

Central Michigan University

State of Michigan CAFR Financial Schedules

June 30, 2018

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Independent Auditor's Report

To the Board of Trustees
Central Michigan University

We have audited the financial statements of Central Michigan University (the "University"), a component unit of the State of Michigan, and its discretely presented component units as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Central Michigan University's basic financial statements and have issued our report thereon dated September 27, 2018, which contained unmodified opinions on the financial statements of Central Michigan University. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) or The Institute of Excellence in Education (IEE), which represent all the balances of the assets, net assets, and revenue of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHAS and IEE, is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to September 27, 2018.

Report on the State of Michigan CAFR Financial Schedules

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

Emphasis of Matter

As discussed in Note 4 to the State of Michigan CAFR financial schedules, 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.

Restriction on Use

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

Plante & Moran, PLLC

November 27, 2018

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2018

EXHIBIT I

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 35,696,142	2,746,697		\$ 38,442,839		\$ 38,442,839	1
Accounts receivable, net	20,163,214	2,837,644	\$ (812,896)	22,187,962		22,187,962	2
State appropriations receivable, SBA	3,132	0		3,132		3,132	2
State appropriations receivable, operations	15,779,584	0		15,779,584		15,779,584	2
State appropriations receivable, Charter Schools	37,738,796	0		37,738,796		37,738,796	2
Inventories	4,208,102	36,562		4,244,664		4,244,664	1
Other assets	3,062,764	861,512		3,924,276		3,924,276	2
Total current assets	116,651,734	6,482,415	(812,896)	122,321,253			
CURRENT ASSETS							
Cash				\$ 38,442,839	1		\$ 38,442,839
Amounts due from primary government				53,728,004	2		53,728,004
Amounts due from federal government				2,044,388	2		2,044,388
Amounts due from local units							
Inventories				4,244,664	1		4,244,664
Investments (Note 8)							
Securities lending collateral							
Other Current Assets				23,861,358	2		23,861,358
Total Current Assets	116,651,734	6,482,415	(812,896)	122,321,253	122,321,253	122,321,253	122,321,253
NONCURRENT ASSETS:							
Restricted cash and cash equivalents	793	0		793		793	1
Pledges receivable, net	4,298,573	0		4,298,573		4,298,573	1
Endowment investments	182,388,106	0		182,388,106		182,388,106	3
Medical Education Receivable, net		920,648		920,648		920,648	1
Other long-term investments	220,438,632	938,040		221,376,672		221,376,672	3
Capital assets, net	545,949,525	4,477,502		550,427,027		550,427,027	4
RESTRICTED ASSETS							
Cash and cash equivalents				793	1		793
INVESTMENTS							
				403,764,778	3		403,764,778
CAPITAL ASSETS:							
Land and other non depreciable assets				13,761,119	4		13,761,119
Buildings, equipment and other depreciable assets				962,864,968	4		962,864,968
Less accumulated depreciation						439,929,904	4
Construction in progress				13,730,844	4		13,730,844
Net capital assets							550,427,027
Other noncurrent assets				5,219,221	1		5,219,221
Total noncurrent assets	953,075,629	6,336,190		959,411,819	1,399,341,723	1,399,341,723	959,411,819
TOTAL ASSETS	1,069,727,363	12,818,605	(812,896)	1,081,733,072	1,521,662,976	1,521,662,976	1,081,733,072
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated change in fair value of hedging derivatives and deferred on bond refunding	6,765,216			6,765,216			6,765,216
Deferred outflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability	13,020,899			13,020,899		1,133,337	9
TOTAL DEFERRED OUTFLOWS OF RESOURCES	19,786,115			19,786,115		1,133,337	18,652,778

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
June 30, 2018

EXHIBIT I

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and		SOMCAFR Format
					Reclassifications		
					Debit	Credit	
LIABILITIES:							
CURRENT LIABILITIES							
Accounts payable and accrued liabilities	66,240,525	2,648,329	(567,612)	68,321,242	68,321,242	5	
Unearned revenue	12,299,418	85,929		12,385,347	12,385,347	1	
Deposits	2,503,641	0		2,503,641	2,503,641	5	
Long term liabilities - current portion	6,328,517	254,754		6,583,271	6,583,271	6	
Total Current Liabilities	87,372,101	2,989,012		89,793,501			
CURRENT LIABILITIES							
Accounts payable and other liabilities							66,754,514 5 66,754,514
Amounts due to primary government							2,591,685 5 2,591,685
Bond and notes payable							6,201,486 6 6,201,486
Interest payable							1,478,684 5 1,478,684
Unearned revenue							12,385,347 1 12,385,347
Other long term obligations - current portion							381,785 6 381,785
Total Current Liabilities	87,372,101	2,989,012		89,793,501	89,793,501		89,793,501
NONCURRENT LIABILITIES:							
Amounts due to CMU		245,284	(245,284)				
Long-term debt, hedging instruments and other obligations	163,676,989	442,224		164,119,213	164,119,213	7	
Net Pension Liability	141,154,617			141,154,617	141,154,617	7	
Net OPEB Liability	35,090,380			35,090,380	35,090,380	7	
Unearned Revenue		39,172		39,172			39,172
Bonds and notes payable							152,667,224 7 152,667,224
Noncurrent portion of other long-term obligations		75,900		75,900			187,772,886 7 187,772,886
TOTAL LIABILITIES	427,294,087	3,791,592	(245,284)	430,272,783	430,157,711		430,272,783
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow related to CMU's proportionate share of the MPERS net pension & OPEB liability	5,919,746			5,919,746	1,133,337	9	4,786,409
Deferred inflow related to Split Interest Agreements	2,745,140			2,745,140		9	2,745,140
TOTAL DEFERRED INFLOWS OF RESOURCES	8,664,886			8,664,886	1,133,337		7,531,549
NET POSITION							
Net investment in capital assets	389,888,797			389,888,797	389,888,797	1	
Restricted for:							
Nonexpendable							
Scholarships, fellowships, and research	59,762,676			59,762,676	59,762,676	8	
Expendable							
Scholarships, fellowships, research and other	37,553,382			37,553,382	37,553,382	8	
Instructional department uses	19,454,618			19,454,618	19,454,618	8	
Capital projects and debt service	6,327,707			6,327,707	6,327,707	1	
Temporarily Restricted		0		0	0	1	
Unrestricted	140,567,325	9,027,013		149,594,338	149,594,338	1	
Total net position	653,554,505	9,027,013		662,581,518	662,581,518		
NET POSITION							
Net investment in capital assets							389,888,797 1 389,888,797
Restricted for:							
Education							26,218,345 8 26,218,345
Construction and debt service							6,327,707 1 6,327,707
Other Purposes							0 1 0
Funds Held as Permanent Investments							
Nonexpendable							59,762,676 8 59,762,676
Expendable							30,789,655 8 30,789,655
Unrestricted Net Position							149,594,338 1 149,594,338
TOTAL NET POSITION	\$ 653,554,505	9,027,013		\$ 662,581,518	\$ 662,581,518		\$ 662,581,518

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET POSITION
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2018

EXHIBIT I

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

2) Reclassify current receivables

	Other Receivables	Due from Primary Government	Due from Federal Government
Accounts receivable, net	\$ 22,187,962		
State appropriations receivable, SBA	3,132		
State appropriations receivable, operations	15,779,584		
State appropriations receivable, Charter Schools	37,738,796		
State Appropriations - SBA	(3,132)	\$ 3,132	
State Appropriations - operations	(15,779,584)	15,779,584	
State Appropriations - Charter Schools	(37,738,796)	37,738,796	
State Grants	(206,492)	206,492	
Federal Agencies	(2,044,388)		\$ 2,044,388
	<u>19,937,082</u>	<u>\$ 53,728,004</u>	<u>\$ 2,044,388</u>
Other current assets	3,924,276		
	<u>\$ 23,861,358</u>		

3) Reclassify investments

	Investments
Endowment investments	\$ 182,388,106
Other long-term investments (includes component units)	221,376,672
Investments	<u>\$ 403,764,778</u>

4) Reclassify capital assets

	University Capital Assets	Discrete CU Capital Assets	Total Capital Assets
Land and other nondepreciable assets	\$ 13,761,119		\$ 13,761,119
Buildings, equipment, and other depreciable assets	950,544,322	\$ 12,320,646	962,864,968
Construction in progress	13,730,844		13,730,844
Total	<u>978,036,285</u>	<u>12,320,646</u>	<u>990,356,931</u>
Less accumulated depreciation	432,086,760	7,843,144	439,929,904
Capital Assets, net	<u>\$ 545,949,525</u>	<u>\$ 4,477,502</u>	<u>\$ 550,427,027</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 68,321,242		
Deposits	2,503,641		
Mich income tax	(65,889)	\$ 65,889	
Payroll Floor UAAL Payment	(2,279,004)	2,279,004	
Sec 236(4) UAAL Payment	(206,060)	206,060	
MPSERS Member Payments on Accrued Payroll	(23,367)	23,367	
Mich sales tax owed	(17,365)	17,365	
Interest	(1,478,684)		\$ 1,478,684
	<u>\$ 66,754,514</u>	<u>\$ 2,591,685</u>	<u>\$ 1,478,684</u>

6) Reclassify current portion of debt obligation

	Long Term Liab Current portion	Bonds & Notes Payable
Current portions of long term obligations	\$ 6,583,271	
Bonds and notes payable	(6,201,486)	\$ 6,201,486
	<u>\$ 381,785</u>	<u>\$ 6,201,486</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds & Notes Payable
Long-term debt and other obligations	\$ 164,119,213	
Long-term bonds and notes payable	(152,667,224)	\$ 152,667,224
Net Pension Liability	141,154,617	
Net OPEB Liability	35,090,380	
	<u>\$ 187,696,986</u>	<u>\$ 152,667,224</u>

8) Combine restricted net position

	Restricted for Endowments	Restricted for Education
Restricted for:		
Nonexpendable-scholarships, fellowships, research	\$ 59,762,676	
Expendable-scholarships, fellowships, research	30,789,655	\$ 6,763,727
Instructional department uses		19,454,618
	<u>\$ 90,552,331</u>	<u>\$ 26,218,345</u>

9) Reclassify Pension Related State Approps Deferred Inflows

	Deferred Outflow	Deferred Inflow
Pension & OPEB Related Deferrals	\$ 13,020,899	\$ 5,919,746
Def Inflows-State Approps Contributions Subsq to Msrmt Date	(1,133,337)	(1,133,337)
	<u>\$ 11,887,562</u>	<u>\$ 4,786,409</u>

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS-CENTRAL MICHIGAN UNIVERSITY
FISCAL YEAR ENDED JUNE 30, 2018

EXHIBIT II

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMCAFR Format
					Debit	Credit	
OPERATING REVENUES							
Tuition and fees	\$ 215,802,403			\$ 215,802,403	\$ 215,802,403	1	
Federal grants and contracts	8,724,411			8,724,411	8,724,411	2	
State and local grants and contracts	1,148,644			1,148,644	1,148,644	2	
Private grants and contracts	3,688,634			3,688,634	3,688,634	2	
Sales and services of educational activities	20,152,914	\$ 4,963,878	\$ (674,186)	24,442,606	24,442,606	1	
Auxiliary enterprises	78,593,858	39,607,750		118,201,608	118,201,608	1	
Total operating revenues	328,110,864	44,571,628	(674,186)	372,008,306	372,008,306		
OPERATING EXPENSES	460,563,088	45,919,322	(1,174,186)	505,308,224		\$ 505,308,224	3
NONOPERATING REVENUES (EXPENSES)							
State appropriations	87,117,685	500,000	(500,000)	87,117,685	87,117,685	4	
Gifts and pledges net of allowance	7,881,672	356,601		8,238,273	8,238,273	2	
Investment income net of expense	29,510,460	56,178		29,566,638	29,566,638	2,5	
Interest on capital assets related debt	(6,016,819)			(6,016,819)			6,016,819 3
Federal Pell grant program	26,283,330			26,283,330	26,283,330	6	
Other nonoperating revenues	723,175			723,175	723,175	6	
Net nonoperating revenues	145,499,503	912,779	(500,000)	145,912,282	151,929,101		6,016,819
OTHER							
Capital appropriations	1,300,284			1,300,284	1,300,284	4	
Capital grants and gifts	4,577,086			4,577,086	4,577,086	7	
Additions to permanent endowments	2,623,742	0		2,623,742	2,623,742	2	
Total other revenues	8,501,112	0	0	8,501,112	8,501,112		
Increase in net position	21,548,391	(434,915)	0	21,113,476	532,438,519		511,325,043
EXPENSES					511,325,043	3	3 \$ 511,325,043
PROGRAM REVENUES							
Charges for services						358,446,617	1 358,446,617
Operating grants/contributions						38,995,300	2 38,995,300
Capital grants/contributions						4,577,086	7 4,577,086
NET (EXPENSE) REVENUE						402,019,003	402,019,003
GENERAL REVENUES							
Interest and investment earnings						14,995,042	5 14,995,042
Payments from State of Michigan						88,417,969	4 88,417,969
Other						27,006,505	6 27,006,505
TOTAL GENERAL REVENUES						130,419,516	130,419,516
Change in net position	21,548,391	(434,915)		21,113,476			21,113,476
Prior Year Ending Net Position:	667,830,240	9,461,928		677,292,168			677,292,168
GASB 75 restatement:	(35,824,126)	0		(35,824,126)			(35,824,126)
Beginning Net Position:	632,006,114	9,461,928		641,468,042			641,468,042
Ending Net Position	\$ 653,554,505	\$ 9,027,013	\$ 0	\$ 662,581,518	\$ 0	\$ 0	\$ 662,581,518

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
STATE UNIVERSITIES COMPONENT UNITS - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2018

EXHIBIT II

1)	Charges for services	<u>Charges for Services</u>
	Tuition and fees	\$ 215,802,403
	Sales and services of educational activities	24,442,606
	Auxiliary enterprises	118,201,608
		<u>\$ 358,446,617</u>
2)	Operating grants/contributions	<u>Operating Grants/Contributions</u>
	Federal grants and contracts	\$ 8,724,411
	State and local grants and contracts	1,148,644
	Private grants and contracts	3,688,634
	Gifts and pledges net of allowance	8,238,273
	Additions to permanent endowments	2,623,742
	Investment Income - Exp Rest Fund	1,449
	Investment Income - Endowment Fund	14,570,147
		<u>\$ 38,995,300</u>
3)	Expenses	<u>Expenses</u>
	Operating expenses - CMU	\$ 460,563,088
	Operating expenses - CMU to component unit	(1,174,186)
	Operating expenses - component unit (CHAS)	40,168,326
	Operating expenses - component unit IEE	5,750,996
	Interest on capital assets, net of related debt	6,016,819
		<u>\$ 511,325,043</u>
4)	Revenue from State of Michigan	<u>Revenue from State of Michigan</u>
	State appropriations	\$ 85,984,348
	Capital appropriations	1,300,284
	Section 236(4) retirement contribution	1,133,337
		<u>\$ 88,417,969</u>
5)	Interest and investment earnings	<u>Investment Income</u>
	Investment Income - Exp Rest Fund	\$ 29,566,638
	Investment Income - Endowment Fund	(1,449)
		(14,570,147)
		<u>\$ 14,995,042</u>
6)	Other Revenues	<u>Other Revenues</u>
	Federal Pell Grant Program	\$ 26,283,330
	Other nonoperating revenues	723,175
		<u>\$ 27,006,505</u>
7)	Reclassify financial data into the specified format to be used in the State's CAFR Statement.	

See notes to supplemental financial statements.

NOTES TO THE STATE OF MICHIGAN CAFR

Central Michigan University

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Cash and Cash Equivalents

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

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

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

Inventories

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

Investments

All investments are stated at fair value.

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Capital Assets

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

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

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

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

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

Deferred Outflows and Deferred Inflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method, gains on the defeasance of debt and deferred resources related to the university's proportionate share of the net pension and other post-employment benefit (OPEB) liability for the Michigan Public School Employee's Retirement System (MPERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$4,540,943 at June 30, 2018. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$1,065,857, net of amortization at June 30, 2018; Series 2005 valued at \$955,695, net of amortization at June 30, 2018; and Series 2006 valued at \$202,721, net of amortization at June 30, 2018. The value of the deferred outflows related to the MPERS plan for pensions was \$10,577,454 as of June 30, 2018, and for other post-employment benefits was \$2,443,445 as of June 30, 2018. See Note 28 for additional information on deferred outflows related to the MPERS plan.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist future revenue streams related to split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the university's proportionate share of the net pension and net OPEB liability for the MPSERS plan. Deferred inflows of resources applicable to split-interest agreements were \$2,745,140 at June 30, 2018. At June 30, 2018, deferred inflows related to changes in the pension portion of the MPSERS plan were \$3,334,350 and the value related to changes in the OPEB portion of the MPSERS plan was \$1,452,059. Deferred inflows of resources at June 30, 2018 also include \$1,133,337 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date. See Note 28 for additional information on deferred inflows related to the MPSERS plan.

Operating and Non-operating Revenues

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

NOTE 4—ACCOUNTING CHANGES AND RESTATEMENTS

Adoption of New Standard

The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that 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. In accordance with the statement, the university has reported a Net OPEB Liability of \$35.8 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2017. This amount includes \$3.2 million in required contributions made after the end of the plan period, but before July 1, 2017. Amounts as of June 30, 2017 have not been restated to reflect the impact of GASB 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.

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 8--DEPOSITS AND INVESTMENTS

The university and its component units had the following investments as of June 30, 2018:

	<u>Fair Market Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>N/A</u>
Deposits:				
Time deposits	\$ 42,047,244	\$ 42,047,244		
Government money market accounts				
Investments:				
Commercial paper				
Short-term notes				
Repurchase agreements				
Government securities				
Insured mortgage backed securities				
Government backed securities				
Investment agreements				
Corporate bonds and notes				
Preferred stock				
Beneficial interests in split-interest agreements:	2,597,157			\$ 2,597,157
Equities	156,395,655	156,395,655		
Real estate	6,043	6,043		
Venture capital & leveraged buyouts				
Government money market funds				
Mutual bond/equity funds	180,122,034			180,122,034
Guaranteed investment contracts				
Pooled investment funds				
Other Investments	61,040,277		\$ 61,040,277	
Total Investments	<u>\$ 442,208,410</u>	<u>\$ 198,448,942</u>	<u>\$ 61,040,277</u>	<u>\$ 182,719,191</u>
Less Investments Reported as "Cash" on Statement of Net Position				
Current cash and cash equivalents	\$ 38,442,839			
Restricted cash and cash equivalents	793			
	<u>38,443,632</u>			
Total Investments	<u>\$ 403,764,778</u>			
<u>As Reported on the Statement of Net Position</u>				
Current investments				
Noncurrent restricted investments				
Noncurrent investments	\$ 403,764,778			
Total Investments	<u>\$ 403,764,778</u>			

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.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 are as follows:

Investment Type	June 30, 2018 Fixed Income Investment Maturities				Total
	Less than 1 year	1-5 years	6-10 years	More than 10 years	
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	\$ 17,557,840	\$ 50,737,862	\$ 26,483,551	\$ 12,576,917	\$ 107,356,170

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.

Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2018, 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. The deposits were reflected in the accounts of the banks at \$33,090,716 at June 30, 2018. Of the bank balance, \$32,590,716 at June 30, 2018 was uninsured and uncollateralized.

For CHAS deposits reflected in the accounts of the banks were \$2,421,698 at June 30, 2018. Of the bank balance, \$2,078,356 at June 30, 2018, was uninsured and uncollateralized.

For IEE deposits reflected in the accounts of the banks were \$478,879 at June 30, 2018. Of the bank balance, \$3,407 at June 30, 2018, 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, in its investment portfolios held by various investment managers as the counterparty.

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 9--CAPITAL ASSETS

Capital assets, net of depreciation, for the university and its component units consist of the following as of June 30, 2018:

	Beginning Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2018</u>
Non-depreciated capital assets:				
Land	\$ 12,927,599			\$ 12,927,599
Capitalized Collections	<u>704,165</u>	\$ <u>129,355</u>		<u>833,520</u>
Total non-depreciated capital assets	<u>13,631,764</u>	<u>129,355</u>		<u>13,761,119</u>
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
CHAS Leasehold Imp, Furniture, Equip	5,633,996	269,523		5,903,519
IEE Furniture & Equipment	208,694	1,144		209,838
IEE Intangible Assets	4,090,414	746,433		4,836,847
IEE Goodwill	<u>1,370,442</u>			<u>1,370,442</u>
	<u>946,242,770</u>	<u>24,145,242</u>	<u>7,523,044</u>	<u>962,864,968</u>
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	799,742	7,780		807,522
CHAS Leasehold Imp, Furniture, Equip	3,862,467	349,420		4,211,887
IEE Furniture & Equipment	146,800	22,011		168,811
IEE Intangible Assets	2,203,917	573,308		2,777,225
IEE Goodwill	<u>548,177</u>	<u>137,044</u>		<u>685,221</u>
Total depreciated capital assets	<u>419,879,435</u>	<u>27,490,412</u>	<u>7,439,943</u>	<u>439,929,904</u>
Construction In Progress	<u>16,098,569</u>	<u>9,671,130</u>	<u>12,038,855</u>	<u>13,730,844</u>
Capital Assets, Net	<u>\$ 556,093,668</u>	<u>\$ 6,455,315</u>	<u>\$ 12,121,956</u>	<u>\$ 550,427,027</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 10--RETIREMENT PLANS

In addition to the Michigan Public School Employees' Retirement System (MPERS), the university has established retirement plans for all qualified employees. 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. University contributions begin immediately and employee benefits vest immediately.

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

	<u>TIAA-CREF</u>	<u>Fidelity</u>	<u>MPERS</u>	<u>University Total</u>
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

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 related to this program are included in the university Statements of Net Position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with long-term debt, hedging instruments and other long-term obligations in the Statements of Net Position. During fiscal year 2018, the university updated and recorded the expected liability for this program.

MPERS – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

Contributions

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

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

	Normal Pension Rate	Unfunded Pension Rate	Normal Health Rate	Unfunded Health Rate
10/01/17 – 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%

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 MPERS normal pension costs, totaled \$659,085 in fiscal year 2018. Required employee contributions were \$441,171 in fiscal year 2018. The university's contributions to the unfunded MPERS defined benefit pensions totaled \$10,058,366 in fiscal year 2018. The university also recorded \$1,133,337 of stabilization rate revenue from the State of Michigan to assist in funding the MPERS pension Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2018. The university's contributions toward the MPERS defined contribution plan totaled \$9,920 in fiscal year 2018.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2018, the university reported a liability of \$141,154,617 for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPERS. The net pension liability for fiscal year 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, which used update procedures to roll forward the estimated liability to September 30, 2017. 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, the university's proportion was 24.54 percent, of the universities reporting unit.

For the year ended June 30, 2018, the university recognized pension expense of \$19,829,443. At June 30, 2018, the university also reported a payable of \$206,060 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2018.

At June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to pensions a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

Net OPEB Liability, Deferrals, and OPEB Expense

At June 30, the university reported a liability of \$35,090,380 for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPERS. 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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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 a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

NOTE 12--LEASE COMMITMENTS

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

2019	\$	3,168,630
2020		2,909,115
2021		2,519,477
2022		1,856,836
2023		990,365
2024-2028		3,580,005
2029-2033		21,000
	\$	<u>15,045,428</u>

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

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

	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Current 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	2,847,000		156,000	2,691,000	156,000
Total Long-Term Debt	<u>163,630,000</u>		<u>5,770,000</u>	<u>157,860,000</u>	<u>5,960,000</u>
Other Obligations:					
Note Payable	1,242,433		233,723	1,008,710	241,486
Hedging Instruments	5,877,946		1,337,003	4,540,943	
Compensated Absences	5,788,822	76,236		5,865,058	204,093
Retirement Service Programs	1,921,902		534,320	1,387,582	137,501
Other Obligations	96,638	49,753	106,200	40,191	40,191
Total	<u>\$ 178,557,741</u>	<u>\$ 125,989</u>	<u>\$ 7,981,246</u>	<u>\$ 170,702,484</u>	<u>\$ 6,583,271</u>

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 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			
	\$ 157,860,000			

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) is recorded in deferred outflows at June 30, 2018.

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 STATE OF MICHIGAN CAFR (continued)

Central Michigan University

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, CMU could be forced to terminate a derivative in a liability position.

Rollover Risk

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

OTHER OBLIGATIONS

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

NOTE 25--COMMITMENTS AND CONTINGENCIES

One of the critical factors in continuing the quality of the university's academic programs, research programs and residential life is the development and renewal of its capital assets. Construction in progress at June 30, 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.

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.

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.

NOTE 26--RISK MANAGEMENT

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

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

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

Professional Liability Insurance

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

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

NOTES TO THE STATE OF MICHIGAN CAFR (continued)

Central Michigan University

	<u>June 30, 2018</u>
Estimated professional liability under self-insurance	<u>\$ 75,900</u>
Less: Investments under professional liability funding arrangement – held by the trustee, at fair value	<u>753,455</u>
Estimated over funding of liability	<u>\$ (677,555)</u>

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

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

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

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NOTES TO THE STATE OF MICHIGAN CAFR (continued)**Central Michigan University****NOTE 28--DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

For the year ended June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Accumulated fair value of hedging derivatives	\$ 4,540,943	
Gain on Defeasance of Debt	2,224,273	
Split Interest Agreements		\$ 2,745,140
Pension Related:		
Differences between expected and actual experience		151,781
Changes of assumptions	1,191,429	
Net difference between projected and actual earnings on pension plan assets		3,138,490
Changes in proportion and differences between contributions and proportionate share of contributions	30,154	44,079
Contributions subsequent to the measurement date	8,222,534	
OPEB Related:		
Differences between expected and actual experience		264,222
Net difference between projected and actual earnings on OPEB plan assets		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>\$ 18,652,778</u>	<u>\$ 7,531,549</u>

Deferred outflows of resources and deferred inflows of resources do not include \$1,133,337 of UAAL stabilization funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date.

NOTE 29--SUBSEQUENT EVENTS

None