> |

Net invested in capital assets represents the university's capital assets, net of accumulated depreciation, and outstanding principal balances of debt, attributable to the acquisition, construction, or improvement of those assets. Net invested in capital assets increased \$0.1 million in 2018 due primarily to a reduction in debt due to annual debt service payments. During 2017, net invested in capital assets increased \$11.3 million due primarily to the capitalization of the Biosciences Building project, continued construction on the Grawn Renovation project and a reduction in debt due to annual debt service payments.

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

Restricted expendable net position are funds restricted by outside parties or law. This includes net appreciation of permanent endowments and funds received that are restricted for operations, grants and

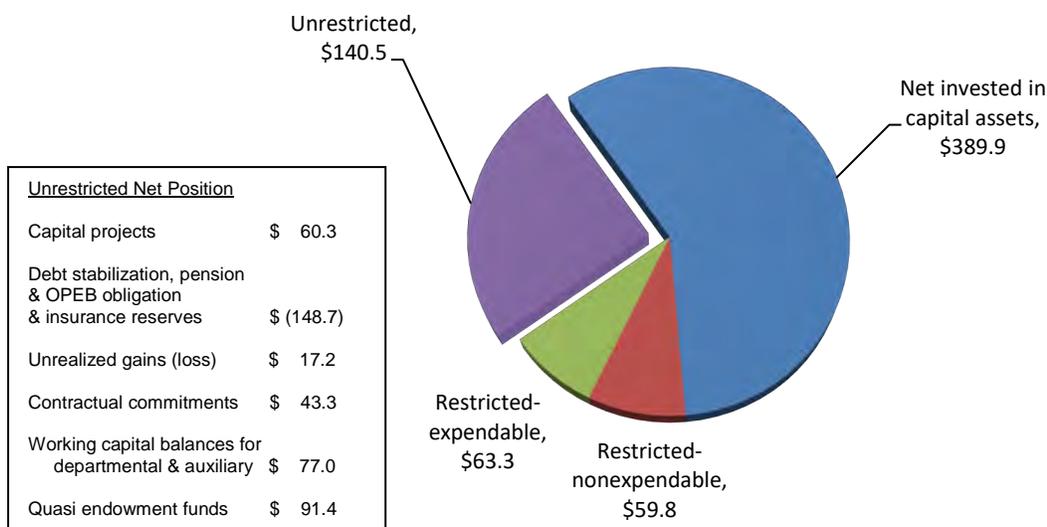
## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

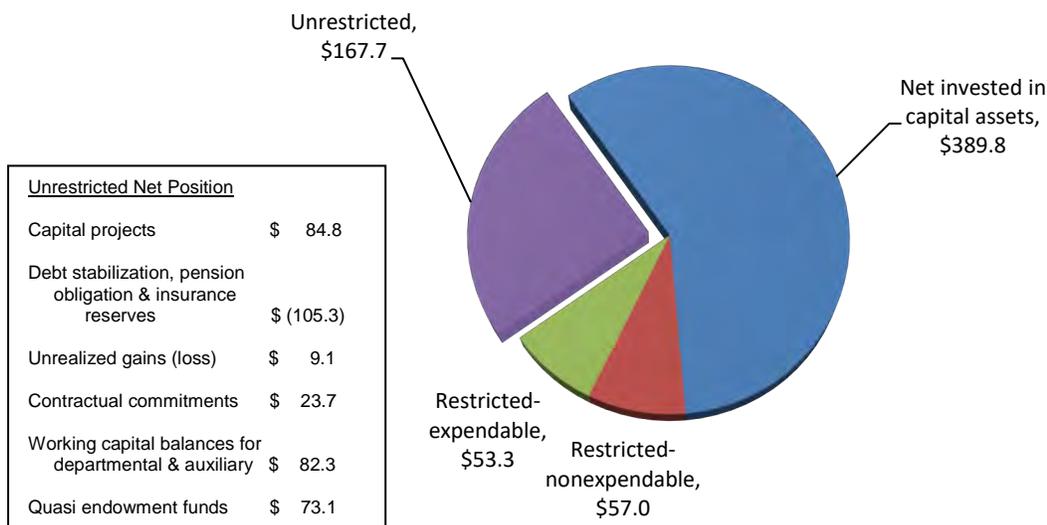
contracts, and facilities. During 2018 and 2017, restricted expendable net position increased \$10.0 million and \$7.8 million, respectively due to an increase in grant funding and favorable market conditions.

Unrestricted net position represents those balances from operational activities that have not been restricted by parties external to the university, such as donors or grant agencies. This includes funds that have been designated by the governing board for specific purposes, including funds functioning as endowment, as well as amounts that have been contractually committed for goods and services, not yet received. During 2018 unrestricted net position decreased primarily due to recording for the first time the university's proportionate share of the net OPEB liability related to the Michigan Public School Employee's Retirement System (MPERS) plan. During 2017 unrestricted net position increased primarily due to the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast, favorable market conditions on investments and changes in the university's proportionate share of the net pension liability related to the Michigan Public School Employee's Retirement System (MPERS) plan.

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



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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

#### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

|   | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|---|-----------------|-----------------|-----------------|
| <b>OPERATING REVENUES</b>                     |                 |                 |                 |
| Tuition, net                                  | \$ 215.8        | \$ 218.9        | \$ 221.5        |
| Grants and contracts                          | 13.6            | 13.0            | 11.7            |
| Auxiliary enterprises, net                    | 78.6            | 81.9            | 81.7            |
| Other operating revenues                      | 20.1            | 19.7            | 19.1            |
| <b>TOTAL OPERATING REVENUES</b>               | <u>328.1</u>    | <u>333.5</u>    | <u>334.0</u>    |
| <b>OPERATING EXPENSES</b>                     | <u>460.6</u>    | <u>470.7</u>    | <u>445.1</u>    |
| <b>OPERATING LOSS</b>                         | (132.5)         | (137.2)         | (111.1)         |
| <b>NONOPERATING REVENUES (EXPENSES)</b>       |                 |                 |                 |
| State appropriations                          | 87.1            | 85.1            | 81.4            |
| Other nonoperating revenues                   | 64.4            | 86.9            | 28.6            |
| Interest on debt                              | (6.0)           | (6.0)           | (3.9)           |
| <b>NET NONOPERATING REVENUES</b>              | <u>145.5</u>    | <u>166.0</u>    | <u>106.1</u>    |
| <b>INCOME (LOSS) BEFORE OTHER REVENUES</b>    | 13.0            | 28.8            | (5.0)           |
| <b>OTHER REVENUES</b>                         |                 |                 |                 |
| Capital appropriations                        | 1.3             | 21.2            | 5.4             |
| Capital grants and gifts                      | 4.6             | 1.9             | 2.4             |
| Additions to permanent endowments             | 2.6             | 3.7             | 5.6             |
| <b>TOTAL OTHER REVENUES</b>                   | <u>8.5</u>      | <u>26.8</u>     | <u>13.4</u>     |
| <b>INCREASE IN NET POSITION</b>               | 21.5            | 55.6            | 8.4             |
| <b>NET POSITION</b>                           |                 |                 |                 |
| NET POSITION AT BEGINNING OF YEAR             | <u>667.8</u>    | <u>612.2</u>    | <u>603.8</u>    |
| ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE | (35.8)          |                 |                 |
| <b>NET POSITION AT END OF YEAR</b>            | <u>\$ 653.5</u> | <u>\$ 667.8</u> | <u>\$ 612.2</u> |

#### OPERATING REVENUES

Operating revenues for fiscal year ending June 30, 2018 decreased compared to fiscal year 2017. Gross tuition for fiscal years ended June 30, 2018, 2017, and 2016 were \$273.9 million, \$273.6 million, and \$273.4 million, respectively. Scholarship allowances for fiscal years ended June 30, 2018, 2017, and 2016 were \$58.1 million, \$54.7 million, and \$51.9 million, respectively. Auxiliary enterprises include residence halls, apartments, food services, intercollegiate athletics, university bookstore, university press, parking services, energy facility, telecommunications, information technology, university recreation, events activities, events center and clinics. Auxiliary enterprise operations are intended to be self-supporting. Grants and contracts include all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when an eligibility criterion has been met. During 2018, operating revenues decreased \$5.4 million. Significant changes in operating revenues occurred in the following areas as of June 30, 2018:

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

During 2017, tuition before scholarship allowance increased by \$0.2 million due to lower enrollment and a modest tuition rate increase, however an increase in scholarship allowances resulted in a decrease in net tuition of \$2.6 million. Grants and contracts operating revenues increased \$1.3 million.

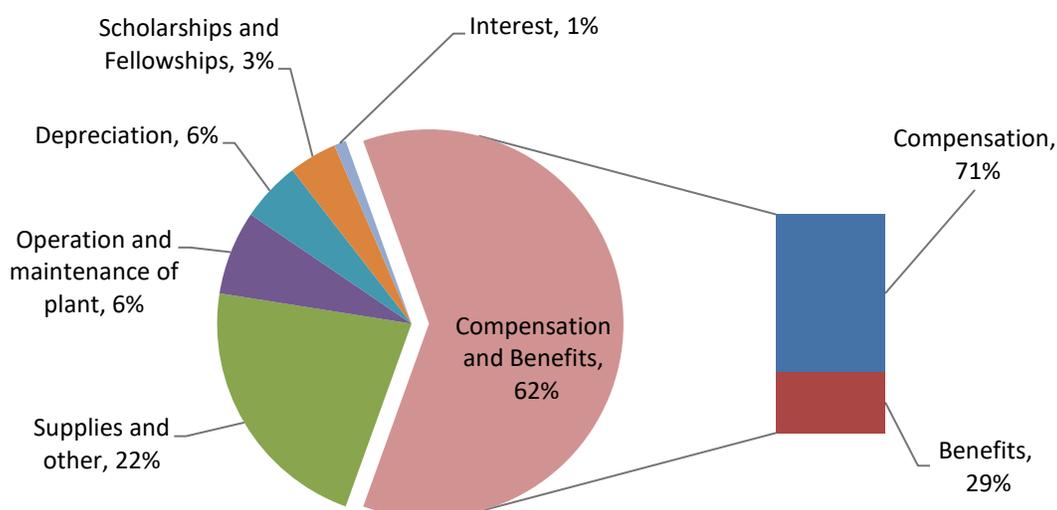
### OPERATING EXPENSES

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

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

|                                    | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|------------------------------------|-----------------|-----------------|-----------------|
| <b>Operating</b>                   |                 |                 |                 |
| Compensation and benefits          | \$ 288.3        | \$ 292.2        | \$ 281.6        |
| Supplies and other                 | 102.4           | 102.4           | 97.7            |
| Operation and maintenance of plant | 26.4            | 33.7            | 25.8            |
| Depreciation                       | 26.4            | 25.7            | 23.6            |
| Scholarships and fellowships       | <u>17.1</u>     | <u>16.7</u>     | <u>16.4</u>     |
| <b>TOTAL OPERATING EXPENSES</b>    | <b>460.6</b>    | <b>470.7</b>    | <b>445.1</b>    |
| <b>Nonoperating</b>                |                 |                 |                 |
| Interest                           | <u>6.0</u>      | <u>6.0</u>      | <u>3.9</u>      |
| <b>TOTAL EXPENSES</b>              | <b>\$ 466.6</b> | <b>\$ 476.7</b> | <b>\$ 449.0</b> |

A summary of the expenses by natural classification for the year ended June 30, 2018, excluding component unit expenses is as follows:



## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

Significant changes in operating expenses occurred in the following areas as of June 30, 2018:

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

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

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

|                                      | 2018            |              | 2017            |              | 2016            |              |
|--------------------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Instruction                          | \$ 149.2        | 32 %         | \$ 153.6        | 32 %         | \$ 167.6        | 37 %         |
| Research                             | 14.4            | 3            | 13.5            | 3            | 13.1            | 3            |
| Public Service                       | 17.5            | 4            | 17.3            | 4            | 17.8            | 4            |
| Academic Support                     | 50.0            | 11           | 50.8            | 11           | 42.8            | 9            |
| Student Services                     | 25.8            | 5            | 27.5            | 6            | 22.6            | 5            |
| Institutional Support                | 35.6            | 8            | 36.7            | 8            | 31.2            | 7            |
| Scholarships and Fellowships         | 16.9            | 3            | 15.8            | 3            | 16.8            | 4            |
| Operation and Maintenance of Plant   | 26.4            | 6            | 33.7            | 7            | 25.8            | 6            |
| Auxiliary Services                   | 92.2            | 20           | 89.9            | 19           | 88.0            | 20           |
| Student Loan Provision, Cancellation |                 |              |                 |              | 0.9             |              |
| Depreciation                         | 26.4            | 6            | 25.7            | 5            | 23.6            | 5            |
| Other                                | 6.2             | 1            | 6.2             | 1            | (5.1)           | -1           |
| Interest Expense                     | 6.0             | 1            | 6.0             | 1            | 3.9             | 1            |
| <b>Total Expenses by Function</b>    | <b>\$ 466.6</b> | <b>100 %</b> | <b>\$ 476.7</b> | <b>100 %</b> | <b>\$ 449.0</b> | <b>100 %</b> |

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

Significant changes in functional expenses occurred in the following areas as of June 30, 2018:

- Instructional expenses decreased \$4.4 million due primarily to planned cost reductions related to lower enrollment, a decrease in the number of filled faculty positions and a decrease in instructional expenses on grants and contracts.
- Scholarships and Fellowship expenses increased \$1.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

- Operation and maintenance of plant expenses decreased \$7.3 million due primarily to fewer furnishings, equipment and technology expenses related to buildings placed in service in the current fiscal year as compared to the prior fiscal year.

During 2017, Instructional expenses decreased \$14.0 million while academic support, student services and institutional support expenses increased \$8.0 million, \$4.9 million and \$5.5 million, respectively. These changes were due primarily to integration of the global campus organization shifting organizational alignment to the academic support, student services and institutional support functions. All four functions also experienced increases in benefit costs. Operation and maintenance of plant expenses increased \$7.9 million due primarily to furnishings, equipment and technology expenses related to placing the BioSciences building in service and other maintenance and repair projects completed during the fiscal year.

### NON-OPERATING REVENUES (EXPENSES)

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

Significant changes in non-operating revenues (expenses) occurred in the following areas as of June 30, 2018:

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

During 2017, gifts and pledges (net of allowance) decreased \$2.5 million primarily due to fewer donations towards operating initiatives and capital projects such as the baseball performance center and Grawn Hall renovation. Investment income increased \$48.1 million due to favorable market conditions. Other non-operating revenues increased \$14.2 million due to the sale in the FCC spectrum auction of the university's right to broadcast on a section of spectrum broadband where WCMZ-TV is broadcast.

### OTHER REVENUES

Other revenues consist of capital appropriations and capital grants and gifts, including pledges and additions to permanent endowments. A gift received by the university, where a donor has specified that only the investment earnings from that gift can be expended for the purpose designated by the donor, is classified as a permanent endowment. The principal cannot be expended. Endowment gifts do not include pledges. Other revenue in 2018 decreased \$18.3 million primarily due to a decrease in capital appropriations from the State Building Authority related to the Biosciences Building as the building was completed and placed into service in 2017.

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Central Michigan University

#### STATEMENTS OF CASH FLOWS

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

|   | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    |
|---|----------------|----------------|----------------|
| Cash received from operations                               | \$ 324.6       | \$ 330.6       | \$ 337.0       |
| Cash expended for operations                                | (428.0)        | (445.4)        | (394.0)        |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>                | <u>(103.4)</u> | <u>(114.8)</u> | <u>(57.0)</u>  |
| Net cash provided by noncapital financing activities        | 138.1          | 121.7          | 120.7          |
| Net cash used by capital financing activities               | (27.2)         | (14.4)         | (84.9)         |
| Net cash (used) provided by investing activities            | <u>(11.7)</u>  | <u>15.6</u>    | <u>(3.1)</u>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | (4.2)          | 8.1            | (24.3)         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>     | 39.9           | 31.8           | 56.1           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>           | <u>\$ 35.7</u> | <u>\$ 39.9</u> | <u>\$ 31.8</u> |

The most significant components of cash flows used from operating activities are tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities was \$103.4 million (\$114.8 million at June 30, 2017). To offset this, the net cash provided from noncapital financing activities, consisting primarily of state appropriations, was \$138.1 million (\$121.7 million at June 30, 2017).

Cash used by capital financing activities was \$27.2 million (\$14.4 million at June 30, 2017), primarily the result of the investment in major capital construction projects offset by capital appropriations received.

Cash used by investing activities was \$11.7 million (\$15.6 million provided by investment activities at June 30, 2017) due to less favorable market conditions than the prior year.

#### REQUESTS FOR INFORMATION

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

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# STATEMENTS OF NET POSITION

## Central Michigan University

|  | YEAR ENDED JUNE 30    |                       |
|--|-----------------------|-----------------------|
|  | 2018                  | 2017                  |
| <b>ASSETS</b>  |                       |                       |
| <b>CURRENT ASSETS:</b>                                     |                       |                       |
| Cash and cash equivalents                                  | \$ 35,696,142         | \$ 39,902,801         |
| Accounts and pledges receivable, net                       | 20,163,214            | 30,671,917            |
| State appropriations receivable, SBA                       | 3,132                 | 313,132               |
| State appropriations receivable, operations                | 15,779,584            | 15,518,754            |
| State appropriations receivable, Charter Schools           | 37,738,796            | 40,234,270            |
| Inventories  | 4,208,102             | 5,201,428             |
| Other assets   | 3,062,764             | 2,702,490             |
| <b>TOTAL CURRENT ASSETS</b>                                | <b>116,651,734</b>    | <b>134,544,792</b>    |
| <b>NONCURRENT ASSETS:</b>                                  |                       |                       |
| Restricted cash and cash equivalents                       | 793                   | 250                   |
| Pledges receivable, net                                    | 4,298,573             | 3,411,110             |
| Endowment investments                                      | 182,388,106           | 156,167,451           |
| Other long-term investments                                | 220,438,632           | 202,665,895           |
| Capital assets, net  | 545,949,525           | 551,551,483           |
| <b>TOTAL NONCURRENT ASSETS</b>                             | <b>953,075,629</b>    | <b>913,796,189</b>    |
| <b>TOTAL ASSETS</b>  | <b>1,069,727,363</b>  | <b>1,048,340,981</b>  |
| <b>DEFERRED OUTFLOWS</b>                                   |                       |                       |
| Deferred Outflows of Resources                             | 19,786,115            | 19,114,472            |
| <b>LIABILITIES</b>   |                       |                       |
| <b>CURRENT LIABILITIES:</b>                                |                       |                       |
| Accounts payable and accrued liabilities                   | 66,240,525            | 69,047,585            |
| Unearned revenue   | 12,299,418            | 12,107,278            |
| Deposits   | 2,503,641             | 2,523,615             |
| Current portion of long-term debt and other obligations    | 6,328,517             | 6,287,628             |
| <b>TOTAL CURRENT LIABILITIES</b>                           | <b>87,372,101</b>     | <b>89,966,106</b>     |
| <b>NONCURRENT LIABILITIES:</b>                             |                       |                       |
| Long-term debt, hedging instruments, and other obligations | 163,676,989           | 171,453,563           |
| Net pension liability                                      | 141,154,617           | 137,188,658           |
| Net OPEB liability   | 35,090,380            |                       |
| <b>TOTAL NONCURRENT LIABILITIES</b>                        | <b>339,921,986</b>    | <b>308,642,221</b>    |
| <b>TOTAL LIABILITIES</b>                                   | <b>427,294,087</b>    | <b>398,608,327</b>    |
| <b>DEFERRED INFLOWS</b>                                    |                       |                       |
| Deferred Inflows of Resources                              | 8,664,886             | 1,016,886             |
| <b>NET POSITION</b>  |                       |                       |
| Net investment in capital assets                           | 389,888,797           | 389,766,116           |
| Restricted for:  |                       |                       |
| Nonexpendable  |                       |                       |
| Scholarships, fellowships and research                     | 59,762,676            | 57,008,198            |
| Expendable   |                       |                       |
| Scholarships, fellowships and research                     | 37,553,382            | 30,659,252            |
| Instructional department uses                              | 19,454,618            | 17,922,748            |
| Capital projects   | 6,327,707             | 4,724,383             |
| Unrestricted   | 140,567,325           | 167,749,543           |
| <b>TOTAL NET POSITION</b>                                  | <b>\$ 653,554,505</b> | <b>\$ 667,830,240</b> |

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

## Central Michigan University

|  | YEAR ENDED JUNE 30    |                       |
|--|-----------------------|-----------------------|
|  | 2018                  | 2017                  |
| <b>REVENUES</b>  |                       |                       |
| <b>OPERATING REVENUES:</b>   |                       |                       |
| Tuition  | \$ 273,890,203        | \$ 273,578,258        |
| Less: Scholarship allowances   | 58,087,800            | 54,715,671            |
| Net tuition  | 215,802,403           | 218,862,587           |
| Federal grants and contracts   | 8,724,411             | 7,513,164             |
| State and local grants and contracts   | 1,148,644             | 1,795,905             |
| Nongovernmental grants and contracts   | 3,688,634             | 3,657,170             |
| Sales and services of educational activities   | 20,152,914            | 19,764,931            |
| Auxiliary enterprises (net of room & board allowances<br>of \$12,750,981 in 2018 and \$11,206,824 in 2017) | 78,593,858            | 81,883,130            |
| <b>TOTAL OPERATING REVENUES</b>  | <b>328,110,864</b>    | <b>333,476,887</b>    |
| <b>EXPENSES</b>  |                       |                       |
| <b>OPERATING EXPENSES:</b>   |                       |                       |
| Compensation:  |                       |                       |
| Faculty  | 101,558,488           | 104,030,504           |
| Staff  | 88,331,637            | 91,336,909            |
| Benefits   | 82,297,429            | 81,073,526            |
| Student  | 16,098,518            | 15,727,347            |
| Scholarships and fellowships   | 17,130,767            | 16,656,623            |
| Utilities  | 8,483,486             | 8,160,787             |
| Supplies and other   | 93,905,850            | 94,246,901            |
| Operation and maintenance of plant expenses  | 26,348,284            | 33,701,181            |
| Depreciation   | 26,408,629            | 25,756,326            |
| <b>TOTAL OPERATING EXPENSES</b>  | <b>460,563,088</b>    | <b>470,690,104</b>    |
| <b>OPERATING LOSS</b>  | <b>(132,452,224)</b>  | <b>(137,213,217)</b>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |                       |                       |
| State appropriations   | 87,117,685            | 85,117,246            |
| Gifts and pledges (net of allowance)   | 7,881,672             | 7,078,577             |
| Investment income (net of investment expense)  | 29,510,460            | 40,207,725            |
| Interest on capital assets related debt  | (6,016,819)           | (6,062,704)           |
| Federal Pell grant program   | 26,283,330            | 25,479,834            |
| Other nonoperating revenues  | 723,175               | 14,192,309            |
| <b>NET NONOPERATING REVENUES (EXPENSES)</b>  | <b>145,499,503</b>    | <b>166,012,987</b>    |
| <b>INCOME BEFORE OTHER REVENUES</b>  | <b>13,047,279</b>     | <b>28,799,770</b>     |
| <b>OTHER REVENUES</b>  |                       |                       |
| Capital appropriations   | 1,300,284             | 21,236,908            |
| Capital grants and gifts   | 4,577,086             | 1,864,896             |
| Additions to permanent endowments  | 2,623,742             | 3,725,846             |
| <b>TOTAL OTHER REVENUES</b>  | <b>8,501,112</b>      | <b>26,827,650</b>     |
| <b>INCREASE IN NET POSITION</b>  | <b>21,548,391</b>     | <b>55,627,420</b>     |
| <b>NET POSITION</b>  |                       |                       |
| NET POSITION AT BEGINNING OF YEAR  | 667,830,240           | 612,202,820           |
| ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE (NOTE 1)   | (35,824,126)          |                       |
| NET POSITION AT BEGINNING OF YEAR, AS RESTATED   | 632,006,114           |                       |
| <b>NET POSITION AT END OF YEAR</b>   | <b>\$ 653,554,505</b> | <b>\$ 667,830,240</b> |

See notes to the financial statements.

## STATEMENTS OF CASH FLOWS – DIRECT METHOD

### Central Michigan University

|   | YEAR ENDED JUNE 30   |                      |
|---|----------------------|----------------------|
|   | 2018                 | 2017                 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                  |                      |                      |
| Tuition   | \$ 215,510,125       | \$ 216,300,104       |
| Grants and contracts  | 12,708,117           | 12,184,551           |
| Payments to suppliers                                       | (114,740,329)        | (126,551,897)        |
| Payments for utilities                                      | (8,483,486)          | (8,160,788)          |
| Payments to employees                                       | (206,524,097)        | (210,650,678)        |
| Payments for benefits                                       | (80,791,917)         | (81,257,240)         |
| Payments for scholarships and fellowships                   | (17,130,767)         | (16,656,623)         |
| Loans to students   |                      | (156,145)            |
| Auxiliary activities  | 77,356,168           | 82,485,013           |
| Sales and services of educational activities                | 18,978,648           | 19,689,589           |
| Other receipts  | (270,595)            | (2,012,892)          |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>                | <b>(103,388,133)</b> | <b>(114,787,006)</b> |
| <b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>       |                      |                      |
| State appropriations  | 86,594,904           | 84,521,523           |
| William D. Ford PLUS direct lending receipts                | 126,780,790          | 129,830,779          |
| William D. Ford PLUS direct lending disbursements           | (126,780,790)        | (129,830,779)        |
| Federal Pell grant program                                  | 26,283,330           | 25,479,834           |
| Other nonoperating revenue                                  | 14,886,680           | 28,804               |
| Gifts for other than capital purposes                       | 7,722,973            | 7,938,792            |
| Gifts for endowment purposes                                | 2,623,742            | 3,725,846            |
| <b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b> | <b>138,111,629</b>   | <b>121,694,799</b>   |
| <b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES</b>          |                      |                      |
| Capital appropriations                                      | 1,610,284            | 26,275,523           |
| Capital grants and gifts received                           | 3,818,368            | 2,582,529            |
| Purchases of capital assets                                 | (20,889,772)         | (31,970,858)         |
| Principal paid on capital debt and leases                   | (5,270,000)          | (4,820,000)          |
| Interest paid on capital debt and leases                    | (6,471,458)          | (6,517,343)          |
| Insurance proceeds  | 10,757               | 10,348               |
| <b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>        | <b>(27,191,821)</b>  | <b>(14,439,801)</b>  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                  |                      |                      |
| Proceeds from sales and maturities of investments           | 824,247,781          | 752,851,965          |
| Income on investments, net                                  | 14,233,894           | 8,881,358            |
| Purchase of investments                                     | (850,219,466)        | (746,092,603)        |
| <b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>     | <b>(11,737,791)</b>  | <b>15,640,720</b>    |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> | <b>(4,206,116)</b>   | <b>8,108,712</b>     |
| <b>CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR</b>      | <b>39,903,051</b>    | <b>31,794,339</b>    |
| <b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>            | <b>\$ 35,696,935</b> | <b>\$ 39,903,051</b> |

See notes to the financial statements.

**STATEMENTS OF CASH FLOWS – DIRECT METHOD****Central Michigan University**

|   | YEAR ENDED JUNE 30      |                         |
|---|-------------------------|-------------------------|
|   | 2018                    | 2017                    |
| <b>RECONCILIATION OF NET OPERATING REVENUES<br/>(EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES</b> |                         |                         |
| Operating loss  | \$ (132,452,224)        | \$ (137,213,217)        |
| Adjustments to reconcile operating loss to net cash<br>used by operating activities                     |                         |                         |
| Depreciation expense and loss on disposal of capital assets   | 26,491,730              | 26,015,793              |
| Change in assets, liabilities and deferred resources:   |                         |                         |
| Receivables, net  | (1,140,132)             | (3,794,727)             |
| Inventories   | 993,326                 | 323,588                 |
| Other assets  | (360,274)               | (1,825,586)             |
| Accounts payable, accrued liabilities and deposits  | (2,827,034)             | (3,400,692)             |
| Unearned revenue  | 192,140                 | (263,166)               |
| Retirement service award program  | (534,320)               | (250,154)               |
| Compensated absences  | 62,085                  | 838                     |
| Other obligations   | (56,447)                | (110,734)               |
| Loans to students   |                         | (156,145)               |
| Net pension and OPEB liability  | 396,329                 | 8,307,235               |
| Deferred resources - pension and OPEB   | 5,846,688               | (2,420,039)             |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>  | <b>\$ (103,388,133)</b> | <b>\$ (114,787,006)</b> |

See notes to the financial statements.

**STATEMENTS OF NET ASSETS**  
**Central Health Advancement Solutions**

|  | <b>YEAR ENDED JUNE 30</b> |                     |
|--|---------------------------|---------------------|
|  | <b>2018</b>               | <b>2017</b>         |
| <b>ASSETS</b>  |                           |                     |
| <b>CURRENT ASSETS:</b>   |                           |                     |
| Cash and cash equivalents  | \$ 2,315,384              | \$ 3,540,114        |
| Patient accounts receivable, less allowance for doubtful accounts of \$258,799 in 2018 and \$265,012 in 2017 | 858,988                   | 1,088,016           |
| Other receivables  | 1,524,632                 | 935,425             |
| Prepaid expenses and other assets  | 793,229                   | 643,582             |
| <b>TOTAL CURRENT ASSETS</b>  | <b>5,492,233</b>          | <b>6,207,137</b>    |
| <b>ASSETS WHOSE USE IS LIMITED:</b>  |                           |                     |
| By the Board of Trustees   | 184,585                   | 121,735             |
| Under professional liability funding arrangement-held by the trustee   | 753,455                   | 700,336             |
| <b>TOTAL ASSETS WHOSE USE IS LIMITED:</b>  | <b>938,040</b>            | <b>822,071</b>      |
| Medical education funding receivables, less allowance of \$1,038,544 in 2018 and \$1,038,544 in 2017         | 920,648                   | 518,695             |
| Leasehold improvements, furniture, and equipment, net  | 1,691,632                 | 1,771,529           |
| <b>TOTAL ASSETS</b>  | <b>\$ 9,042,553</b>       | <b>\$ 9,319,432</b> |
| <b>LIABILITIES</b>   |                           |                     |
| <b>CURRENT LIABILITIES:</b>  |                           |                     |
| Accounts payable   | \$ 456,325                | \$ 452,925          |
| Other accrued liabilities  | 34,026                    | 34,026              |
| Payroll and related liabilities  | 1,707,082                 | 1,496,863           |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>2,197,433</b>          | <b>1,983,814</b>    |
| Estimated professional liability under self-insurance  | 75,900                    | 75,900              |
| Unearned revenue   | 39,172                    |                     |
| Payable to CMU   | 245,284                   | 270,556             |
| <b>TOTAL LIABILITIES</b>   | <b>2,557,789</b>          | <b>2,330,270</b>    |
| <b>NET ASSETS</b>  |                           |                     |
| Unrestricted - undesignated  | 6,484,764                 | 6,989,162           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 9,042,553</b>       | <b>\$ 9,319,432</b> |

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

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

### Central Health Advancement Solutions

|   | YEAR ENDED JUNE 30 |                   |
|---|--------------------|-------------------|
|   | 2018               | 2017              |
| <b>UNRESTRICTED REVENUES AND OTHER SUPPORT</b>                          |                    |                   |
| Member hospitals  | \$ 16,486,327      | \$ 16,075,308     |
| Net patient service revenue   | 11,555,475         | 11,408,467        |
| Professional liability fund   | 21,497             | 28,682            |
| Contracts and other revenue   | 11,565,948         | 8,531,300         |
| <b>TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT</b>                    | <b>39,629,247</b>  | <b>36,043,757</b> |
| <b>OPERATING EXPENSES</b>   |                    |                   |
| Salaries, wages, and payroll taxes                                      | 26,543,957         | 22,824,783        |
| Employee benefits   | 4,593,393          | 4,425,495         |
| Recruiting  | 448,861            | 453,858           |
| Facility and equipment  | 1,991,437          | 1,496,426         |
| Consumable supplies   | 643,255            | 617,883           |
| Educational supplies and services                                       | 484,720            | 544,722           |
| Consulting and contractual services                                     | 1,937,930          | 2,170,606         |
| Communications  | 257,918            | 291,857           |
| Educational conferences and travel                                      | 826,090            | 721,348           |
| Grant expenses  | 518,778            | 556,443           |
| Other expenses  | 184,428            | 132,015           |
| Professional liability insurance expense                                | 794,442            | 654,430           |
| Depreciation  | 349,423            | 319,926           |
| Provision for bad debts   | 439,882            | 473,504           |
| Professional liability expense  | 153,812            | 28,535            |
| <b>TOTAL OPERATING EXPENSES</b>   | <b>40,168,326</b>  | <b>35,711,831</b> |
| Unrestricted revenues and other support (under) over operating expenses | (539,079)          | 331,926           |
| Net unrealized gain on investments whose use is limited                 | 34,681             | 44,326            |
| Net assets released from restrictions                                   |                    | 19,285            |
| (Decrease) increase in unrestricted net assets                          | (504,398)          | 395,537           |
| <b>NET ASSETS</b>   |                    |                   |
| UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR                            | 6,989,162          | 6,593,625         |
| UNRESTRICTED NET ASSETS AT END OF YEAR                                  | 6,484,764          | 6,989,162         |

**STATEMENTS OF NET ASSETS**  
**The Institute for Excellence in Education**

|   | <b>YEAR ENDED JUNE 30</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2018</b>               | <b>2017</b>         |
| <b>ASSETS</b>                           |                           |                     |
| <b>CURRENT ASSETS:</b>                  |                           |                     |
| Cash                                    | \$ 431,313                | \$ 376,544          |
| Accounts receivable, net allowance      | 348,570                   | 614,450             |
| Accounts receivable - related party     |                           |                     |
| Central Michigan University             | 90,910                    | 90,910              |
| The Center for Charter Schools          | 14,544                    | 16,150              |
| Inventory                               | 36,562                    | 31,222              |
| Prepaid expenses                        | 68,283                    | 110,128             |
| <b>TOTAL CURRENT ASSETS</b>             | <u>990,182</u>            | <u>1,239,404</u>    |
| <br>                                    |                           |                     |
| Property and equipment, net             | 41,027                    | 61,894              |
| Intangible assets, net                  | 2,059,622                 | 1,886,497           |
| Goodwill, net                           | 685,221                   | 822,265             |
| <b>TOTAL ASSETS</b>                     | <u>\$ 3,776,052</u>       | <u>\$ 4,010,060</u> |
| <br>                                    |                           |                     |
| <b>LIABILITIES</b>                      |                           |                     |
| <b>CURRENT LIABILITIES:</b>             |                           |                     |
| Accounts payable                        | \$ 143,604                | \$ 302,403          |
| Note payable, current portion           | 141,486                   | 133,861             |
| Accrued liabilities                     | 307,292                   | 325,820             |
| Compensated absences                    | 113,268                   | 99,117              |
| Unearned revenue                        | 85,929                    | 92,521              |
| <b>TOTAL CURRENT LIABILITIES</b>        | <u>791,579</u>            | <u>953,722</u>      |
| <br>                                    |                           |                     |
| Note payable, net of current portion    | 442,224                   | 583,572             |
| <b>TOTAL LIABILITIES</b>                | <u>1,233,803</u>          | <u>1,537,294</u>    |
| <br>                                    |                           |                     |
| <b>NET ASSETS</b>                       |                           |                     |
| Unrestricted                            | <u>2,542,249</u>          | <u>2,472,766</u>    |
| <b>TOTAL NET ASSETS</b>                 | <u>2,542,249</u>          | <u>2,472,766</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 3,776,052</u>       | <u>\$ 4,010,060</u> |

See Note 1 to the Central Michigan University financial statements.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

### The Institute for Excellence in Education

|  | YEAR ENDED JUNE 30  |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| <b>OPERATING REVENUE AND OTHER SUPPORT</b>                                       |                     |                     |
| State Appropriations - related party   |                     |                     |
| Central Michigan University  | \$ 500,000          | \$ 500,000          |
| Service Revenue  | 4,914,606           | 5,248,242           |
| Contributions  | 356,601             | 303,551             |
| Book revenue, net of cost of goods sold  | 3,980               | 4,424               |
| Other revenue  | 45,292              | 6,341               |
| <b>TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT</b>                             | <b>5,820,479</b>    | <b>6,062,558</b>    |
| <b>OPERATING EXPENSES</b>  |                     |                     |
| Compensation   | 3,427,744           | 3,735,028           |
| Benefits   | 608,619             | 589,546             |
| Interest   | 32,774              | 39,893              |
| Occupancy  | 96,777              | 93,140              |
| Services and fees  | 174,959             | 216,459             |
| Supplies and other   | 188,322             | 206,736             |
| Telephone  | 25,467              | 23,630              |
| Marketing  | 76,183              | 95,300              |
| Travel   | 383,247             | 549,164             |
| Loss on disposal of property and equipment                                       |                     | 3,521               |
| <b>TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>                       | <b>5,014,092</b>    | <b>5,552,417</b>    |
| <b>CHANGE IN NET ASSETS FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION</b> | <b>806,387</b>      | <b>510,141</b>      |
| Depreciation   | 23,260              | 23,549              |
| Amortization   | 713,644             | 735,520             |
| <b>CHANGE IN NET ASSETS</b>  | <b>69,483</b>       | <b>(248,928)</b>    |
| <b>NET ASSETS</b>  |                     |                     |
| UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR                                     | 2,472,766           | 2,721,694           |
| <b>UNRESTRICTED NET ASSETS AT END OF YEAR</b>                                    | <b>\$ 2,542,249</b> | <b>\$ 2,472,766</b> |

## NOTES TO THE FINANCIAL STATEMENTS

### Central Michigan University

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

##### Organization

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

- Central Health Advancement Solutions (CHAS) is a Michigan nonprofit corporation established January 28, 2011 and is organized on a non-stock membership basis. The sole member of the corporation is the Board of Trustees of Central Michigan University. The purpose for which the corporation is organized and to be operated is exclusively charitable, educational and scientific within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended and corresponding provision of any subsequent federal tax laws. The corporation is administered solely for the benefit of the sole member by providing, directly or indirectly, assistance and benefit, financial or otherwise, to the sole member through whatever means are determined appropriate by the Board of Directors of the corporation. Effective January 1, 2011, CHAS entered into a Member's Agreement that provides a 90% membership interest in CMU Medical Education Partners whose purpose is to integrate medical education, research, and service, primarily for the training of medical residents and other medical related personnel. In accordance with the provisions of GASB Statement No. 61, CHAS is discretely presented in the university's financial statements (refer to pages 21 and 22 for CHAS financial statements). The June 30, 2018 audited financial statements for CHAS can be found at: [www.cmich.edu](http://www.cmich.edu)
- The CMU College of Business Administration Foundation (CBAF) is a Michigan nonprofit corporation established January 28, 2011 and is registered as a charitable trust under the Charitable Organizations and Solicitations Act (COSA), MCL 400.271 et seq. and the Supervision of Trustees for Charitable Purposes Act, 1961 PA 101, MCL 14.251 et seq. (STCPA). The purpose for which the corporation is organized and to be operated is to solicit, receive, hold and administer and disburse cash/non-cash investment funds to support the charitable, educational and scientific purposes of CMU's College of Business Administration. In accordance with the provisions of GASB Statement No. 61, CBAF is blended into the university's financial statements because CBAF provides services entirely to the university and the activity is not significant to the university.

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

Audited financial statements for CBAF for years prior to fiscal year 2017 can be found at: [www.cmich.edu](http://www.cmich.edu).

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Central Michigan University**

Condensed financial information for CBAF is provided below:

**CMU College of Business Administration Foundation (CBAF)****Condensed Statements of Net Assets**

|                          | YEAR ENDED JUNE 30 |                          |
|--------------------------|--------------------|--------------------------|
|                          | 2018               | 2017                     |
| <b>ASSETS</b>            |                    |                          |
| Other assets             |                    | \$ 477,840               |
| Investments              |                    |                          |
| <b>TOTAL ASSETS</b>      |                    | <u>477,840</u>           |
| <b>LIABILITIES</b>       |                    |                          |
| Other liabilities        |                    | 553                      |
| <b>TOTAL LIABILITIES</b> |                    | <u>553</u>               |
| <b>NET ASSETS</b>        |                    |                          |
| Unrestricted             |                    | 477,287                  |
| <b>TOTAL NET ASSETS</b>  | \$                 | <u><u>\$ 477,287</u></u> |

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

|  | YEAR ENDED JUNE 30       |                          |
|--|--------------------------|--------------------------|
|  | 2018                     | 2017                     |
| <b>OPERATING EXPENSES</b>                |                          |                          |
| Supplies and other                       | \$ 7,968                 | \$ 24,174                |
| <b>TOTAL OPERATING EXPENSES</b>          | <u>7,968</u>             | <u>24,174</u>            |
| <b>OPERATING LOSS</b>                    | (7,968)                  | (24,174)                 |
| <b>NONOPERATING REVENUES</b>             |                          |                          |
| Gifts                                    |                          | 18,134                   |
| Investment income                        | 815                      | 51,100                   |
| <b>TOTAL NONOPERATING REVENUES</b>       | <u>815</u>               | <u>69,234</u>            |
| <b>TRANSFERS</b>                         |                          |                          |
| Transfers to the University              | (470,134)                | (138,051)                |
| <b>TOTAL TRANSFERS</b>                   | <u>(470,134)</u>         | <u>(138,051)</u>         |
| <b>DECREASE IN NET ASSETS</b>            | (477,287)                | (92,991)                 |
| <b>NET ASSETS</b>                        |                          |                          |
| <b>NET ASSETS AT BEGINNING OF PERIOD</b> | 477,287                  | 570,278                  |
| <b>NET ASSETS AT END OF PERIOD</b>       | \$ <u><u>477,287</u></u> | \$ <u><u>477,287</u></u> |

**CBAF Condensed Statements of Cash Flows**

|   | YEAR ENDED JUNE 30       |                          |
|---|--------------------------|--------------------------|
|   | 2018                     | 2017                     |
| Net Cash (Used) Provided by Noncapital Financing Activities | \$ (7,706)               | \$ 53,894                |
| Net Cash Used by Capital Financing Activities               | (470,134)                |                          |
| Net Cash Provided by Investing Activities                   |                          | 413,695                  |
| Net (Decrease) Increase in Cash and Cash Equivalents        | (477,840)                | 467,589                  |
| <b>CASH AND CASH EQUIVALENTS -</b>                          |                          |                          |
| <b>BEGINNING OF PERIOD</b>                                  | <u>477,840</u>           | <u>10,251</u>            |
| <b>CASH AND CASH EQUIVALENTS -</b>                          |                          |                          |
| <b>END OF PERIOD</b>  | \$ <u><u>477,840</u></u> | \$ <u><u>477,840</u></u> |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

- The Charter Schools Development & Performance Institute d/b/a National Charter Schools Institute (NCSI), d/b/a Institute for Excellence in Education (IEE), a Michigan nonprofit corporation, was formed on November 29, 2001. The institute is incorporated as a private tax-exempt corporation with the primary goal to facilitate the development and performance of charter schools in Michigan and throughout the nation, and to pursue multiple related objectives in support of Charter Schools. There are two classes of members of the corporation, Category A and Category B. The Category A members consist of persons who are the president or members of the Board of Trustees of Central Michigan University. Category B members of the corporation consist of individuals serving as members of the Board of Trustees of the corporation. The university transferred \$500,000 to the IEE for each year ended June 30, 2018, and 2017.

In accordance with the provisions of GASB Statement No. 61, the IEE is considered a component unit of the university and the operations of the IEE should be discretely presented in the university's financial statements because there is a financial benefit/burden and the blending criteria of GASB Statement No. 61 are not met. As a result, IEE is shown discretely presented at June 30, 2018 (refer to pages 23 and 24 for IEE financial statements).

- The Central Michigan University Research Corporation (CMURC) was formed as an independent 501(c)(3) nonprofit corporation on February 15, 2002. The corporation's sole member is Central Michigan University. The purpose for which the corporation was formed is to solicit, collect, receive and administer funds exclusively for the support of the scientific, literary and educational programs of the university as permitted by an organization exempt from federal income taxation. In June 2014, the university's Board of Trustees approved extending an annual contribution of \$500,000 through FY 2019. Fiscal year 2018 is the seventeenth year of the commitment. At June 30, 2018, and 2017, the net assets of CMURC were \$1,799,447 and \$1,665,380, respectively. In accordance with the provisions of GASB Statement No. 80, CMURC is considered a component unit of the university and the operations of CMURC should be blended into the university's financial statement because the university is the corporation's sole member. However, the university has excluded the amounts from the financial statements overall due to insignificance.
- The CMU Foundation (Foundation) is a Michigan nonprofit corporation established during fiscal year 1998. The purpose for which the corporation is organized and operated is to solicit, collect, receive and administer funds to provide support for the objectives and purposes of the university. There were insignificant assets and no liabilities as of June 30, 2018 and 2017. In accordance with the provisions of GASB Statement No. 61, the Foundation is blended into the university's financial statements because the activity is insignificant and the Foundation provides services entirely to the university. There was no activity to be reported for the years 2018 and 2017.
- CMU Charter Schools are nonsectarian public schools of choice that operate with freedom from many of the regulations that apply to traditional public schools. The "charter" establishing each such school is a performance contract detailing the school's mission, program, goals, students served, methods of assessment and ways to measure success. In accordance with the provisions of GASB Statement No. 61, the CMU Charter Schools are considered a related organization because there is no financial benefit/burden to the university nor can the university impose its will on the charter schools. According to GASB Statement No. 61, only note disclosure is required for related organizations.

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

#### Basis of Presentation

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

- Management’s discussion and analysis
- Basic financial statements including a Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the university as a whole
- Notes to the financial statements

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

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
  - Nonexpendable – Net position subject to externally imposed constraints that they be maintained permanently by the university. Such assets include the university’s permanent endowment funds.
  - Expendable – Net position whose use by the university is subject to externally imposed constraints that can be fulfilled by actions of the university pursuant to those constraints or that expire by the passage of time.
- Unrestricted: Net positions that are not subject to externally imposed constraints. Unrestricted net positions may be designated for specific purposes by action of management or the board or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net positions are designated for academic, research and outreach programs and initiatives, postemployment benefits, operating and stabilization reserves, capital projects and capital asset renewals and replacements.

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### Summary of Significant Accounting Policies

##### Cash and Cash Equivalents

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

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

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

##### Pledges

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

##### Inventories

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

##### Investments

All investments are stated at fair value.

##### Capital Assets

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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#### Compensated Absences

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

#### Pensions and Other Post-Employment Benefits (OPEB)

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

#### Unearned Revenue

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

#### CHAS Estimated Professional Liability

The provision for estimated self-insured medical malpractice claims is actuarially determined and includes estimates of the costs for both reported claims and claims incurred but not reported. The liability is approximately \$75 thousand at June 30, 2018, \$75 thousand at June 30, 2017 and is included in the member hospital and malpractice fund liability. Additionally, CHAS has malpractice funding held by trustee of approximately \$750 thousand at June 30, 2018 and \$700 thousand at June 30, 2017.

#### Deferred Outflows and Deferred Inflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and as such, is not recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources consist of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method, gains on the defeasance of debt and deferred resources related to the university's proportionate share of the net pension and other post-employment benefit liability for the Michigan Public School Employee's Retirement System (MPERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$4,540,943 at June 30, 2018, and \$5,877,946 at June 30, 2017. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$1,065,857 and \$1,140,654, net of amortization, at June 30, 2018 and 2017, respectively; Series 2005 valued at \$955,695 and \$1,014,507, net of amortization, at June 30, 2018 and 2017 respectively; and Series 2006 valued at \$202,721 and \$214,473, net of amortization, at June 30, 2018 and 2017 respectively. The value of deferred outflows related to the MPERS plan for pensions was \$10,577,454 and \$10,866,892 as of June 30, 2018 and 2017 respectively, and for other post-employment benefits (OPEB) was \$2,443,445 as of June 30, 2018. See Note 9 for additional information on deferred outflows related to the MPERS plan.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and as such, is not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of future revenue streams related to split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the university's proportionate share of the net pension and net OPEB liability for the MPERS plan. Deferred inflows of resources applicable to split-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

interest agreements include \$2,745,140 at June 30, 2018. See Note 8 for additional information on deferred inflows related to split-interest agreements. At June 30, 2018, deferred inflows related to changes in the pension portion of the MPSERS plan was \$3,334,350 and the value related to changes in the OPEB portion of the MPSERS plan was \$1,452,059. See Note 9 for additional information on deferred inflows related to the MPSERS plan. The value of deferred inflows of resources related to funding received through state appropriations for contributions to the MPSERS plan, after the measurement date, was \$1,133,337 and \$1,016,886 at June 30, 2018 and June 30, 2017, respectively.

#### Bond Issuance Costs

Bond issuance costs are expensed when incurred.

#### Operating and Non-operating Revenues

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

#### Revenue Recognition

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

#### Student Tuition

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

#### Auxiliary Enterprises

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

#### CHAS Revenue

CHAS has agreements with third-party payers that provide for reimbursements to the corporation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the corporation's established rates for services and amounts reimbursed by third-party payers. The corporation grants credit without collateral to its patients, most of who are Michigan residents and are insured under third-party payer agreements. Significant concentrations of CHAS accounts receivable at June 30, 2018 and June 30, 2017 include Medicare (19.6% and 16.5%), Blue Cross (9.2% and 8.6%), Medicaid (26.9% and 28.0%) and other commercial insurers and self-pay (44.3% and 46.9%), respectively.

CHAS patient accounts receivable and revenue are recorded when patient services are performed. Patient accounts receivable are recorded at the corporation's established rates with contractual adjustments, charity allowances, policy discounts and the provision for uncollectible accounts deducted to arrive at net patient accounts receivable. Patient services and member hospital receivables are recorded net of the total allowance for doubtful accounts of \$1,297,343 at June 30, 2018 and \$1,303,556 at June 30, 2017.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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#### Donor Restricted Endowments

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

#### Eliminations

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

#### Use of Estimates

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

#### Income Taxes

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

#### Adoption of New Standards

The Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide post-employment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This Statement requires governments providing post-employment benefits to recognize their unfunded benefit obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The university is recognizing on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan Public School Employees' Retirement System (MPERS) for the first time in fiscal year 2018. In accordance with the statement, the university has reported a change in accounting principle adjustment to unrestricted net position of \$35.8 million, which is the net of the net OPEB liability and related deferred outflows as of July 1, 2017. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75 because the information is not available to calculate the impact on OPEB expense for the fiscal year ended June 30, 2017.

The Governmental Accounting Standards Board issued Statement No. 81, *Irrevocable Split-Interest Agreements*, addressing the recognition and measurement of irrevocable split-interest agreements where the government is a beneficiary of the agreement. This standard requires the university to recognize on the face of the financial statements any assets, liabilities, and deferred inflows of resources at the inception of the agreement. In accordance with the Statement, the university reported, for the first time, \$2.6 million in assets and deferred inflows related to split-interest agreements as of June 30, 2018.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

##### Policy

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

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

Policies regarding marketable securities in the endowment investments, as set forth by the Board of Trustees, authorize the investment managers to invest in equities, bonds or other marketable securities as outlined in the CMU Endowment Investment Policy Statement (found on the Board of Trustees website). The endowment income spending policy is 4.5% of the 20-quarter rolling average of the market value of the endowment pool. Under state law, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the university may appropriate for spending as much of the endowment as the institution deems prudent for the uses, benefits, purposes and duration for which the particular endowment fund was established, subject to evaluation of several specific factors including general economic conditions and the fund's purpose. Although UPMIFA allows spending of the original gift, the university's board policy does not allow the annual spending income allocation to reduce the original gift principal. Therefore, some of the endowments may not have distributed for fiscal year 2018. The spending policy is reviewed periodically by the investment committee, who recommend changes to the Board of Trustees. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$30,636,566 at June 30, 2018, and \$26,060,369 at June 30, 2017. The net appreciation is a component of restricted, expendable net positions. The yields of the endowment investments were as follows:

|                                   | June 30      |               |
|-----------------------------------|--------------|---------------|
|                                   | 2018         | 2017          |
| Interest and Dividends            | 0.3 %        | 0.7 %         |
| Net Realized and Unrealized Gains | 8.8 %        | 12.4 %        |
| Total Return                      | <u>9.1 %</u> | <u>13.1 %</u> |

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

|  | Fair Market Value June 30 |                       |
|--|---------------------------|-----------------------|
|  | 2018                      | 2017                  |
| <b>Investments:</b>                                  |                           |                       |
| Bonds (Including Bonds, Mutual Funds, & ETFs)        | \$ 107,356,170            | \$ 93,367,782         |
| Equities (Including Equities, Mutual Funds, & ETFs)  | 228,418,175               | 211,682,382           |
| Real Estate  | 6,043                     | 19,942                |
| Life Insurance Policies                              | 328,886                   | 358,786               |
| Alternative Investments                              | 60,711,391                | 47,318,425            |
| Cash Equivalents-Endowments                          | 3,409,709                 | 6,086,279             |
| Beneficial Interests in Split-Interest Agreements    | 2,597,157                 | -                     |
| Cash Equivalents                                     | 6,207,753                 | 25,248,682            |
| Cash Deposits  | 29,488,389                | 14,654,119            |
| Total Investments                                    | <u>\$ 438,523,673</u>     | <u>\$ 398,736,397</u> |
| <b>As Reported on the Statements of Net Position</b> |                           |                       |
| Current Investments:                                 |                           |                       |
| Cash and Cash Equivalents                            | \$ 35,696,142             | \$ 39,902,801         |
| Noncurrent Investments:                              |                           |                       |
| Restricted Cash and Cash Equivalents                 | 793                       | 250                   |
| Endowment Investments                                | 182,388,106               | 156,167,451           |
| Other Long-Term Investments                          | 220,438,632               | 202,665,895           |
| Total Noncurrent Investments                         | <u>402,827,531</u>        | <u>358,833,596</u>    |
| Total Investments                                    | <u>\$ 438,523,673</u>     | <u>\$ 398,736,397</u> |

#### Investments at Amortized Cost

The university invests in the Governments of Michigan Investing Cooperatively (GovMIC) program. The GovMIC share class was specifically designed for governmental entities and is a class within the broader Michigan Liquid Asset Fund (MILAF) portfolio. This external investment pool provides daily liquidity and flexibility to investors and measures its investments at amortized cost. There are no minimum deposit or redemption requirements for investors in the fund, nor are there any limits on the number of deposits or withdrawals. The fund is invested in compliance with Michigan Public Act 20. For Term MILAF funds, there is a one-day minimum investment period and investments may not be redeemed, without penalty, for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. Redemptions made prior to the end of the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount redeemed. At June 30, 2018 and 2017, the university only had holdings in the GovMIC daily liquidity fund of the MILAF portfolio.

#### Credit Risk

The university's investment policy requires that all bond investments have a Standard and Poor's or a Moody's Investors Service rating of A or better. The debt investments held by the university as of June 30, 2018, that mature by June 30, 2019, were rated by Moody's with ratings of AAA, AA, A+ and A.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities of fixed income investments as of June 30, 2018 and 2017 are as follows:

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

| June 30, 2018                      |                      |                      |                      |                      |                       |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| Fixed Income Investment Maturities |                      |                      |                      |                      |                       |
| Investment Type                    | Less than 1 year     | 1-5 years            | 6-10 years           | More than 10 years   | Total                 |
| US Treasury/TIPS                   | \$ 166,213           | \$ 5,687,589         | \$ 7,744,822         | \$ 4,399,649         | \$ 17,998,273         |
| Core Fixed Income                  | 2,154,173            | 7,312,619            | 5,964,581            | 5,414,776            | 20,846,149            |
| Short Duration Fixed Income        | 3,225,060            | 8,992,120            | 7,336                | 1,369                | 12,225,885            |
| Emerging Market Debt               | 1,107,183            | 1,369,866            | 1,343,943            | 1,939,588            | 5,760,580             |
| Global Multi-Sector Fixed Income   | 12,417,840           | 12,784,117           | 2,594,659            | (2,027,927)          | 25,768,689            |
| Absolute Return Fixed Income       | (1,512,629)          | 14,591,551           | 8,828,210            | 2,849,462            | 24,756,594            |
| Total                              | <u>\$ 17,557,840</u> | <u>\$ 50,737,862</u> | <u>\$ 26,483,551</u> | <u>\$ 12,576,917</u> | <u>\$ 107,356,170</u> |

| June 30, 2017                      |                      |                      |                      |                      |                      |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Fixed Income Investment Maturities |                      |                      |                      |                      |                      |
| Investment Type                    | Less than 1 year     | 1-5 years            | 6-10 years           | More than 10 years   | Total                |
| US Treasury/TIPS                   | \$ 1,019,906         | \$ 6,287,262         | \$ 6,649,641         | \$ 2,352,557         | \$ 16,309,366        |
| Core Fixed Income                  | 1,336,309            | 8,431,132            | 4,678,417            | 3,371,808            | 17,817,666           |
| Short Duration Fixed Income        | 2,729,581            | 9,451,741            | 9,753                |                      | 12,191,075           |
| Emerging Market Debt               |                      |                      |                      |                      |                      |
| Global Multi-Sector Fixed Income   | 6,268,907            | 8,630,920            | 7,988,525            | 1,606,174            | 24,494,526           |
| Absolute Return Fixed Income       | 1,808,923            | 8,295,784            | 9,071,681            | 3,378,761            | 22,555,149           |
| Total                              | <u>\$ 13,163,626</u> | <u>\$ 41,096,839</u> | <u>\$ 28,398,017</u> | <u>\$ 10,709,300</u> | <u>\$ 93,367,782</u> |

#### Concentration of Credit Risk

Deliberate management of the asset mix among classes of investments is a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political or social developments is a highly desirable objective. The university's general policy shall be to diversify investments within both equity and fixed income securities to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. Accordingly, the university did not have investments in any one issuer that represented 5% or more of total investments at June 30, 2018, or June 30, 2017.

#### Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2018 and June 30, 2017, 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 \$29,488,389 at June 30, 2018, and \$14,654,119 at June 30, 2017. The deposits were reflected in the accounts of the banks at \$33,090,716 at June 30, 2018, and \$17,927,624 at June 30, 2017. Of the bank balance, \$32,590,716 at June 30, 2018, and \$17,177,624 at June 30, 2017, 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 \$185.6 million at June 30, 2018, and \$168.5 million at June 30, 2017, in its investment portfolios held by various investment managers as the counterparty.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 3--RECEIVABLES

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

Accounts receivable are recorded net of the allowance for doubtful accounts of \$2,341,908 at June 30, 2018, and \$2,498,757 at June 30, 2017.

During the fiscal year, the university received approximately \$272,108,000 (\$232,866,000 in fiscal year 2017) of state appropriations, which were forwarded to fifty-seven charter schools.

|                                      | June 30       |               |
|--------------------------------------|---------------|---------------|
|                                      | 2018          | 2017          |
| Tuition, Room and Board              | \$ 5,849,728  | \$ 5,359,931  |
| Contracts and Grants                 | 3,102,808     | 2,413,671     |
| Sales and Services                   | 6,044,834     | 17,637,327    |
| Insurance Proceeds                   | 441           | 9,402         |
| Pledges                              | 7,668,986     | 6,751,570     |
| Agency Activities                    | 1,794,990     | 1,911,126     |
| Total                                | 24,461,787    | 34,083,027    |
| State Appropriations-SBA             | 3,132         | 313,132       |
| State Appropriations-Operations      | 15,779,584    | 15,518,754    |
| State Appropriations-Charter Schools | 37,738,796    | 40,234,270    |
| Total Receivable                     | \$ 77,983,299 | \$ 90,149,183 |

#### NOTE 4--PLEDGES

The university receives pledges of financial support from corporations, foundations and individuals. The change in pledges has been recorded as gifts. Pledges receivables are presented net of allowance for doubtful contributions. Certain pledges are recorded at present value calculated using a discount rate of the average interest rate for bonded debt of 3.96% at June, 2018 and 3.90% at June 30, 2017. The present value of pledges outstanding is \$7,668,986 at June 30, 2018 and \$6,751,570 at June 30, 2017.

Payments on pledged receivables at June 30, 2018 are expected to be received in the following fiscal years:

|                |                     |
|----------------|---------------------|
| 2019           | \$ 3,370,413        |
| 2020 and after | 4,298,573           |
|                | <u>\$ 7,668,986</u> |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 5--CAPITAL ASSETS

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

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

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

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, 2018 primarily consists of the construction costs for the Center for Integrated Health Studies building of \$3.5 million, South Quad Housing project of \$1.0 million, Powerhouse upgrade to the gas turbine control of \$0.7 million, Field Hockey Turf Replacement of \$0.6 million and other projects including maintenance and remodeling of approximately \$7.9 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 \$49.1 million as of June 30, 2018 (\$55.9 million as of June 30, 2017).

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 6--ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

|                               | 2018                 | 2017                 |
|-------------------------------|----------------------|----------------------|
| University Wages and Benefits | \$ 12,742,905        | \$ 11,300,612        |
| University Supplies           | 15,765,306           | 17,512,150           |
| Charter Schools               | 37,732,314           | 40,234,270           |
| Total University              | 66,240,525           | 69,047,032           |
| CBAF Other                    |                      | 553                  |
| Total                         | <u>\$ 66,240,525</u> | <u>\$ 69,047,585</u> |

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

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

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 2017:

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

### GENERAL REVENUE BONDS

On January 5, 2016, the university issued \$20,750,000 in General Revenue Refunding Bonds, Series 2016. The outstanding bonds bear an interest rate between 2.50% and 5.00% and mature in fiscal year 2019 through 2036. The proceeds of these bonds were used to advance refund \$23,325,000 of outstanding General Revenue Bonds Series 2006, with an interest rate between 4.00% and 4.50%. The advance refunding reduced total debt service payments over the next 20 years by approximately \$2.9 million, which represents an economic gain of approximately \$2.2 million.

On October 1, 2014, the university issued \$66,770,000 in General Revenue and Refunding Bonds, Series 2014. The outstanding bonds bear an interest rate between 3.50% and 5.00% and mature in fiscal years 2019 through 2045. A portion of the proceeds from the issuance was used to advance refund \$25,385,000 of outstanding General Revenue Bonds, Series 2005. The additional \$47.9 million in proceeds from the issuance were used, together with other available funds, to pay the costs of constructing, furnishing and equipping a new four story Biosciences Building.

On May 1, 2012, the university issued \$23,015,000 in General Obligation Revenue Bonds, Series 2012A. The outstanding bonds bear an interest rate between 2.00% and 3.75% and mature in fiscal year 2019 through 2033. The proceeds of these bonds were used to advance refund \$20.9 million of outstanding General Revenue Bonds Series 2002A, with an interest rate of 5.05%.

On October 1, 2009, the university issued \$32,265,000 in General Revenue Bonds, Series 2009. The outstanding bonds bear an interest rate between 4.00% and 5.00% and mature in fiscal years 2019 through 2027. Proceeds from this issuance were \$35,181,688, consisting of principal amount of the bonds (\$32,265,000) and net original issue premium of \$2,916,688. The proceeds from the sale of the bonds were used to refund the General Revenue Bonds, Series 1998.

On May 1, 2008, the university issued \$43,025,000 in General Revenue Bonds, Series 2008A. The variable rate bonds mature in the fiscal years 2019 through 2033. Proceeds from this issuance were \$43,025,000 of principal. The proceeds from the sale of the bonds were used to retire the 2002 Select Auction Variable Rate Securities (SAVRS) Series A and B bonds. The university retained the related swaps, and these

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

swaps are now designated as a hedge against the General Revenue Bonds, Series 2008A as a means to fix the variable rate bond, and minimize long-term interest rate risk.

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 2018 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          |
|---------------------|-----------------------|---------------|--------------------------|----------------|
| 2019                | 5,360,000             | 5,800,501     | 812,414                  | 11,972,915     |
| 2020                | 5,365,000             | 5,661,369     | 1,080,582                | 12,106,951     |
| 2021                | 5,860,000             | 5,417,292     | 1,083,298                | 12,360,590     |
| 2022                | 5,990,000             | 5,158,356     | 1,084,154                | 12,232,510     |
| 2023                | 6,420,000             | 4,885,097     | 1,082,461                | 12,387,558     |
| 2024-2028           | 36,595,000            | 20,054,979    | 5,270,718                | 61,920,697     |
| 2029-2033           | 47,580,000            | 12,140,053    | 3,219,280                | 62,939,333     |
| 2034-2038           | 16,930,000            | 5,192,750     |                          | 22,122,750     |
| 2039-2043           | 11,300,000            | 2,253,975     |                          | 13,553,975     |
| 2044-2045           | 5,210,000             | 210,400       |                          | 5,420,400      |
| Total               | 146,610,000           | \$ 66,774,772 | \$ 13,632,907            | \$ 227,017,679 |
| Unamortized Premium | 11,250,000            |               |                          |                |
|                     | <u>\$ 157,860,000</u> |               |                          |                |

### HEDGING INSTRUMENTS

The university has one pay-fixed, receive-variable, interest rate swap at June 30, 2018. 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) (0.87539% at June 30, 2018). 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, 2018, the swap agreement had a notional amount of \$21,175,000, and was in a negative position of \$4,540,943. As long as the variable rate portion of the swap being received by the university is less than the fixed rate being paid, the university will continue to be in a negative position on the swap.

The pay-fixed, receive-variable, interest rate swap is considered a cash flow hedge. The change in fair value was a decrease to deferred outflows of \$1,337,003 for fiscal year 2018. The accumulated change in fair value of (\$4,540,943) and (\$5,877,946) is recorded in deferred outflows at June 30, 2018 and 2017, respectively.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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#### Credit Risk

As of June 30, 2018, the hedging derivative instrument is a liability and therefore the university is not exposed to the credit risk of its swap counterparties. However, should interest rates change and the fair value of the swap become positive, the university would be exposed to credit risk in the amount of the hedging instrument's fair value. As of June 30, 2018, the derivative counterparty is currently rated Baa2 which suggests a capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparty from complying with the terms of the derivative agreement. The university monitors counterparty credit risk on an ongoing basis for any significant adverse changes.

#### Interest Rate Risk

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

#### Basis Risk

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

#### Termination Risk

The university or its hedging counterparty may terminate a hedging instrument if the other party fails to perform under the terms of the contract. In addition, the university's swap counterparty has the right to terminate a hedging instrument if the credit rating of the university's unenhanced, unlimited tax general obligation bonds is withdrawn or reduced by any two of Fitch, Moody's, and S&P below BBB/Baa2. If such an event occurs, the university could be forced to terminate a derivative in a liability position.

#### Rollover Risk

Rollover risk is the risk that a hedging instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. As of June 30, 2018, the university does not believe that rollover risk is significant.

#### Foreign Currency Risk

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

#### Market Access Risk

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

#### Letter of Credit

In June 2016, the university extended a stand by letter of credit agreement, dated May 1, 2008, as amended by a First Amendment agreement dated August 1, 2010 and a Second Amendment agreement dated June 28, 2013, in the amount of outstanding bond principal plus 35 days interest equal to \$21,463,257 to provide credit enhancement and liquidity support for certain General Revenue Refunding Bonds, Series 2008A. The expiration date of the stand by Letter of Credit is July 1, 2019.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### OTHER OBLIGATIONS

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

#### NOTE 8--FAIR VALUE MEASUREMENTS

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

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

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

##### Assets and Liabilities Measured at Fair Value on a Recurring Basis

|   | Balance at<br>June 30, 2018 | Fair Market Measurements Using   |   |  |
|---|-----------------------------|--|---|--|
|   |                             | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Investments by fair value level:</b> |                             |  |   |  |
| Debt Securities                         |                             |  |   |  |
| Domestic short term duration            | \$ 18,732,123               | \$ 18,732,123  |   |  |
| Domestic intermediate duration          | 6,246,464                   | 5,917,579  |   | \$ 328,885   |
| Global and unconstrained duration       | 41,061,119                  | 41,061,119   |   |  |
| Total debt securities                   | 66,039,706                  | 65,710,821   |   | 328,885  |
| Equity securities                       |                             |  |   |  |
| Domestic                                | 68,600,854                  | 68,600,854   |   |  |
| Global                                  | 368,302                     | 368,302  |   |  |
| Total equity securities                 | 68,969,156                  | 68,969,156   |   |  |
| Real asset funds                        |                             |  |   |  |
| Domestic                                | 6,044                       | 6,044  |   |  |
| Total real asset funds                  | 6,044                       | 6,044  |   |  |
| Alternative Strategies                  |                             |  |   |  |
| Multi-asset class funds                 | 35,882,674                  | 35,882,674   |   |  |
| Total alternative strategies            | 35,882,674                  | 35,882,674   |   |  |
| Beneficial Interests                    |                             |  |   |  |
| Beneficial Interests in Split-Interest  | 2,597,157                   |  |   | 2,597,157  |
| Total Beneficial Interests              | 2,597,157                   |  |   | 2,597,157  |
| Total investments by fair value level   | \$ 173,494,737              | \$ 170,568,695   | \$ -  | \$ 2,926,042                                       |

##### Investments measured at the net asset value (NAV)

|  |                |
|--|----------------|
| Debt Securities - domestic/global        | 30,310,337     |
| Equity securities - domestic/global      | 118,389,476    |
| Private investments - domestic/global    | 14,239,757     |
| Equity long/short hedge funds            | 14,018,315     |
| Event-driven hedge funds                 | 1,578,926      |
| Multi-strategy hedge funds               | 23,893,549     |
| Multi-asset class funds                  | 16,619,515     |
| Real asset funds                         | 6,980,845      |
| Total investments measured at the NAV    | 226,030,720    |
| Total investments measured at fair value | \$ 399,525,457 |

##### Hedging derivative instruments

|                                 |                |                |
|---------------------------------|----------------|----------------|
| Interest rate swaps - effective | \$ (4,540,943) | \$ (4,540,943) |
| Total hedging derivatives       | \$ (4,540,943) | \$ (4,540,943) |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

The university has the following recurring fair value measurements as of June 30, 2017:

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

|  | Balance at<br>June 30, 2017 | Fair Market Measurements Using   |  |  |
|--|-----------------------------|--|--|--|
|  |                             | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Investments by fair value level:</b>                  |                             |  |  |  |
| Debt Securities  |                             |  |  |  |
| Domestic short term duration                             | \$ 22,137,769               | \$ 22,137,769  |  |  |
| Domestic intermediate duration                           | 4,823,389                   | 4,464,603  |  | \$ 358,786   |
| Global and unconstrained duration                        | 37,865,500                  | 37,865,500   |  |  |
| Total debt securities                                    | 64,826,658                  | 64,467,872   |  | 358,786  |
| Equity securities  |                             |  |  |  |
| Domestic   | 70,113,488                  | 70,113,488   |  |  |
| Global   | 344,933                     | 344,933  |  |  |
| Total equity securities                                  | 70,458,421                  | 70,458,421   |  |  |
| Real asset funds   |                             |  |  |  |
| Domestic   | 19,943                      | 19,943   |  |  |
| Total real asset funds                                   | 19,943                      | 19,943   |  |  |
| Alternative Strategies                                   |                             |  |  |  |
| Multi-asset class funds                                  | 33,374,793                  | 33,374,793   |  |  |
| Total alternative strategies                             | 33,374,793                  | 33,374,793   |  |  |
| Total investments by fair value level                    | \$ 168,679,815              | \$ 168,321,029   | \$   | \$ 358,786   |
| <b>Investments measured at the net asset value (NAV)</b> |                             |  |  |  |
| Debt Securities - domestic/global                        | 17,817,666                  |  |  |  |
| Equity securities - domestic/global                      | 103,445,706                 |  |  |  |
| Private investments - domestic/global                    | 8,766,832                   |  |  |  |
| Equity long/short hedge funds                            | 12,647,798                  |  |  |  |
| Event-driven hedge funds                                 | 1,877,981                   |  |  |  |
| Multi-strategy hedge funds                               | 18,169,654                  |  |  |  |
| Multi-asset class funds                                  | 15,606,115                  |  |  |  |
| Real asset funds   | 5,856,160                   |  |  |  |
| Total investments measured at the NAV                    | 184,187,912                 |  |  |  |
| Total investments measured at fair value                 | \$ 352,867,727              |  |  |  |
| <b>Hedging derivative instruments</b>                    |                             |  |  |  |
| Interest rate swaps - effective                          | \$ (5,877,946)              |  | \$ (5,877,946)   |  |
| Total hedging derivatives                                | \$ (5,877,946)              |  | \$ (5,877,946)   |  |

The fair value of debt and equity securities classified in Level 1 at June 30, 2018 and 2017 was valued using prices quoted in active markets for those securities.

The fair value of debt securities classified in Level 2 would generally be valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices given that it is not a holding available to be bought or sold in active markets (i.e. the holding does not trade using a ticker symbol). At June 30, 2018 and 2017 the university did not have any Level 2 debt securities.

The fair value of debt and equity securities classified in Level 3 at June 30, 2018 and 2017 was valued using otherwise unobservable inputs. The life insurance policies (\$328,886) were valued using their cash surrender value. The beneficial interests in split-interest agreements (\$2,597,157) were valued using investment statements and current market values of stock held in trusts.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

The fair value of hedging derivative instruments classified in Level 2 at June 30, 2018 and 2017 was valued using available market inputs such as interest rates and yield curves adjusted for nonperformance risk that are observable at commonly quoted intervals.

#### Investments in Entities that Calculate Net Asset Value per Share

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

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

|                              | June 30, 2018  |                | June 30, 2017 |            | June 30, 2018        |                                   |
|------------------------------|----------------|----------------|---------------|------------|----------------------|-----------------------------------|
|                              | Fair Value     | Fair Value     | Fair Value    | Fair Value | Unfunded Commitments | Redemption Frequency, if Eligible |
| Debt securities              | \$ 30,310,337  | \$ 17,817,666  | \$            |            |                      | Daily to Monthly                  |
| Equity securities            | 118,389,476    | 103,445,706    |               |            |                      | Daily to Monthly                  |
| Private Investments          | 14,239,757     | 8,766,832      |               |            | 7,787,241            | N/A                               |
| Equity long/short hedge fund | 14,018,315     | 12,647,798     |               |            |                      | Quarterly to Semi-Annually        |
| Event driven hedge fund      | 1,578,925      | 1,877,981      |               |            |                      | Rolling 2 Year                    |
| Multi-strategy hedge fund    | 23,893,549     | 18,169,654     |               |            |                      | Quarterly to Annually             |
| Multi-asset class fund       | 16,619,515     | 15,606,115     |               |            |                      | Daily to Monthly                  |
| Real asset funds             | 6,980,845      | 5,856,160      |               |            | 2,506,720            | N/A                               |
| Total                        | \$ 226,030,720 | \$ 184,187,912 | \$            |            | \$ 10,293,961        |                                   |

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

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

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

### NOTE 9--RETIREMENT PLANS

The university has a defined contribution retirement plan for all qualified employees. Prior to May 23, 2018 employees had the option of setting up individual accounts with Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF) and/or Fidelity Investment Tax Exempt Services Company. Beginning in May of 2018, CMU moved to one recordkeeper for this plan, TIAA-CREF. Full-time faculty and professional administrators hired prior to January 1, 1996, who chose to participate in the defined contribution plan, receive university contributions equal to 12% of their base salary into the plan. All other employees participating in this plan, receive contributions equal to 10% of their base salary into the plan. All contributions are subject to IRS limits. University contributions begin immediately and employee benefits vest immediately.

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

Contributions and covered payroll under all plans in fiscal year 2018 are summarized as follows:

|                                    | TIAA-CREF     | Fidelity     | MPSERS     | University Total |
|------------------------------------|---------------|--------------|------------|------------------|
| Pension Contributions              |               |              |            |                  |
| University Defined Contribution    | \$ 14,189,675 | \$ 2,324,810 | \$ 9,920   | \$ 16,524,405    |
| University Normal Defined Benefit  |               |              | 659,085    | 659,085          |
| Required Employee DB               |               |              | 441,171    |                  |
| University DB UAAL                 |               |              | 7,766,630  | 7,766,630        |
| Payroll Floor UAAL (Estimated)     |               |              | 2,291,736  | 2,291,736        |
| Stabilization UAAL Contribution    |               |              | 1,133,337  | 1,133,337        |
| Health Contributions               |               |              |            |                  |
| University Personal Health Fund DC |               |              | 12,332     | 12,332           |
| Required Employee PHF DC           |               |              | 12,332     |                  |
| University Normal Defined Benefit  |               |              | 44,865     | 44,865           |
| Required Employee DB               |               |              | 426,562    |                  |
| University UAAL                    |               |              | 2,535,762  | 2,535,762        |
| Payroll Floor UAAL (Estimated)     |               |              | 749,762    | 749,762          |
| Covered Payroll                    | 140,008,170   | 25,948,495   | 14,405,517 | 180,362,182      |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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 \$969,396 for fiscal year 2018 (\$1,384,204 for fiscal year 2017) related to this program are included in the university Statements of Net Position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with university's long-term debt, hedging instruments and other long-term obligations.

### MSPERS – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

#### Plan Description

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

#### Contributions

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

The university's contributions are determined based on employee elections. There are four different benefit options included in the plan available to employees based on date of hire. The university also contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded actuarial accrued liability (UAAL) portion of future pensions and health benefits. Public Act 136 of 2016 sets a rate cap of 25.73 percent for university employer UAAL contributions. In addition, the new law establishes a requirement for a payroll floor. In a given fiscal year, each university owes UAAL contributions based on the greater of its payroll floor or its actual payroll. The payroll floor was \$51,785,000 and \$52,547,000 for fiscal year 2018 and 2017, respectively. Contribution rates are adjusted annually by the ORS. The rates for the defined benefit plan are as follows:

|                     | Normal<br>Pension Rate | Unfunded<br>Pension<br>Rate | Normal<br>Health Rate | Unfunded<br>Health Rate |
|---------------------|------------------------|-----------------------------|-----------------------|-------------------------|
| 10/01/17 – 06/30/18 | 4.87%                  | 19.60%                      | 0.31%                 | 6.13%                   |
| 10/01/16 – 09/30/17 | 4.30%                  | 18.75%                      | 0.38%                 | 6.98%                   |
| 07/01/16 – 09/30/16 | 4.87%                  | 17.73%                      | 0.78%                 | 8.00%                   |

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

The university's required defined benefit contributions to MPSERS normal pension costs, totaled \$659,085 in fiscal year 2018 and \$681,080 in fiscal year 2017. Required employee contributions were \$441,171 in fiscal year 2018 and \$465,770 in fiscal year 2017. The university's contributions to the unfunded MPSERS

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

defined benefit pensions totaled \$10,058,366 in fiscal year 2018 and \$8,700,443 in fiscal year 2017. The university also recorded \$1,133,337 and \$1,395,288 of stabilization rate revenue from the State of Michigan to assist in funding the MPSERS pension and health Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2018 and June 30, 2017, respectively. The university's contributions toward the MPSERS defined contribution plan totaled \$9,920 in fiscal year 2018 and \$8,766 in fiscal year 2017.

#### Benefits Provided

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

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

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

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

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

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

At June 30, 2018 and June 30, 2017, the university reported a pension liability of \$141,154,617 and \$137,188,658, respectively for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPSERS. The net pension liability for fiscal year 2018 was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, that used update procedures to roll forward the estimated liability to September 30, 2017. The net pension liability for fiscal year 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, that used update procedures to roll forward the estimated liability to September 30, 2016. The 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, 2017 and September 30, 2016, the university's proportion was 24.54 percent and 24.49 percent, respectively of the universities reporting unit.

For the year ended June 30, 2018 and June 30, 2017, the university recognized pension expense of \$19,829,443 and \$16,927,600, respectively.

At June 30, 2018 the university reported a payable of \$206,060 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2018.

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

At June 30, 2018 and June 30, 2017, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | 2018                           |                               | 2017                           |                               |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
|  | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience   |                                | \$ 151,781                    | \$ 219,647                     |                               |
| Changes of assumptions   | \$ 1,191,429                   |                               |                                |                               |
| Net difference between projected and actual plan investment earnings                                 |                                | 3,138,490                     | 1,330,055                      |                               |
| Changes in proportion and differences between contributions and proportionate share of contributions | 30,154                         | 44,079                        | 1,086,429                      |                               |
| Contributions subsequent to the measurement date   | 9,355,871                      |                               | 8,230,761                      |                               |
| Total  | \$ 10,577,454                  | \$ 3,334,350                  | \$ 10,866,892                  |                               |

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

| Plan Year Ending September 30 | Amount         |
|-------------------------------|----------------|
| 2018                          | \$ (509,302)   |
| 2019                          | 677,216        |
| 2020                          | (1,079,423)    |
| 2021                          | (1,201,258)    |
| Total                         | \$ (2,112,767) |

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2019).

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

|                       | 1.00 percent decrease<br>(6.50 percent) | Current Discount Rate<br>(7.50 percent) | 1.00 percent increase<br>(8.50 percent) |
|-----------------------|---|---|---|
| Net Pension Liability | \$ 165,614,139                          | \$ 141,154,617                          | \$ 120,042,720                          |

#### Pension plan fiduciary net position

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

#### Postemployment Benefits Other Than Pensions (OPEB)

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. The MPSERS Board of trustees annually sets the

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

employer contribution rate to fund the benefits. For the plan years beginning October 1, 2017 and October 1, 2016 the university contribution rate was 6.13% and 6.98%, respectively of both member and non-member payroll wages to cover current and future unfunded retiree health benefits. Prior to October 1, 2014 the university contributions were based on actual retiree insurance coverage and corresponding premium subsidy (a pay as you go basis). The university's monthly contribution for retiree health care benefits excluding state rate stabilization payments, aggregated to \$3,330,389 during the 2017-2018 university fiscal year and \$3,458,993 during the 2016-2017 university fiscal year. Effective July 1, 2010, all active employees enrolled in MPSERS are required to contribute 3.0% of their pay toward retiree healthcare.

Under Public Act 300 of 2012, during the period February 1, 2013 through June 30, 2013 employees could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the retiree healthcare benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 403B account. The university's required contributions into PHF accounts were \$12,332 and \$11,641 for the university fiscal years ended June 30, 2018 and June 30, 2017, respectively.

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

For the year ended June 30, 2018 the university recognized OPEB expense of \$1,817,163.

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

|  | 2018                                 |                                     |
|--|--------------------------------------|-------------------------------------|
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience   | \$                                   | 264,222                             |
| Changes of assumptions   |                                      |                                     |
| Net difference between projected and actual plan investment earnings                                 |                                      | 1,138,378                           |
| Changes in proportion and differences between contributions and proportionate share of contributions |                                      | 49,459                              |
| Contributions subsequent to the measurement date   | \$ 2,443,445                         |                                     |
| Total  | \$ <u>2,443,445</u>                  | \$ <u>1,452,059</u>                 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

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

| Plan Year Ending<br>September 30 | Amount                |
|----------------------------------|-----------------------|
| 2018                             | \$ (598,275)          |
| 2019                             | (284,595)             |
| 2020                             | (284,595)             |
| 2021                             | (284,594)             |
| Total                            | <u>\$ (1,452,059)</u> |

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net OPEB liability in the next year (2019).

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

The following presents the net OPEB liability of the university, calculated using the discount rate of 7.50 percent, as well as what the university's net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.50 percent) or 1.00 percentage point higher (8.50 percent) than the current rate:

|                    | 1.00 percent decrease<br>(6.50 percent) | Current Discount Rate<br>(7.50 percent) | 1.00 percent increase<br>(8.50 percent) |
|--------------------|---|---|---|
| Net OPEB Liability | \$ 40,909,309                           | \$ 35,090,380                           | \$ 30,078,490                           |

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

The following presents the net OPEB liability of the university, calculated using the current healthcare cost trend rate of 7.50 percent, as well as what the university's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1.00 percentage point lower (6.50 percent) or 1.00 percentage point higher (8.50 percent) than the current rate:

|                    | 1.00 percent decrease<br>(6.50 percent) | Current Healthcare Cost<br>Trend Rate<br>(7.50 percent) | 1.00 percent increase<br>(8.50 percent) |
|--------------------|---|---|---|
| Net OPEB Liability | \$ 29,703,468                           | \$ 35,090,380   | \$ 41,192,857                           |

#### Actuarial Assumptions

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

The actuarial assumptions used for the September 30, 2017 and September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent at September 30, 2016 and 8.00 percent at September 30, 2015. The discount rate used to measure the total OPEB liability was 7.50 percent at September 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and total OPEB liability.

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

| Investment Category                | Plan Year<br>September 30, 2017 |                                 | Plan Year<br>September 30, 2016 |                                 |
|------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                    | Long-term                       |                                 | Long-term                       |                                 |
|                                    | Target<br>Allocation            | Expected Real<br>Rate of Return | Target<br>Allocation            | Expected Real<br>Rate of Return |
| Domestic Equity Pools              | 28.0%                           | 5.6%                            | 28.0%                           | 5.9%                            |
| Alternative Investment Pools       | 18.0%                           | 8.7%                            | 18.0%                           | 9.2%                            |
| International Equity Pools         | 16.0%                           | 7.2%                            | 16.0%                           | 7.2%                            |
| Fixed Income Pools                 | 10.5%                           | -0.1%                           | 10.5%                           | 0.9%                            |
| Real Estate & Infrastructure Pools | 10.0%                           | 4.5%                            | 10.0%                           | 4.3%                            |
| Absolute Return Pools              | 15.5%                           | 5.0%                            | 15.5%                           | 6.0%                            |
| Short Term Investment Pools        | 2.0%                            | -0.9%                           | 2.0%                            | 0.0%                            |
| Total                              | 100.0%                          |                                 | 100.0%                          |                                 |

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05% and 7.15%, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2018.

#### NOTE 10--CONTINGENCIES AND COMMITMENTS

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 11--LEASE COMMITMENTS

The university has entered into various operating leases, primarily for Global Campus degree program facilities and College of Medicine office space. The following is a schedule of the aggregate minimum rental commitment for operating leases of real and personal property for each of the succeeding five years ending June 30 and thereafter:

|           |    |                         |
|-----------|----|-------------------------|
| 2019      | \$ | 2,189,214               |
| 2020      |    | 1,949,699               |
| 2021      |    | 1,562,061               |
| 2022      |    | 931,420                 |
| 2023      |    | 173,365                 |
| 2024-2028 |    | <u>30,005</u>           |
|           | \$ | <u><u>6,835,764</u></u> |

#### NOTE 12--LIABILITY AND PROPERTY INSURANCE

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

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

Since January 28, 2011, Central Health Advancement Solutions (CHAS) has continued its commercial insurance coverage for property and casualty losses including professional medical malpractice, covering the corporation for its acts and omissions. Malpractice and other claims have been asserted against the corporation by various claimants. Such claims are in varied stages of processing and some may be litigated. Accordingly, CHAS management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of CHAS management, all such matters are adequately covered by prior and existing insurance programs.

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 13--FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Central Michigan University

#### NOTE 14--NEW ACCOUNTING PRONOUNCEMENTS

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

In April 2018, the Governmental Accounting Standards Board issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improving the note disclosures in the government's financial statements related to debt, by clarifying which liabilities to include and additional essential information related to those liabilities. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2019.

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

In June 2018, the Governmental Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest costs incurred before the end of a construction period be expensed in the period where incurred. As a result, this interest cost will not be included in the historical cost of a capital asset, as previously recorded. This Statement supersedes paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this statement are effective for the university's financial statements for the year ending June 30, 2020.

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

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# Required Supplemental Information

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**REQUIRED SUPPLEMENTAL INFORMATION (continued)****Central Michigan University****Schedule of the Institution's Proportionate Share of the Net Pension Liability**

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

|  | 2017          | 2016          | 2015          | 2014         |
|--|---------------|---------------|---------------|--------------|
| University's proportion of the Universities collective MPSERS net pension liability:   |               |               |               |              |
| As a percentage  | 24.54%        | 24.49%        | 23.49%        | 24.89%       |
| Amount   | \$141,154,617 | \$137,188,658 | \$128,881,423 | \$93,365,966 |
| University's covered employee payroll  | \$52,547,000  | \$50,770,000  | \$40,847,274  | \$45,313,116 |
| University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll | 268.63%       | 270.22%       | 315.52%       | 206.05%      |
| MPSERS fiduciary net position as a percentage of the total pension liability   | 63.96%        | 46.77%        | 47.45%        | 63.00%       |

**Schedule of Institution Pension Contributions**

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

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

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2018

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

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

**Changes of assumptions:** For 2017, the discount rate for the September 30, 2016 annual actuarial valuation decreased by 0.5%. There were no changes of assumptions in 2016, 2015 or 2014.

**REQUIRED SUPPLEMENTAL INFORMATION****Central Michigan University****Schedule of the Institution's Proportionate Share of the Net OPEB Liability**

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

|   | 2017         |
|---|--------------|
| University's proportion of the Universities collective MPSERS net OPEB liability:   |              |
| As a percentage   | 24.66%       |
| Amount  | \$35,090,380 |
| University's covered employee payroll   | \$52,547,000 |
| University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered employee payroll | 66.78%       |
| MPSERS fiduciary net position as a percentage of the total OPEB liability   | 36.53%       |

**Schedule of Institution OPEB Contributions**

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

|   | 2018         |
|---|--------------|
| Statutorily required contribution   | \$3,330,389  |
| Contributions in relation to the actuarially determined contractually required contribution | \$3,330,389  |
| Contribution deficiency (excess)  |              |
| Covered employee payroll  | \$51,975,500 |
| Contributions as a percentage of covered employee payroll                                   | 6.41%        |

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2018

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

**Changes of benefit terms:** There were no changes in benefit terms for the plan year ended September 30, 2017.

**Changes of assumptions:** There were no changes in assumptions for the plan year ended September 30, 2017.

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