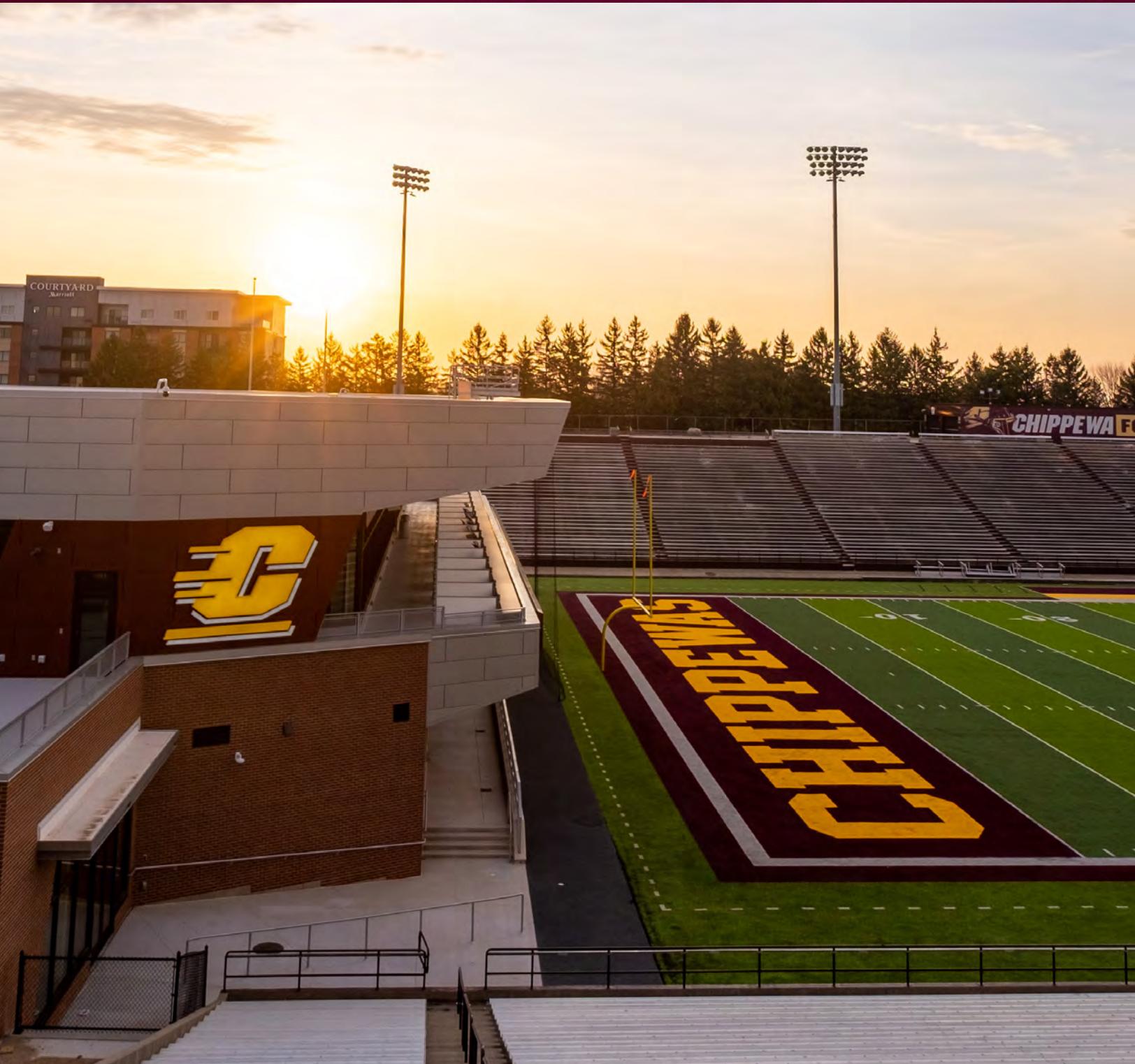




ANNUAL FINANCIAL REPORT

2020-2021



CENTRAL
MICHIGAN UNIVERSITY

/ We do.

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July 2021

To the People of the State of Michigan:

Central Michigan University was established nearly 130 years ago to meet Michigan's need for teachers and business leaders. Today, we continue to meet the state's needs through more than 300 high-quality academic programs designed to address talent gaps in critical areas, including health care, science and engineering, business and education. CMU has the first neuroscience undergraduate degree program in the state, is the first and only university with an undergraduate degree in meteorology and is the only university in Michigan and one of only two in the Midwest operating an island research station. At CMU, we continue to prepare future leaders who are creative, innovative problem-solvers, that can work collaboratively across differences and embrace compassion and empathy.

Despite the ongoing challenges of a global pandemic, CMU set the leadership standard by maintaining an in-person environment through the entire 2020-2021 academic year. Our robust technology infrastructure was the foundation for moving nearly all of our courses online at the beginning of the pandemic. Further, the ability to offer online courses enabled CMU to offer a flexible mix of in-person and remote instruction during the 2020-2021 academic year. The COVID-19 pandemic has had a significant impact on higher education around the world, yet CMU has offered a robust, albeit different, educational experience for our students. Further, CMU takes pride in providing a safe and productive workplace for our faculty, staff and student employees.

CMU offered COVID-19 testing clinics as soon as tests were available and began offering vaccines at on-campus clinics, culminating in two mass vaccination clinics.

Throughout the pandemic, CMU engaged its strong partnerships with leaders of the city of Mount Pleasant, Isabella County, Union Township, the Central Michigan District Health Department and local law enforcement to coordinate our response to the pandemic. CMU also maintains a regular dialog with the Governor's office, highlighted through a visit by the Lieutenant Governor to tour CMU's mass campus vaccination clinic.

CMU is a partner to the state of Michigan — to its residents, its communities, and its businesses. More than 84 percent of our more than 20,000 students are from Michigan, and they represent 82 of 83 counties. And, after they graduate, more than 80 percent of CMU's graduates stay in the Great Lakes State to work.

We are preparing students to become valuable and impactful members of our state's economy. Our students and graduates have a \$1.2 billion impact on the economy as well as driving civic engagement within our communities. CMU's impact has created 12,000 Michigan jobs. Thus, it is essential that we continue working to make higher education accessible and affordable to individuals focused on personal and intellectual growth. We are committed to our mission of preparing students for productive careers, meaningful lives, and responsible citizenship in a global society.

State funding accounts for 20 percent of our operating budget and covers only 75 days of operation. Additionally, per-student funding at Michigan's 15 public universities ranges widely. Central receives \$4,788 per student — the sixth lowest in the state. These factors place a large financial burden on students and families. At CMU, we understand the cost and most importantly the benefit of our students' education. CMU remains committed to students by *managing tuition increases* both at the undergraduate and graduate levels. In addition, because of our strong commitment to managing the cost of a CMU education, our leadership team is highly focused on efficient management of our operating expenses.

CMU continues to maintain its commitment to increasing rigor, relevance and excellence, a 10-year strategic envisioning process launched in the fall of 2019 to address rapid changes in the field of higher education. The pandemic has accelerated this process through pressure to rapidly adapt our learning environment and offerings for our students nearly overnight. We continue our focus on bold and innovative thought and enhanced transformational change in the months and years ahead, with the goal of better serving our students.

As the chief financial officer, it is my pleasure to share the story of CMU's financial performance for the fiscal year ending June 30, 2021. The report that follows details CMU's solid financial position, the result of conservative fiscal management, and strategic cost cutting, being a responsible steward of taxpayer dollars and federal relief funding.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Long", written in a cursive style.

Nicholas K. Long

Vice President for Finance and Administrative Services and Chief Financial Officer

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Central Michigan University
June 30, 2021

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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 the business-type activities, fiduciary activities, and discretely presented component units of Central Michigan University (the "University"), a component unit of the State of Michigan, as of and for the years ended June 30, 2021 and 2020 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 CMU Medical Education Partners (CMEP) or the Institute of Excellence in Education (IEE) which represent all of 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 CMEP 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 CMEP 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 the business-type activities, fiduciary activities, and discretely presented component units of Central Michigan University as of June 30, 2021 and 2020 and the changes in its financial position and cash flows, where applicable, 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 Matters

As described in Note 1 to the financial statements, the COVID-19 pandemic has impacted the operations of the University. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2021, the University adopted new accounting guidance Government Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. 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 and schedule of Institution pension contributions, and 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 purpose 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 have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2021 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.

Plante & Morse, PLLC

September 23, 2021

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, 2021, with selected comparative information for the years ended June 30, 2020, and 2019. 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 focus is 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*, the Central Michigan University Foundation has been determined to be a component unit. 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 explore marketable 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 and impacts resulting from the COVID-19 global pandemic, may have an adverse effect on the university's ability to meet its goals. The level of enrollment, amount of state support, potential compensation and benefit increases, and cost of extensive efforts to mitigate COVID-19 are major impact factors on student tuition and fee increases.

Almost two decades ago, the university endured significant reductions to state appropriations and the increases since then have not kept pace with inflation, resulting in more reliance on student tuition and fees for revenue. In fiscal year 2021, state appropriations contributed approximately 17.4% of university revenues. In fiscal year 2002, state appropriations contributed approximately 31.5% of university revenues. The university also has a required supplemental contribution to the Michigan Public School Employees' Retirement System (MPSERS) for retiree pension and health care benefits that additionally reduces the revenue available for operations. The required contribution back to the state was \$17.6 million for fiscal year 2021 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 continues to set the bar in maintaining low tuition and fee increases even though state appropriations provide a much smaller percentage of university revenues than what they did nineteen years ago. Significant efforts, such as continuing to invest in the 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 \$70.4 million in 2021, 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.

The COVID-19 global pandemic has created unique challenges for the university that are expected to continue well into the next fiscal year. Significant effort and resources have been invested, to ensure the safety of the campus community while maintaining the financial stability of the university. A HyFlex teaching

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

modality was implemented to allow summer and fall classes to resume as both face to face and online academic opportunities. Additionally, safety guidelines such as face coverings, disinfectant stations, social distancing, and signage were implemented to ensure safety in all academic, administrative, dining and residence hall facilities. Additionally, in the spring of 2021, CMU partnered with the local health department to offer vaccinations on campus to our campus and broader community. Central Michigan University is prepared for and committed to its number one priority of keeping the campus community safe.

Operating Budget and Deferred Maintenance

The university's Board of Trustees approved the operating budget for fiscal year 2022 of \$435 million. The balanced budget was adjusted to align our expenses with our anticipated revenue streams. This includes staffing, supplies and equipment reductions, along with incremental increases to fulfill collective bargaining agreements and other necessary costs.

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. The current estimate of existing deferred maintenance needs, adjusted for inflation, is \$245.4 million, \$124.5 million of that is for general fund supported facilities. Starting with fiscal year 1999, the university has dedicated between \$4.5 to \$8.4 million per year toward addressing these needs annually, with an average allocation of approximately \$5.5 million per year for the past 23 years.

During fiscal year 2021, the university expended approximately \$33.9 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 commitment to enhance student success and elevate academic excellence, periodic reviews are conducted in areas of academic structure, operations, and support services, focused on enhancing the delivery of learning experiences.

College of Medicine

The Central Michigan University College of Medicine (CMED) is the nation's 137th medical school and was founded to produce high-quality physicians for underserved communities in Michigan. In the 2020-2021 academic year, CMED focused on solidifying and strengthening existing relationships while exploring additional educational opportunities for our students.

The number of applicants to CMED continues to expand showing great interest in the program. The matriculating class of 2020 was selected from over 6,500 applicants. 12% of the students in the 2020 matriculating class represent CMED defined diversity categories that include Hispanic, African American, Native American and medically underserved urban and rural areas of Michigan. Also, 71% of the matriculating 2020 class call Michigan home. CMED continued to be successful with their 2020-2021 Match. Match statistics provide evidence that CMED is advancing the mission of the medical school, with 61% matched to primary care and 47% matched to a residency program in Michigan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

The Accreditation Council of Graduate Medical Education (ACGME) is the body responsible for reviewing and accrediting graduate medical education (GME) residency programs. The CMU College of Medicine is the academic sponsor of seven residency programs based at CMU Medical Education Partners (CMEP) in Saginaw. CMEP is a GME consortium and partnership between CMU, Covenant HealthCare and Ascension St. Mary's. All residency programs including family medicine, internal medicine, emergency medicine, emergency medical services, psychiatry, podiatry, and general surgery are accredited.

Leadership from CMEP, CMU, Covenant HealthCare and Ascension St. Mary's, are engaged with a national consultant to redesign the governance and operational structure of CMEP. As CMEP is the employer of the majority of CMU's clinical faculty, and represents over two thirds of the College's budget, the approach toward the reorganization has been thoughtful and strategic.

CMED's continuing medical education (CME) program obtained "Accreditation with Commendation" from the Accreditation Committee for Continuing Medical Education (ACCME) and is the Great Lakes Bay Region's provider of educational programs for physicians and other healthcare.

During the 2020-2021 academic year, the College has worked to engage in 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.

At their meeting in June 2019, the CMU Board of Trustees approved a 25-year agreement with Covenant Healthcare in Saginaw. The agreement builds on existing relationships between the College of Medicine and Covenant and will be a model for affiliation with other clinical partners in Michigan. To address a gap in educational offerings, CMED affiliated with Children's Hospital of Michigan and University Pediatrics in Detroit to provide clinical training in pediatrics and its subspecialties for our students. It is our hope that the relationship can expand to include research and other academic collaborations.

Student Recruitment and Retention

The Student Recruitment and Retention ("SRR") Division, formed June 1, 2020, provides strategic leadership for the university's recruitment and retention efforts in support of fulfilling the university's vision and strategic priorities.

Student recruitment and retention is dependent upon data-informed strategic planning. In the profession, it is often referred to as enrollment management and is an iterative process that includes active participation by the university community. A Strategic Enrollment Management ("SEM") plan is developed and updated regularly to coincide with the timing and goals of the university's strategic plan as well as in response to the opportunities and challenges presented in the market. 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. The university's SEM plan is under development.

The 2020-2021 academic year was marked by the ongoing COVID-19 pandemic and its impact on recruitment and retention. Many students decided to defer for a semester or year based on fears of COVID-19 or a disinterest in online or Hyflex instructional formats. Some students moved out of residence halls to live at home while taking courses online. This has a potential negative impact on retention as well as revenue, as some of these students may not want to live in the residence halls their sophomore year, which is currently a requirement for freshmen and sophomores under the university's housing policy.

High school students in their college search process for the 2021-2022 academic year have been slow to apply for admission and complete their applications with the uncertainty related to COVID-19. Across the U.S., students were one to two months behind in their normal timeline and this continued to be the case through early summer 2021, when the university expects students to make deposits and complete housing contracts. Some newly admitted students are asking for deferrals to take a "gap year" due to concerns about COVID-19, and admissions staff were not able to conduct in-person recruiting at high schools, community colleges, college fairs and other typical recruiting events.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

The university's response to these challenging events included several initiatives. The university scheduled a great number of virtual recruiting events at all hours of the day, including before and after school. International staff attended virtual events held at the appropriate time for the international location to ensure that those events were accessible for prospective students to attend. The university was also the only Michigan university that continued to offer in-person campus visits while observing all COVID-19 safety protocols, including asking guests to answer COVID-19 screening questions and taking temperatures. The university is holding drive-through recruiting events in the Detroit and Grand Rapids areas and has engaged staff and faculty members in calling campaigns to personally reach out to more prospective students rather than solely relying on technology to do so.

For Fall 2022, the university is planning to expand its offering of in-person recruitment events, including tours of residence halls for admitted students (which were not permitted in 2020 and 2021 due to COVID-related precautions) and the addition of a second component for orientation programs to bring more prospective students to campus.

The university has also updated its academic advising model. Advisors are utilizing newly implemented technology that has improved their ability to act as academic success coaches for students. A new mentoring program, Mentor Collective, will be available for the incoming Fall 2022 class to reduce summer melt and help improve retention. Additionally, the university's new customer relationship management system, Slate, will be fully implemented by August 1, 2021, improving the experience students have with CMU as they apply for admission and go through the recruitment process.

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 well positioned to proactively respond to trends, environmental influences, and any shifts in its target audiences.

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. Implementation of Phase IV of the plan was postponed in 2020 due to the COVID-19 global pandemic and resumed in Spring 2021.

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. In March 2021, CMU commenced efforts to update the current 2013 Master Plan and 2017 Capital Plan which is scheduled to be completed in December 2021.

CMU Research Corporation

Central Michigan University Research Corporation (CMURC) is a professional coworking space with accelerator programs focused on product and strategic development for entrepreneurs to positively impact the economy in the Great Lakes Bay Region. 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. Created nearly two decades ago, it brings together local, regional and statewide partners to accelerate the success of entrepreneurs, growing

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

businesses, and jobs by leveraging the resources of Central Michigan University, the Mount Pleasant SmartZone, and the Michigan Economic Development Corporation's 21st Century Jobs Trust Fund.

Recognized as one of the top Michigan SmartZones, CMURC expanded from the Mount Pleasant location to open three new facilities: Uptown Bay City in March 2017, Riverfront Saginaw in September 2018, and Midland in 2020. This venture demonstrates that CMU is a community partner in spurring economic development activities to graduate and retain more Michigan residents and improve our state's economy and future development.

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>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 152.1	\$ 111.5	\$ 117.8
Noncurrent assets			
Capital assets, net	556.6	570.4	557.8
Other	456.8	410.1	411.2
TOTAL ASSETS	<u>1,165.5</u>	<u>1,092.0</u>	<u>1,086.8</u>
DEFERRED OUTFLOWS	<u>21.5</u>	<u>21.2</u>	<u>22.2</u>
Current liabilities	90.9	100.8	93.4
Noncurrent liabilities	335.6	351.6	344.0
TOTAL LIABILITIES	<u>426.5</u>	<u>452.4</u>	<u>437.4</u>
DEFERRED INFLOWS	<u>9.3</u>	<u>11.9</u>	<u>15.7</u>
TOTAL NET POSITION	<u>\$ 751.2</u>	<u>\$ 648.9</u>	<u>\$ 655.9</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 2021, total assets increased \$73.5 million. Significant changes in assets occurred in the following areas:

- Cash and cash equivalents including restricted cash, increased \$24.7 million primarily due to investment redemptions and cash received from the federal CRRSA Act Higher Education Emergency Relief Funds program for lost revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

- State appropriations receivable increased \$14.9 million due primarily to a reinstatement of state aid withdrawn the previous year for both the university and university authorized K-12 charter schools.
- Endowment investments increased \$55.2 million due primarily to investment appreciation due to favorable market conditions.
- Other long-term investments decreased \$7.2 million due primarily to investment redemptions to replace decreased cash flow from university operations amid the COVID-19 global pandemic.
- Net capital assets decreased \$13.8 million primarily due to fewer new construction in progress projects being initiated compared to prior years offset by annual depreciation expense.

In 2020, total assets increased \$5.2 million due primarily to the effect of an increase in cash and cash equivalents of \$11.3 million related to fluctuations in operating cash, cash generated from gifts and unspent bond proceeds; a decrease of State appropriations receivable of \$18.7 million due primarily to appropriation reductions enacted by the State of Michigan under Public Act 146 of 2020 which decreased university operations appropriations by \$9.8 million and decreased appropriations passed through to charter schools authorized by CMU by \$4.8 million; Capital appropriations receivable from the State Building Authority also decreased by \$5.7 million due to the Center for Integrated Health Studies building project nearing completion; a decrease of Endowment Investments of \$1.2 million due primarily to investment depreciation resulting from unfavorable market conditions; an increase of Other Assets of \$1.7 million due primarily to lower than projected actual health care costs under the university's medical insurance program and advance payments toward contractual obligations, both of which resulted in higher prepaid expenses and an increase in net capital assets of \$12.6 million due primarily to construction on the Center for Integrated Health Studies building project and construction in progress on the Chippewa Champions Center.

Capital Assets

At June 30, 2021, the university had \$1.058 billion invested in capital assets and accumulated depreciation of \$502 million. Depreciation totaled \$28.2 million for the current fiscal year compared to \$27.7 million last year. Refer to Note 5 to the financial statements for details regarding capital assets.

The university had two significant projects in progress as of June 30, 2021:

- University Website Project (\$2.3 million of construction in progress). The \$5.1 million project includes design and implementation costs for a new digital experience platform.
- Upgrade of a 1250 Ton Absorber located in the Central Energy Facility (\$1.6 million of construction in progress). The project includes replacement of the existing absorber.

The university has three significant projects that were placed in-service and capitalized as of June 30, 2021:

- Chippewa Champions Center was completed in September 2020 and accounted for \$28.2 million in capitalized expenditures. The project included the design and construction of a new facility at the north end of Kelly/Shorts Stadium and the design and installation of a new video board at the south end of Kelly/Shorts Stadium. The new video board was in-service and capitalized as of June 30, 2020. The new facility houses football operations, a weight room and locker rooms, and provides student training opportunities with sports medicine, strength and conditioning labs, a nutrition and fueling station and a hydrotherapy center.
- The South Campus Mitigation project was completed in July 2020 and accounted for \$1.1 million in capitalized expenditures. This project included construction costs for various stormwater improvements on the south end of campus.
- The indoor track at the Athletic Complex was completed in August 2020 and accounted for \$0.9 million in capitalized expenditures. The project included the demolition of the old track and installation of the new surface.

In 2020, capital assets increased \$12.6 million due to a net increase of \$40.3 million in capitalized costs primarily in the areas of construction in progress, buildings, land improvements, and equipment less \$27.7 million in depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

Endowment and Pooled Operating Investments

During 2021, endowment investments increased \$55.2 million, and pooled operating investments decreased by \$7.2 million. The endowment increase was a result of investment appreciation due to favorable market conditions and the pooled operating decrease was a result of investment redemptions to replace decreased cash flow from university operations amid the COVID-19 global pandemic. Investment income for 2021 within both investment portfolios is comprised of a \$63.4 million increase in market value, \$5.6 million of investment income net of financial fees, and \$23.2 million realized gain from the sale of long-term investments. Earnings distributed from endowments for scholarships and fellowships totaled \$7.5 million. This spending distribution was offset by gifts received for endowments of \$2.5 million and a change in cash on hand in the endowment of \$3.2 million.

During 2020, endowment investments decreased \$1.2 million, and pooled operating investments decreased by \$0.8 million. The endowment and operating decrease was a result of investment depreciation due to unfavorable market conditions amid the COVID-19 global pandemic. Investment income for 2020 within both investment portfolios was comprised of a \$4.7 million increase in market value, \$4.1 million of investment income net of financial fees, and \$2.1 million realized gain from the sale of long-term investments. Earnings distributed from endowments for scholarships and fellowships totaled \$7.7 million. This spending distribution was offset by gifts received for endowments of \$2.2 million and a change in cash on hand in the endowment of \$0.3 million.

DEFERRED OUTFLOWS

During 2021, deferred outflows increased by \$0.3 million due primarily to a \$1.3 change in the market value position of hedging derivatives on variable rate debt which deferred additional expense and a \$0.2 million additional deferral of expense related to changes in assumptions in the valuations of the university's proportionate share of the Other Post Employment Benefits (OPEB) liabilities, offset by a reduction in deferral of expense of \$1.9 million primarily related to changes in assumptions in the valuations of the university's proportionate share of the Michigan Public School Employee's Retirement System (MPERS) plan net pension.

During 2020, deferred outflows decreased by \$1.0 million due primarily to a \$1.1 million change in the market value position of hedging derivatives on variable rate debt reducing the deferral of expense, offset by increases in deferral of expense of \$1.2 million and \$0.7 million primarily related to changes in assumptions in the valuations of the university's proportionate share of the Michigan Public School Employee's Retirement System (MPERS) plan net pension and Other Post Employment Benefits (OPEB) liabilities, respectively.

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

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 2021, current liabilities decreased \$9.9 million. Significant changes in current liabilities occurred in the following areas as of June 30, 2021:

- Accrued payables to vendors decreased \$13.5 million due primarily to a \$7.5 million decrease in the amount due to medical partners participating with the College of Medicine in the Physician Payment Adjuster Program and Specialty Network Access Fees program and a decrease of \$6.8 million in vendor accruals for building projects as the Chippewa Champions Center was put in-service.
- Accrued payables to charter schools increased \$5.4 million due primarily to an increase in state aid.

During 2020, current liabilities increased \$7.4 million primarily due to accrued payables to vendors increasing \$5.6 million due primarily to a \$6.9 million increase in the amount due to medical partners participating with the College of Medicine in the Physician Payment Adjuster Program and Specialty Network Access Fees program; and accrued payables to charter schools decreasing \$3.5 million due

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

primarily to appropriation reductions enacted by the State of Michigan under Public Act 146 of 2020 which decreased appropriations to charter schools authorized by the university.

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 obligations for the MPERS retirement plan. Also 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 2021, noncurrent liabilities decreased \$16.0 million. Significant changes in noncurrent liabilities occurred in the following areas as of June 30, 2021:

- Debt service of \$6.8 million was recorded on outstanding bond and note principal, and premium amortization.
- Market value of hedging derivatives decreased by \$1.3 million.
- Recorded \$4.4 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.
- Recorded a \$12.3 million decrease in net OPEB liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.

During 2020, noncurrent liabilities increased \$7.6 million primarily due to debt service of \$6.1 million being recorded on outstanding bond and note principal, and premium amortization; issuance of \$10.8 million in new bonds and \$14.6 million in bonds to refinance \$16.6 million in bonds previously issued in 2009; market value of hedging derivatives increasing by \$1.1 million; recording of \$8.1 million in additional net pension liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan; and recording of a \$6.7 million decrease in net OPEB liability for unfunded obligations to the Michigan Public School Employee's Retirement System (MPERS) plan.

DEFERRED INFLOWS

During 2021, deferred inflows decreased \$2.6 million due primarily to a \$1.3 million decrease 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, \$1.8 million decrease 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 \$0.7 million in the deferral of revenues resulting from split interest agreements.

During 2020, deferred inflows decreased \$3.8 million due primarily to a \$2.3 million decrease 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, \$1.9 million decrease 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 \$1.0 million in the deferral of revenues related to debt defeasance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

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>2021</u>	<u>2020</u>	<u>2019</u>
Investment in capital assets	\$ 556.6	\$ 570.4	\$ 557.8
Debt related to capital assets	(151.3)	(158.0)	(152.2)
Deferred outflow on defeased debt	1.8	1.9	2.1
Deferred inflow on defeased debt	<u>(0.8)</u>	<u>(1.0)</u>	
Net investment in capital assets	406.3	413.3	407.7
Restricted for:			
Nonexpendable	67.8	65.2	62.8
Expendable	101.1	71.2	72.2
Unrestricted	<u>176.0</u>	<u>99.2</u>	<u>113.2</u>
TOTAL NET POSITION	<u>\$ 751.2</u>	<u>\$ 648.9</u>	<u>\$ 655.9</u>

Net investment 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 investment in capital assets decreased \$7.0 million in 2021 primarily due to fewer new construction in progress projects being initiated compared to prior years offset by annual depreciation expense. During 2020, net investment in capital assets increased \$5.6 million due primarily to construction in progress on the Chippewa Champion Center.

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 contracts, and facilities. During 2021 restricted expendable net position increased \$29.9 million due to an increase in favorable market conditions. During 2020 restricted expendable net position decreased \$1.0 million due to an increase in gift and grant funding offset by the use of restricted funds for the construction in progress on the Chippewa Champions Center and unfavorable 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.

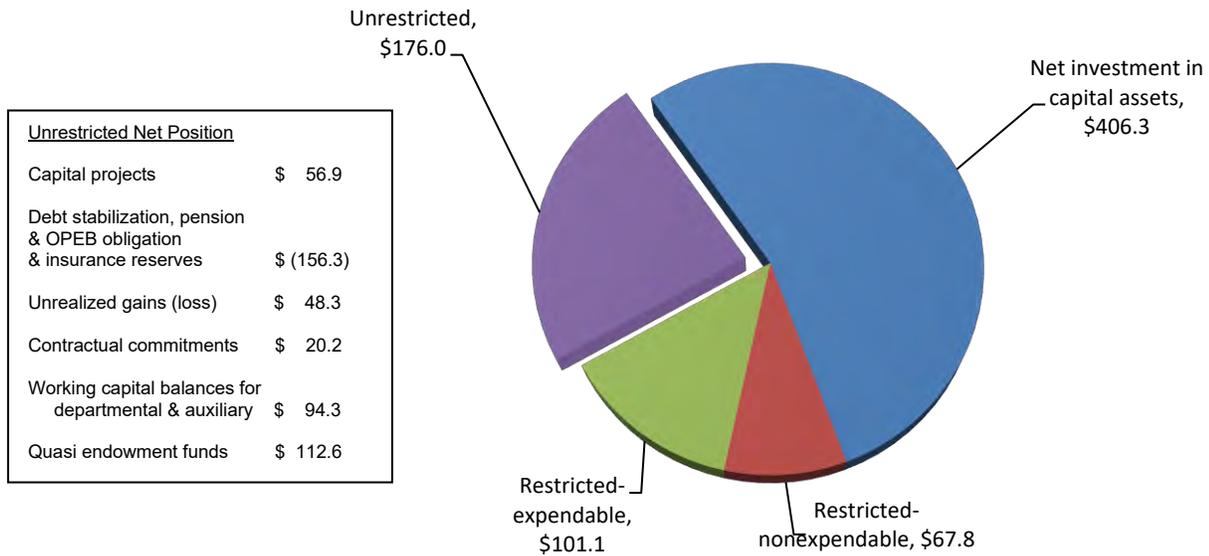
During 2021 unrestricted net position increased primarily due to favorable market conditions related to investments and a decrease in the university's proportionate share of the OPEB liability related to the Michigan Public School Employee's Retirement System (MPERS) plan. During 2020 unrestricted net position decreased primarily due to use of unrestricted funds for operations and capital projects and unfavorable market conditions related to investments.

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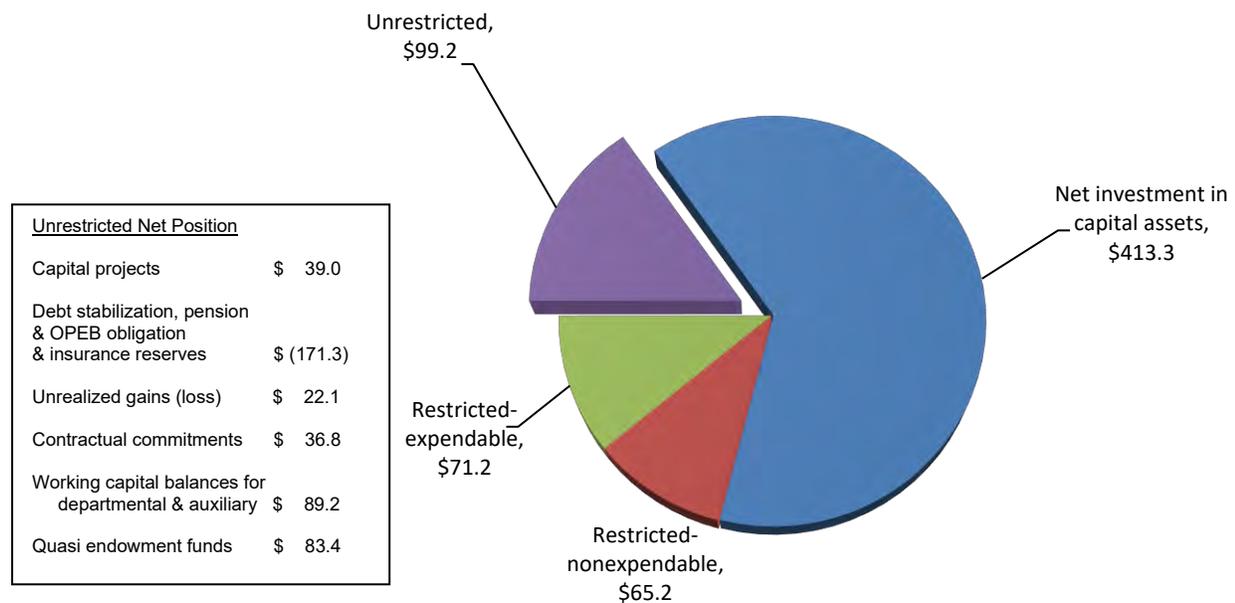
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

The following is a breakdown of net position at June 30, 2021 (shown in millions).



The following is a breakdown of net position at June 30, 2020 (shown in millions).



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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>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES			
Tuition, net	\$ 172.5	\$ 190.2	\$ 206.4
Grants and contracts	18.4	14.5	14.5
Auxiliary enterprises, net	50.7	62.5	73.3
Other operating revenues	<u>24.2</u>	<u>22.3</u>	<u>20.1</u>
TOTAL OPERATING REVENUES	<u>265.8</u>	<u>289.5</u>	<u>314.3</u>
OPERATING EXPENSES	<u>413.6</u>	<u>446.8</u>	<u>459.5</u>
OPERATING LOSS	(147.8)	(157.3)	(145.2)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	91.0	80.9	88.7
Other nonoperating revenues	158.8	59.0	50.3
Interest on debt	<u>(5.9)</u>	<u>(6.0)</u>	<u>(6.2)</u>
NET NONOPERATING REVENUES	<u>243.9</u>	<u>133.9</u>	<u>132.8</u>
INCOME (LOSS) BEFORE OTHER REVENUES	96.1	(23.4)	(12.4)
OTHER REVENUES			
Capital appropriations	0.8	11.0	7.9
Capital grants and gifts	3.0	3.2	4.0
Additions to permanent endowments	<u>2.4</u>	<u>2.2</u>	<u>2.9</u>
TOTAL OTHER REVENUES	<u>6.2</u>	<u>16.4</u>	<u>14.8</u>
INCREASE (DECREASE) IN NET POSITION	102.3	(7.0)	2.4
NET POSITION			
NET POSITION AT BEGINNING OF YEAR	<u>648.9</u>	<u>655.9</u>	<u>653.5</u>
NET POSITION AT END OF YEAR	<u>\$ 751.2</u>	<u>\$ 648.9</u>	<u>\$ 655.9</u>

OPERATING REVENUES

Operating revenues for fiscal year ending June 30, 2021 decreased compared to fiscal year 2020. Gross tuition for fiscal years ended June 30, 2021, 2020, and 2019 were \$229.5 million, \$249.2 million, and \$267.2 million, respectively. Scholarship allowances for fiscal years ended June 30, 2021, 2020, and 2019 were \$57.0 million, \$59.0 million, and \$60.8 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 2021, operating revenues decreased \$23.7 million. Significant changes in operating revenues occurred in the following areas as of June 30, 2021:

- Tuition before scholarship allowance decreased by \$19.7 million due to lower enrollment. Scholarship allowances decreased an additional \$2.0 million resulting in a decrease in net tuition of \$17.7 million.
- Auxiliary enterprise operating revenues, before room and board discount, decreased \$12.2 million due to fewer incoming students in the residence halls related to precautions surrounding the

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

COVID-19 global pandemic which limited service in the residence halls and dining facilities. A decrease in room and board allowance resulted in an overall decrease of \$11.8 million.

During 2020, tuition before scholarship allowance decreased by \$18.0 million due to lower enrollment and scholarship allowances decreased an additional \$1.8 million which resulted in a decrease in net tuition of \$16.2 million. Auxiliary enterprise operating revenues, before room and board discount, decreased \$11.1 million primarily due to fewer incoming students in the residence halls and prorated refunds of room and board fees for the spring semester 2020 related to precautions surrounding the COVID-19 global pandemic which limited service in the residence halls and dining facilities starting in March 2020. A decrease in room and board allowance resulted in an overall decrease of \$10.8 million.

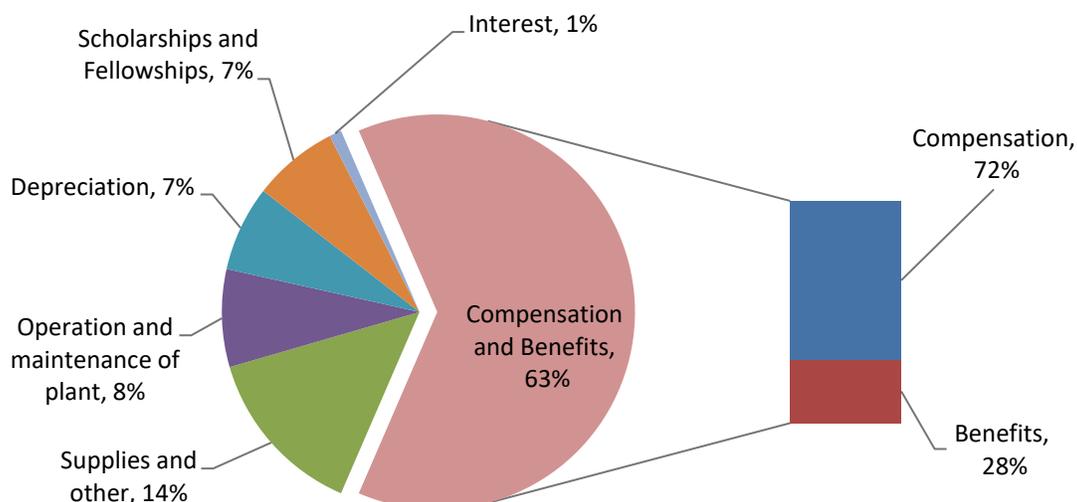
OPERATING EXPENSES

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>2021</u>	<u>2020</u>	<u>2019</u>
Operating			
Compensation and benefits	\$ 264.1	\$ 276.8	\$ 283.7
Supplies and other	59.3	86.3	104.5
Operation and maintenance of plant	35.3	33.5	27.8
Depreciation	28.2	27.7	26.9
Scholarships and fellowships	26.7	22.5	16.6
TOTAL OPERATING EXPENSES	<u>413.6</u>	<u>446.8</u>	<u>459.5</u>
Nonoperating			
Interest	5.9	6.0	6.2
TOTAL EXPENSES	<u>\$ 419.5</u>	<u>\$ 452.8</u>	<u>\$ 465.7</u>

A summary of the expenses by natural classification for the year ended June 30, 2021, 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, 2021:

- Compensation and benefit expenses decreased \$12.7 million. Of this decrease, the university compensation decreased 3.9% and benefits decreased 6.4%. The change in compensation and benefits primarily resulted from a decrease in the number of filled faculty and staff positions and a significant decrease in student compensation of \$2.3 million due to precautions related to the COVID-19 global pandemic which severely limited available positions and the ability of students to continue working.
- Supplies and Other decreased \$27.0 million due primarily to a \$13.5 million net decrease in expense to support the unfunded portion of the Michigan Public School Employee's Retirement System (MPERS) pension and OPEB plan as well as spending reductions in several auxiliary units. The residence halls and dining facilities had reduced wages and supplies expenses due to fewer students living in the residence halls and eating in the dining restaurants. Other planned cost reductions and travel restrictions put in place during the fiscal year led to reduced supplies and equipment spending.
- Scholarship and Fellowship expenses increased \$4.2 million due primarily to an additional \$2.9 million in federal Higher Education Emergency Relief Funds program student aid awards as well as an increase in institutional aid under a few new award programs aimed at improving enrollment.

During 2020, compensation and benefit expenses decreased \$6.9 million. Of this decrease, the university compensation decreased 3.3% and benefits decreased 0.2%. The change in compensation and benefits primarily resulted from a decrease in the number of filled faculty and staff positions and a significant decrease in student compensation of \$3.0 million primarily in the spring semester 2020 due to precautions related to the COVID-19 global pandemic which severely limited available positions and the ability of students to continue working starting in March 2020. Supplies and Other decreased \$18.2 million due primarily to a \$13.5 million net decrease in expense to support the unfunded portion of the Michigan Public School Employee's Retirement System (MPERS) pension and OPEB plan as well as reductions in expenses in the auxiliary units caused by closures due to precautions related to the COVID-19 global pandemic during the spring and summer 2020 semesters which limited service in the residence halls and dining facilities and cancelled most university events, conferences, camps and university recreation services starting in March 2020. Operation and maintenance of plant expenses increased \$5.7 million due primarily to substantial cosmetic renovations to several residence halls, final clean up and redevelopment of the Barnes Hall site as green space and furnishings, equipment and technology expenses related to placing the Center for Integrated Health Studies building in service. Scholarship and Fellowship expenses increased \$5.9 million due primarily to the awarding of \$5.7 million of student aid in accordance with the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act Higher Education Emergency Relief Funds program.

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

	2021		2020		2019	
Instruction	\$ 128.2	30 %	\$ 139.7	31 %	\$ 145.6	31 %
Research	20.6	5	16.0	4	15.6	3
Public Service	15.4	4	17.4	4	16.9	4
Academic Support	45.7	11	49.4	11	48.8	10
Student Services	21.9	5	23.9	5	24.3	5
Institutional Support	32.4	8	35.9	8	35.9	8
Scholarships and Fellowships	24.5	6	18.7	4	12.7	3
Operation and Maintenance of Plant	36.0	8	33.5	7	27.8	6
Auxiliary Services	75.0	18	85.5	19	92.6	20
Depreciation	28.2	7	27.7	6	26.9	6
Other	(14.3)	-3	(1.0)	0	12.4	3
Interest Expense	5.9	1	6.1	1	6.2	1
Total Expenses by Function	\$ 419.5	100 %	\$ 452.8	100 %	\$ 465.7	100 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

Significant changes in functional expenses occurred in the following areas as of June 30, 2021:

- Instructional expenses decreased \$11.5 million due primarily to planned cost reductions related to lower enrollment including a decrease in the number of filled faculty and staff positions and a corresponding decrease in instructional supplies and equipment spending.
- Research expenses increased \$4.6 million primarily due to research initiatives with University Pediatrics.
- Scholarships and Fellowship expenses increased \$5.8 million primarily due to an additional \$2.9 million in federal Higher Education Emergency Relief Funds program student aid awards as well as an increase in institutional aid under a few new award programs aimed at improving enrollment.
- Auxiliary Enterprises decreased \$10.5 million primarily due to reductions across several auxiliary units. The residence halls and dining facilities had reduced wages and supply expenses due to fewer students living in the residence halls and eating in the dining restaurants. Other planned cost reductions and travel restrictions put in place during the fiscal year led to reduced supplies and equipment spending in many auxiliary units.
- Other expenses decreased \$13.3 million primarily due to changes in the unfunded portion of the MPSERS net pension and net OPEB liability.

During 2020, instructional expenses decreased \$5.9 million due primarily to planned cost reductions related to lower enrollment including a decrease in the number of filled faculty positions and a corresponding decrease in instructional supplies and equipment spending. Scholarships and Fellowship expenses increased \$6.0 million primarily due to the awarding of \$5.7 million of student aid in accordance with the federal CARES Act Higher Education Emergency Relief Funds program. Operation and maintenance of plant expenses increased \$5.7 million due primarily to substantial cosmetic renovations to several residence halls, final clean up and redevelopment of the Barnes Hall site as green space and furnishings, equipment and technology expenses related to placing the Center for Integrated Health Studies building in service. Auxiliary Enterprises decreased \$7.1 million primarily due to precautions taken related to the COVID-19 global pandemic during the spring and summer 2020 semesters which limited service in the residence halls and dining facilities and cancelled most university events, conferences, camps and recreation services starting in March 2020. Other expenses decreased \$13.4 million primarily due changes in the unfunded portion of the MPSERS net pension and net OPEB liability.

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, governmental coronavirus support programs 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, 2021:

- State Appropriations increased \$10.1 million primarily due to reinstatement of state aid withdrawn the previous year for both the university and university authorized K-12 charter schools.
- Gifts and pledges (net of allowance) decreased \$5.4 million primarily due to fewer donations towards operating initiatives.
- Investment income increased \$81.3 million as a result of investment appreciation due to favorable market conditions.
- Governmental coronavirus support programs revenue increased \$26.4 million due to new funding from the following federal programs: Coronavirus Relief Funds, Coronavirus Response and Relief Supplemental Appropriations - Higher Education Emergency Relief Funds, and American Rescue Plan Act.

During 2020, State Appropriations decreased \$7.8 million primarily due to appropriation reductions enacted by the State of Michigan under Public Act 146 of 2020 which decreased university operations appropriations by \$9.8 million. Gifts and pledges (net of allowance) increased \$8.2 million primarily due to gifts and contributions from donors. Investment income decreased \$8.7 million due to less favorable market

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Central Michigan University

conditions than the prior year. Governmental coronavirus support programs revenue increased \$10.9 million due to new funding awarded as federal CARES Act Higher Education Emergency Relief Funds.

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 2021 decreased \$10.2 million primarily due to a decrease in capital appropriations from the State Building Authority as the Center for Integrated Health Studies building reached substantial completion in November 2019.

During 2020, other revenue increased \$1.6 million primarily due to an increase in capital appropriations from the State Building Authority related to the Center for Integrated Health Studies building.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present 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:

	2021	2020	2019
Cash received from operations	\$ 657.3	\$ 699.6	\$ 728.5
Cash expended for operations	(805.9)	(821.5)	(830.6)
NET CASH USED BY OPERATING ACTIVITIES	(148.6)	(121.9)	(102.2)
Net cash provided by noncapital financing activities	151.2	140.7	122.6
Net cash used by capital financing activities	(22.9)	(19.9)	(48.2)
Net cash provided by investing activities	45.0	12.4	18.9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24.7	11.3	(8.9)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	38.1	26.8	35.7
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 62.8	\$ 38.1	\$ 26.8

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 \$148.6 million (\$121.9 million at June 30, 2020). To offset this, the net cash provided from noncapital financing activities, consisting primarily of state appropriations, was \$151.2 million (\$140.7 million at June 30, 2020).

Cash used by capital financing activities was \$22.9 million (\$19.9 million at June 30, 2020), primarily the result of the investment in major capital construction projects offset by proceeds from debt issued to fund the capital projects and capital appropriations received.

Cash provided by investing activities was \$45.0 million (\$12.4 million used by investment activities at June 30, 2020) due to favorable market conditions.

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	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 62,759,052	\$ 36,497,515
Accounts and pledges receivable, net	22,582,351	21,805,767
State appropriations receivable, SBA		705,263
State appropriations receivable, operations	16,812,020	6,628,552
State appropriations receivable, Charter Schools	40,848,585	35,437,290
Inventories	2,635,296	3,003,824
Other assets	6,422,099	7,400,881
TOTAL CURRENT ASSETS	152,059,403	111,479,092
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	10	1,582,082
Pledges receivable, net	4,768,488	4,458,122
Endowment investments	243,740,257	188,557,082
Other long-term investments	208,287,340	215,467,849
Capital assets, net	556,641,952	570,423,512
TOTAL NONCURRENT ASSETS	1,013,438,047	980,488,647
TOTAL ASSETS	1,165,497,450	1,091,967,739
DEFERRED OUTFLOWS		
Deferred Outflows of Resources	21,553,461	21,246,399
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	70,516,730	77,476,720
Unearned revenue	12,527,505	14,944,894
Deposits	726,319	1,147,116
Current portion of long-term debt and other obligations	7,143,629	7,176,905
TOTAL CURRENT LIABILITIES	90,914,183	100,745,635
NONCURRENT LIABILITIES:		
Long-term debt, hedging instruments, and other obligations	156,120,081	164,293,247
Net pension liability	168,997,255	164,606,252
Net OPEB liability	10,470,434	22,739,133
TOTAL NONCURRENT LIABILITIES	335,587,770	351,638,632
TOTAL LIABILITIES	426,501,953	452,384,267
DEFERRED INFLOWS		
Deferred Inflows of Resources	9,291,683	11,879,991
NET POSITION		
Net investment in capital assets	406,352,192	413,351,598
Restricted for:		
Nonexpendable		
Scholarships, fellowships and research	67,830,823	65,219,062
Expendable		
Scholarships, fellowships and research	70,923,001	43,723,144
Instructional department uses	23,407,092	20,080,130
Capital projects	6,750,286	7,377,858
Unrestricted	175,993,881	99,198,088
TOTAL NET POSITION	\$ 751,257,275	\$ 648,949,880

See notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Central Michigan University

	YEAR ENDED JUNE 30	
	2021	2020
REVENUES		
OPERATING REVENUES:		
Tuition	\$ 229,515,299	\$ 249,211,213
Less: Scholarship allowances	56,983,875	58,984,591
Net tuition	172,531,424	190,226,622
Federal grants and contracts	7,839,888	9,434,499
State and local grants and contracts	652,842	729,341
Nongovernmental grants and contracts	9,848,321	4,359,377
Sales and services of educational activities	24,199,584	22,274,159
Auxiliary enterprises (net of room & board allowances of \$10,854,071 in 2021 and \$11,235,160 in 2020)	50,681,861	62,508,124
TOTAL OPERATING REVENUES	265,753,920	289,532,122
EXPENSES		
OPERATING EXPENSES:		
Compensation:		
Faculty	96,366,195	97,487,696
Staff	85,007,987	89,176,831
Benefits	74,375,885	79,466,506
Student	8,306,918	10,640,877
Scholarships and fellowships	26,717,414	22,514,250
Utilities	7,593,616	7,423,251
Supplies and other	51,720,011	78,901,495
Operation and maintenance of plant expenses	35,284,193	33,438,151
Depreciation	28,196,756	27,721,522
TOTAL OPERATING EXPENSES	413,568,975	446,770,579
OPERATING LOSS	(147,815,055)	(157,238,457)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	91,016,204	80,864,527
Gifts and pledges (net of allowance)	8,544,171	13,985,600
Gifts of term endowments	23,600	
Investment income (net of investment expense)	92,294,554	10,965,878
Interest on capital assets related debt	(5,973,484)	(6,075,061)
Federal Pell grant program	20,177,397	23,007,753
Governmental coronavirus support programs	37,262,709	10,902,878
Other nonoperating revenues	530,000	206,025
NET NONOPERATING REVENUES (EXPENSES)	243,875,151	133,857,600
INCOME (LOSS) BEFORE OTHER REVENUES	96,060,096	(23,380,857)
OTHER REVENUES		
Capital appropriations	788,430	10,990,990
Capital grants and gifts	3,009,552	3,244,809
Additions to permanent endowments	2,449,317	2,195,160
TOTAL OTHER REVENUES	6,247,299	16,430,959
INCREASE (DECREASE) IN NET POSITION	102,307,395	(6,949,898)
NET POSITION		
NET POSITION AT BEGINNING OF YEAR	648,949,880	655,899,778
NET POSITION AT END OF YEAR	\$ 751,257,275	\$ 648,949,880

See notes to the financial statements.

STATEMENTS OF CASH FLOWS – DIRECT METHOD

Central Michigan University

	YEAR ENDED JUNE 30	
	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Tuition	\$ 174,294,607	\$ 195,012,520
Grants and contracts	17,459,331	13,519,574
Payments to suppliers	(114,157,112)	(106,627,699)
Payments for utilities	(7,593,616)	(7,423,251)
Payments to employees	(189,788,212)	(197,379,681)
Payments for benefits	(73,335,329)	(78,590,315)
Payments for scholarships and fellowships	(26,717,414)	(22,514,249)
Auxiliary activities	50,278,754	62,856,739
Sales and services of educational activities	20,352,258	20,734,895
Other receipts (payments)	519,229	(1,406,238)
William D. Ford PLUS direct lending receipts	125,740,784	144,601,107
William D. Ford PLUS direct lending disbursements	(125,740,784)	(144,601,107)
Third Party Scholarship receipts	14,113,421	18,911,893
Third Party Scholarship disbursements	(14,027,791)	(19,024,257)
Charter School funding receipts	254,502,312	243,988,832
Charter School funding disbursements	(254,502,812)	(243,988,847)
NET CASH USED BY OPERATING ACTIVITIES	(148,602,374)	(121,930,084)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	82,489,607	90,387,230
Federal Pell grant program	20,177,397	23,007,753
Governmental coronavirus support programs	37,398,665	10,574,722
Other nonoperating revenue		206,025
Gifts for other than capital purposes	8,618,025	14,352,988
Gifts for endowment purposes	2,472,917	2,195,160
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	151,156,611	140,723,878
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt		13,294,975
Contribution to debt refunding		(183,247)
Capital appropriations	1,493,693	16,684,274
Capital grants and gifts received	2,317,807	3,332,789
Sales of capital assets	530,000	
Purchases of capital assets	(14,463,820)	(40,772,154)
Principal paid on capital debt and leases	(6,050,000)	(5,465,000)
Interest paid on capital debt and leases	(6,705,637)	(6,770,964)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(22,877,957)	(19,879,327)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	190,565,351	268,432,030
Income on investments, net	28,866,815	6,251,232
Purchase of investments	(174,428,981)	(262,319,552)
NET CASH PROVIDED BY INVESTING ACTIVITIES	45,003,185	12,363,710
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,679,465	11,278,177
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	38,079,597	26,801,420
CASH AND CASH EQUIVALENTS-END OF THE YEAR	\$ 62,759,062	\$ 38,079,597

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

	YEAR ENDED JUNE 30	
	2021	2020
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (147,815,055)	\$ (157,238,457)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense and loss on disposal of capital assets	28,526,547	28,139,738
Change in assets, liabilities and deferred resources:		
Receivables, net	(6,297,476)	2,564,924
Inventories	368,528	625,685
Other assets	978,782	(1,749,833)
Accounts payable, accrued liabilities and deposits	(7,380,787)	2,451,069
Unearned revenue	(2,417,389)	3,828,096
Retirement service award program	(195,125)	(239,535)
Compensated absences	12,091	627,672
Other obligations	(821)	(12,524)
Net pension and OPEB liability	(7,877,696)	1,450,472
Deferred resources - pension and OPEB	(6,503,973)	(2,377,391)
NET CASH USED BY OPERATING ACTIVITIES	\$ (148,602,374)	\$ (121,930,084)

See notes to the financial statements.

STATEMENTS OF FIDUCIARY FUNDS**Central Michigan University****STATEMENTS OF FIDUCIARY NET POSITION**

	CUSTODIAL FUNDS	
	YEAR ENDED JUNE 30	
	2021	2020
ASSETS		
Cash and cash equivalents	\$ 1,401,343	\$ 115,746
Accounts receivable, net		671,588
TOTAL ASSETS	<u>1,401,343</u>	<u>787,334</u>
LIABILITIES		
Deposits		
TOTAL LIABILITIES		
NET POSITION		
Restricted for:		
Organizations	<u>1,401,343</u>	<u>787,334</u>
TOTAL NET POSITION	<u>\$ 1,401,343</u>	<u>\$ 787,334</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	CUSTODIAL FUNDS	
	YEAR ENDED JUNE 30	
	2021	2020
ADDITIONS		
CONTRIBUTIONS:		
University Pediatrics	\$ 1,877,510	\$ 787,334
TOTAL ADDITIONS	<u>1,877,510</u>	<u>787,334</u>
DEDUCTIONS		
University Pediatrics	1,263,501	
TOTAL DEDUCTIONS	<u>1,263,501</u>	
INCREASE IN FIDUCIARY NET POSITION	614,009	787,334
NET POSITION		
NET POSITION AT BEGINNING OF YEAR	<u>787,334</u>	
NET POSITION AT END OF YEAR	<u>\$ 1,401,343</u>	<u>\$ 787,334</u>

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STATEMENTS OF NET ASSETS

CMU Medical Education Partners

	YEAR ENDED JUNE 30	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,762,648	\$ 8,985,707
Cash - designated funds	609,615	121,075
Investments	4,052,905	
Patient accounts receivable, less allowance for doubtful accounts of \$270,288 in 2021 and \$430,943 in 2020	1,074,502	488,451
Receivables - member hospitals	1,279,051	599,031
Receivables - funding support	773,528	490,049
Prepaid expenses and other assets	908,234	742,620
TOTAL CURRENT ASSETS	13,460,483	11,426,933
ASSETS WHOSE USE IS LIMITED:		
Investments held for designated purposes	1,020,857	815,760
Investments held for 457(b) plan participants	3,708,775	3,051,168
TOTAL ASSETS WHOSE USE IS LIMITED:	4,729,632	3,866,928
Other Assets	13,540	13,540
Leasehold improvements, furniture, and equipment, net	1,318,748	1,574,060
TOTAL ASSETS	\$ 19,522,403	\$ 16,881,461
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 541,724	\$ 242,985
Payroll and related liabilities	3,355,411	2,908,172
Other accrued liabilities		34,026
Note Payable		5,049,500
Unearned revenue	300,921	519,354
TOTAL CURRENT LIABILITIES	4,198,056	8,754,037
Deferred obligations - MIDOCs program	262,771	
Estimated professional liability under self-insurance	200,000	200,000
Amounts due to 457(b) plan participants	3,708,775	3,051,168
TOTAL LIABILITIES	8,369,602	12,005,205
NET ASSETS		
Without donor restrictions	11,152,801	4,876,256
TOTAL LIABILITIES AND NET ASSETS	\$ 19,522,403	\$ 16,881,461

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**CMU Medical Education Partners**

	YEAR ENDED JUNE 30	
	2021	2020
UNRESTRICTED REVENUES AND OTHER SUPPORT		
Member hospitals	\$ 21,243,404	\$ 19,404,048
Net patient service revenue	12,848,205	10,950,539
Quality incentive programs	2,194,948	2,275,089
Contract and other revenue	14,823,158	13,330,126
Investment income	57,749	
Paycheck protection loan forgiveness	5,049,500	
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	56,216,964	45,959,802
OPERATING EXPENSES		
Salaries, wages, and payroll taxes	34,780,182	32,368,682
Employee benefits	6,562,496	5,718,502
Recruiting	347,647	366,141
Consumable supplies	865,267	771,788
Educational supplies and services	425,486	418,791
Consulting and contractual services	1,830,630	1,503,196
Communications	329,800	264,786
Educational conferences and travel	731,963	856,685
Insurance	1,067,099	912,078
Facility and equipment	2,093,516	2,056,492
Other expenses	233,167	110,223
Depreciation	376,446	381,753
Provision for bad debts	492,319	224,655
TOTAL OPERATING EXPENSES	50,136,018	45,953,772
Unrestricted Revenues and other support over operating expenses	6,080,946	6,030
Other nonoperating revenue (expense)		
Net investment income and interest	214,327	22,802
Adjustment for medical funding receivable		(1,505,596)
Nonoperating grant revenue	500,469	404,219
Nonoperating grant expense	(500,644)	(367,440)
Professional liability expense	(18,553)	(45,717)
Increase (Decrease) in net assets without donor restrictions	6,276,545	(1,485,702)
NET ASSETS		
NET ASSETS AT BEGINNING OF YEAR	4,876,256	6,361,958
NET ASSETS AT END OF YEAR	\$ 11,152,801	\$ 4,876,256

STATEMENTS OF NET ASSETS

The Institute for Excellence in Education

	YEAR ENDED JUNE 30	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,204,027	\$ 1,030,603
Accounts receivable, net allowance	635,040	536,535
Accounts receivable - related party		
Central Michigan University	90,910	35,910
The Center for Charter Schools	7,400	29,114
Inventory	60,236	55,452
Prepaid expenses	164,961	92,350
TOTAL CURRENT ASSETS	<u>2,162,574</u>	<u>1,779,964</u>
Property and equipment, net	15,062	25,404
Intangible assets, net	3,362,462	2,947,774
Goodwill, net	274,088	411,133
TOTAL ASSETS	<u>\$ 5,814,186</u>	<u>\$ 5,164,275</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 183,654	\$ 167,333
Note payable, current portion		430,796
Accrued liabilities	359,736	357,857
Compensated absences	159,124	160,724
Unearned revenue	121,591	101,887
TOTAL CURRENT LIABILITIES	<u>824,105</u>	<u>1,218,597</u>
Note payable, net of current portion	624,905	488,796
TOTAL LIABILITIES	<u>1,449,010</u>	<u>1,707,393</u>
NET ASSETS		
Without donor restrictions	4,365,176	3,456,882
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,814,186</u>	<u>\$ 5,164,275</u>

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**The Institute for Excellence in Education**

	YEAR ENDED JUNE 30	
	2021	2020
OPERATING REVENUE AND OTHER SUPPORT		
State Appropriations - related party		
Central Michigan University	\$ 509,545	\$ 445,000
Service Revenue	5,054,216	6,036,998
Federal Grants	864,413	849,367
Contributions	18,875	2,329
Contributions - related party	307,500	100,000
Book revenue, net of cost of goods sold	5,078	15,430
Other revenue	1,618	5,282
Interest Income	1,496	274
Debt forgiveness	625,738	
Gain (loss) on disposal of property and equipment	(7,300)	250
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	7,381,179	7,454,930
OPERATING EXPENSES		
Compensation	3,074,590	3,444,449
Benefits	934,964	996,562
Interest	8,332	19,439
Occupancy	105,945	105,646
Services and fees	1,015,856	988,585
Supplies and other	186,844	221,605
Telephone	28,138	28,278
Marketing	31,663	88,324
Travel	34,427	280,144
Bad Debt	21,828	950
Inventory writedowns	2,240	
Depreciation and Amortization	1,028,058	870,737
TOTAL EXPENSES	6,472,885	7,044,719
CHANGE IN NET ASSETS	908,294	410,211
NET ASSETS		
NET ASSETS AT BEGINNING OF YEAR	3,456,882	3,046,671
NET ASSETS AT END OF YEAR	\$ 4,365,176	\$ 3,456,882

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 sole purpose is to hold a 90% membership interest in CMU Medical Education Partners (CMEP) whose mission 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, the financial activity for CMEP on behalf of CHAS is discretely presented in the university's financial statements (refer to pages 25 and 26 for CMEP financial statements). The June 30, 2021 audited financial statements for CMEP can be found at: www.cmich.edu
- 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 and \$445,000 to the IEE for the years ended June 30, 2021 and June 30, 2020, respectively.

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, 2021 (refer to pages 27 and 28 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 2019, the university's Board of Trustees approved extending an annual contribution of \$500,000 through FY 2024. Fiscal year 2021 was the twentieth year of the commitment. At June 30, 2021, and 2020, the net assets of CMURC were \$1,688,621 and \$1,738,389, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

- 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, 2021 and 2020. 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 2021 and 2020.
- 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.

Significant Events Impacting the Organization

The global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization on March 11, 2020, and a national emergency by the President of the United States on March 13, 2020. In response to the public health crisis, the Governor of the State of Michigan (the "Governor") and the Michigan Department of Health and Human Services ("MDHHS") issued a series of emergency statewide orders to address the spread of COVID-19 in the State. The outbreak, and actions taken by federal and state governments in response thereto, has affected travel, commerce and financial markets and has had negative effects on global and local economies, including the State of Michigan.

The University took immediate steps to ensure it could continue to conduct business and weather the financial impacts of COVID-19. A line of credit was secured in April 2020, and renewed in June 2021, for \$60 million to ensure there would be no interruption in cash flow. To date, the University has not drawn on that line of credit. Budget models for fiscal year 2021 were modified, considering revised enrollment projections and the uncertainty of auxiliary revenues. Senior leaders took a 2% to 8% pay reduction for one quarter, with President Davies taking a 10% pay reduction during fiscal year 2021. Additionally, University business travel was suspended, and some employees were furloughed. The most significant financial impacts to Fiscal Year 2021 resulted from lower utilization of residence halls, dining and retail venues, bookstore, catering, conference facilities, limited athletics revenues, and a decline in tuition revenue. Private gift donations to the University were also below historical levels.

The university received grant funding to support coronavirus related efforts under several federal programs. For the year ended June 30, 2021 the university reported revenue for two programs awarded as part of the Coronavirus Relief Fund (CRF) authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES) including \$9.821 million through the State of Michigan to cover costs incurred due to the public health emergency and \$287,600 of CRF funds directed to support water sampling initiatives related to coronavirus. Also, as part of the CARES Act, the university recognized revenue of \$26.39 million under the Higher Education Emergency Relief Funds (HEERF) to support student financial aid and institutional costs incurred due to the global pandemic. An additional \$763,830 was received from the Corporation for Public Broadcasting to support public broadcasting under the American Rescue Plan Act (ARP) of 2021. For the year ended June 30, 2020 the university recognized \$10.9 million of revenue from the HEERF program to support student financial aid and institutional costs incurred due to the global pandemic as well as \$372,341 of CARES Act funding from the Corporation for Public Broadcasting to support public broadcasting.

As described above, the State and federal governments have taken, and are expected to continue to take, various actions, including the passage of laws and regulations on a wide array of topics, to attempt to

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

contain the spread of COVID-19 and to address health and economic consequences of the pandemic. The total financial impact of the pandemic on the University cannot be determined at this time due to the dynamic and unprecedented nature of the pandemic, including uncertainties relating to the pandemic's duration and severity, new strains of the virus, vaccine distribution, and additional actions that may be taken by the State and federal governments. Adverse impacts of the COVID-19 pandemic on the University's finances and operations may include, but are not limited to: adverse impacts on enrollment (including a possible disproportionate impact on international student enrollment); decline in revenue from auxiliary activities related to decreased demand for, or utilization of, residence halls and dining facilities; decline in research funding by the federal and State governments and private entities; reductions in funding support from donors or other external sources; cancellation or postponement of athletic events and corresponding reductions in athletic revenues, including ticket sales; potential declines in the market value of the University's investments as a result of market responses to the COVID-19 pandemic; and potential reductions or deferments of State operating appropriations to the University.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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 a fiduciary transaction.

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 cash held in trust accounts related to bonded debt and unspent bond proceeds.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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.

CMEP 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 \$200 thousand at June 30, 2021, \$200 thousand at June 30, 2020, and is included in the member hospital and malpractice fund liability. Additionally, CMEP has malpractice funding held by trustee of approximately \$1 million at June 30, 2021 and \$815 thousand at June 30, 2020.

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 or losses on the defeasance of debt and deferred resources related to the university's proportionate share of the net pension and other post-employment benefit liability for the Michigan Public School Employee's Retirement System (MPERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$5,319,801 at June 30, 2021, and \$6,572,388 at June 30, 2020. Also included in deferred outflows is the gain or loss on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$841,466 and \$916,263, net of amortization, at June 30, 2021 and 2020, respectively; Series 2005 valued at \$779,259 and \$838,071, net of amortization, at June 30, 2021 and 2020 respectively; and Series 2006 valued at \$167,465 and \$179,217, net of amortization, at June 30, 2021 and 2020 respectively. The value of deferred outflows related to the MPERS plan for pensions was \$11,657,024 and \$9,717,976 as of June 30, 2021 and 2020 respectively, and for other post-employment benefits (OPEB) was \$2,788,446 and \$3,022,484 as of June 30, 2021 and 2020, respectively. 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 the defeasance of debt and split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

university's proportionate share of the net pension and net OPEB liability for the MPSERS plan. The university recorded deferred inflows of resources related to the gain or loss on the defeasance of the General Revenue Bonds Series 2009 valued at \$826,950 and \$984,464, net of amortization, at June 30, 2021 and 2020 respectively. Deferred inflows of resources applicable to split-interest agreements include \$5,277,633 and \$4,566,335 at June 30, 2021 and 2020 respectively. See Note 8 for additional information on deferred inflows related to split-interest agreements. There were no deferred inflows related to changes in the pension portion of the MPSERS plan at June 30, 2021. At June 30, 2020, the value related to changes in the pension portion of the MPSERS was \$2,979,059. The value related to changes in the OPEB portion of the MPSERS plan was \$285,464 and \$2,105,368 at June 30, 2021 and 2020 respectively. 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 \$2,901,636 and \$1,244,765 at June 30, 2021 and June 30, 2020, 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, federal COVID 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.

CMEP Revenue

CMEP 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 CMEP accounts receivable at June 30, 2021 and June 30, 2020 include Medicare (18.0% and 4.6%), Blue Cross (9.9% and 9.4%), Medicaid (34.1% and 31.0%) and other commercial insurers and self-pay (38.0% and 55.0%), respectively.

CMEP 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

patient accounts receivable. Patient services are recorded net of an allowance for doubtful accounts of \$270,288 at June 30, 2021. Patient services are recorded net of the total allowance for doubtful accounts of \$430,943 at June 30, 2020.

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.

Fiduciary Activity

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the university's programs. The university maintains a fund to record the escrow transactions of University Pediatrics. The funds are segregated and held separately for them.

The university's business-type activities may report assets with a corresponding liability that otherwise should be reported in a custodial fund in the statement of net position of the business-type activity if those assets, upon receipt, are normally expected to be held for three months or less. Examples of this activity include direct loans, third party scholarships and charter school funding activity.

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

During the current year, the university adopted GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, activity related to the College of Medicine's affiliation agreement with University Pediatrics was identified as meeting the definition of a fiduciary activity and is reported as such. In accordance with the statement, the university has reported a change in accounting principle adjustment to assets and liabilities in the amount of \$787,334 for the fiscal year ended June 30, 2020. There was no effect of this new standard on the university's business-type activity net position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

During the current year, the university adopted GASB Statement No. 93, Replacement of Interbank Offered Rates. Certain requirements of the new standard were applicable for June 30, 2021, however there was no impact to the university's financial statements for June 30, 2021.

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, equities and other marketable securities deemed prudent by the investment managers. For investment grade accounts, 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 4.75% of the 20-quarter rolling average of the market value of the endowment pool of which 0.25% is allocated to an administrative fee. 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 2021. 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 \$65,701,177 at June 30, 2021, and \$39,152,140 at June 30, 2020. The net appreciation is a component of restricted, expendable net position. The yields of the endowment investments were as follows:

	June 30	
	<u>2021</u>	<u>2020</u>
Interest and Dividends	0.3 %	0.4 %
Net Realized and Unrealized Gains	<u>27.2 %</u>	<u>1.7 %</u>
Total Return	<u>27.5 %</u>	<u>2.1 %</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

The university had the following investments:

	Fair Market Value June 30	
	2021	2020
Investments:		
Bonds (Including Bonds, Mutual Funds, & ETFs)	\$ 117,423,297	\$ 115,063,872
Equities (Including Equities, Mutual Funds, & ETFs)	239,362,350	215,448,200
Real Estate	80,003	51,385
Life Insurance Policies	205,652	239,025
Alternative Investments	85,517,708	67,718,249
Cash Equivalents-Endowments/Restricted	4,535,951	2,746,451
Beneficial Interests in Split-Interest Agreements	4,902,646	4,339,831
Cash Equivalents	30,193,332	1,210,970
Cash Deposits	32,565,720	35,286,545
Total Investments	<u>\$ 514,786,659</u>	<u>\$ 442,104,528</u>
As Reported on the Statements of Net Position		
Current Investments:		
Cash and Cash Equivalents	\$ 62,759,052	\$ 36,497,515
Noncurrent Investments:		
Restricted Cash and Cash Equivalents	10	1,582,082
Endowment Investments	243,740,257	188,557,082
Other Long-Term Investments	<u>208,287,340</u>	<u>215,467,849</u>
Total Noncurrent Investments	<u>452,027,607</u>	<u>405,607,013</u>
Total Investments	<u>\$ 514,786,659</u>	<u>\$ 442,104,528</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. The university only had holdings in the GovMIC daily liquidity fund of the MILAF portfolio and the values were \$25,002,385 as of June 30, 2021 of operating cash and \$1,581,839 as of June 30, 2020 of restricted bond proceeds.

Credit Risk

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

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

As of June 30, 2021, the weighted average of all University debt instruments fell within the Standard & Poor's credit rating range of AAA to B.

NOTES TO THE FINANCIAL STATEMENTS (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, 2021 and 2020 are as follows:

Investment Type	June 30, 2021				
	Fixed Income Investment Maturities				
	Less than 1 year	1-5 years	5-10 years	More than 10 years	Total
US Treasury/TIPS	\$ 345,835	\$ 14,391,355	\$ 9,773,457	\$ 3,877,832	\$ 28,388,479
Core Fixed Income	3,736,617	16,589,164	9,852,280	7,801,039	37,979,100
Short Duration Fixed Income	761,218	2,721,338	12,605	6,303	3,501,464
Emerging Market Debt	981,615	1,466,765	1,148,778	2,687,184	6,284,342
Global Multi-Sector Fixed Income	5,082,754	10,036,279	4,772,984	1,144,778	21,036,795
Absolute Return Fixed Income	4,194,325	7,931,382	5,337,496	2,769,914	20,233,117
Total	<u>\$ 15,102,364</u>	<u>\$ 53,136,283</u>	<u>\$ 30,897,600</u>	<u>\$ 18,287,050</u>	<u>\$ 117,423,297</u>

Investment Type	June 30, 2020				
	Fixed Income Investment Maturities				
	Less than 1 year	1-5 years	5-10 years	More than 10 years	Total
US Treasury/TIPS	\$ 1,812,666	\$ 7,040,924	\$ 7,655,398	\$ 2,988,418	\$ 19,497,406
Core Fixed Income	2,656,603	12,744,517	6,453,974	5,607,155	27,462,249
Short Duration Fixed Income	2,859,684	10,645,714	(144,186)	1,202	13,362,414
Emerging Market Debt	961,047	633,376	1,413,197	3,094,267	6,101,887
Global Multi-Sector Fixed Income	9,149,694	8,028,391	5,698,900	2,294,530	25,171,515
Absolute Return Fixed Income	1,931,449	10,849,442	7,592,028	3,095,482	23,468,401
Total	<u>\$ 19,371,143</u>	<u>\$ 49,942,364</u>	<u>\$ 28,669,311</u>	<u>\$ 17,081,054</u>	<u>\$ 115,063,872</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, 2021, or June 30, 2020.

Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2021 and June 30, 2020, therefore the university was not subject to foreign currency risk.

Custodial Credit Risk

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name. The carrying amount of deposits, excluding those classified as investments, was \$32,565,720 at June 30, 2021, and \$35,402,291 at June 30, 2020. The deposits were reflected in the accounts of the banks at \$38,339,291 at June 30, 2021, and \$37,208,910 at June 30, 2020. Of the bank balance, \$37,942,949 at June 30, 2021, and \$36,787,816 at June 30, 2020, was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the university will not be able to recover the value of its investments or collateral securities that are in the

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The university had custodial credit risk of \$225.0 million at June 30, 2021, and \$186.2 million at June 30, 2020, in its investment portfolios held by various investment managers as the counterparty.

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 and State Building Authority (SBA) revenues. The receivables are shown net of allowance for doubtful accounts.

Accounts receivable are recorded net of the allowance for doubtful accounts of \$2,286,701 at June 30, 2021, and \$2,368,566 at June 30, 2020.

During the fiscal year, the university received approximately \$254,500,000 (\$244,000,000 in fiscal year 2020) of state appropriations, which were forwarded to fifty-six charter schools.

	June 30	
	2021	2020
Tuition, Room and Board	\$ 5,070,223	\$ 5,880,657
Contracts and Grants	5,020,560	5,589,945
Sales and Services	8,290,884	6,358,035
Insurance Proceeds		19,027
Pledges	8,122,565	7,523,244
Other Activities	846,607	892,981
Total	<u>27,350,839</u>	<u>26,263,889</u>
State Appropriations-SBA		705,263
State Appropriations-Operations	16,812,020	6,628,552
State Appropriations-Charter Schools	40,848,585	35,437,290
Total Receivable	<u>\$ 85,011,444</u>	<u>\$ 69,034,994</u>

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 of \$228,539 and \$285,150 for fiscal years ended June 30, 2021 and 2020, respectively. Certain pledges are recorded at present value calculated using a discount rate of the average interest rate for bonded debt of 4.00% at June 30, 2021 and 4.00% at June 30, 2020, resulting in a discount of \$504,278 and \$533,094 at June 30, 2021 and 2020, respectively. The present value of pledges outstanding is \$8,122,565 at June 30, 2021 and \$7,523,244 at June 30, 2020.

Payments on pledged receivables at June 30, 2021 are expected to be received in the following fiscal years:

2022	\$ 3,354,077
2023 - 2027	4,412,966
2028 and after	<u>355,522</u>
	<u>\$ 8,122,565</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, 2021:

	Beginning Balance <u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2021</u>
Non-depreciated capital assets:				
Land	\$ 12,927,599			\$ 12,927,599
Intangible Assets	425,936			425,936
Capitalized Collections	872,527	\$ 210,785	\$ 3,500	1,079,812
Construction In Progress	<u>36,790,148</u>	<u>9,286,821</u>	<u>33,645,036</u>	<u>12,431,933</u>
Total non-depreciated capital assets	51,016,210	9,497,606	33,648,536	26,865,280
Depreciated capital assets:				
Land Improvements	42,936,928	693,587		43,630,515
Infrastructure	25,697,625	2,329,625		28,027,250
Buildings	808,024,069	33,651,257	463,096	841,212,230
Leasehold Improvements	346,256			346,256
Furniture and Equipment	84,752,817	1,826,227	1,454,732	85,124,312
Library Materials	31,722,013	391,720		32,113,733
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	30,176,380	2,653,348		32,829,728
Infrastructure	14,327,183	1,237,270		15,564,453
Buildings	334,221,529	19,117,716	132,173	353,207,072
Leasehold Improvements	198,046	25,050		223,096
Furniture and Equipment	67,097,920	4,232,055	1,459,365	69,870,610
Library Materials	28,152,971	923,537		29,076,508
Intangible Assets	<u>823,083</u>	<u>7,780</u>		<u>830,863</u>
Total depreciated capital assets	519,407,302	10,695,660	326,290	529,776,672
Capital Assets, Net	<u>\$ 570,423,512</u>	<u>\$ 20,193,266</u>	<u>\$ 33,974,826</u>	<u>\$ 556,641,952</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, 2020:

	Beginning Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2020</u>
Non-depreciated capital assets:				
Land	\$ 12,927,599			\$ 12,927,599
Intangible Assets		\$ 425,936		425,936
Capitalized Collections	848,175	24,352		872,527
Construction In Progress	<u>37,104,329</u>	<u>21,167,734</u>	<u>\$ 21,481,915</u>	<u>36,790,148</u>
Total non-depreciated capital assets	50,880,103	21,618,022	21,481,915	51,016,210
Depreciated capital assets:				
Land Improvements	38,811,263	4,125,665		42,936,928
Infrastructure	24,535,996	1,161,629		25,697,625
Buildings	777,896,076	30,127,993		808,024,069
Leasehold Improvements	346,256			346,256
Furniture and Equipment	86,179,673	4,501,791	5,928,647	84,752,817
Library Materials	31,003,044	718,969		31,722,013
Intangible Assets	924,706			924,706
Less accumulated depreciation:				
Land Improvements	27,571,845	2,604,535		30,176,380
Infrastructure	13,194,213	1,132,970		14,327,183
Buildings	315,953,105	18,268,424		334,221,529
Leasehold Improvements	172,997	25,049		198,046
Furniture and Equipment	67,913,168	4,695,183	5,510,431	67,097,920
Library Materials	27,165,391	987,580		28,152,971
Intangible Assets	815,302	7,781		823,083
Total depreciated capital assets	<u>506,910,993</u>	<u>12,914,525</u>	<u>418,216</u>	<u>519,407,302</u>
Capital Assets, Net	<u>\$ 557,791,096</u>	<u>\$ 34,532,547</u>	<u>\$ 21,900,131</u>	<u>\$ 570,423,512</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, 2021 primarily consists of the construction costs for the University Website project of \$2.3 million, Powerhouse upgrade to the 1250 ton absorption chiller of \$1.6 million and other projects including maintenance and remodeling of approximately \$8.5 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 \$24.6 million as of June 30, 2021 (\$37.5 million as of June 30, 2020).

The university entered into lease agreements with the SBA and the State of Michigan during prior fiscal years for the Park Library, Health Professions Building, Education Building and Biosciences Building. A similar lease related to the Center for Integrated Health Studies Building was finalized in September 2020. The projects were financed with SBA Revenue Bonds and state appropriations. The buildings are recorded as assets of the university.

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

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.

	2021	2020
University Wages and Benefits	\$ 14,304,933	\$ 13,188,456
University Supplies	15,363,212	28,850,974
Charter Schools	40,848,585	35,437,290
Total	<u>\$ 70,516,730</u>	<u>\$ 77,476,720</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, 2021:

	Beginning Balance July 1, 2020	Additions	Reductions	Ending Balance June 30, 2021	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	\$ 20,375,000		\$ 555,000	\$ 19,820,000	\$ 505,000
Series 2012A Series Bonds	20,480,000		725,000	19,755,000	665,000
Series 2014:					
Series Bonds	38,350,000		1,765,000	36,585,000	1,860,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	6,596,000		272,000	6,324,000	272,000
Series 2016 Series Bonds	17,965,000		780,000	17,185,000	820,000
Series 2016 Unamortized Premium	2,379,000		156,000	2,223,000	156,000
Series 2019 Series Bonds	25,410,000		2,125,000	23,285,000	2,360,000
Series 2019 Unamortized Premium	4,161,000		292,000	3,869,000	292,000
Total Long-Term Debt	<u>157,821,000</u>		<u>6,670,000</u>	<u>151,151,000</u>	<u>6,930,000</u>
Other Obligations:					
Note Payable	200,000		100,000	100,000	100,000
Hedging Instruments	6,572,388		1,252,587	5,319,801	
Compensated Absences	6,113,835	\$ 12,091		6,125,926	101,687
Retirement Service Programs	759,237		195,125	564,112	9,071
Other Obligations	3,692	52,031	52,852	2,871	2,871
Total	<u>\$ 171,470,152</u>	<u>\$ 64,122</u>	<u>\$ 8,270,564</u>	<u>\$ 163,263,710</u>	<u>\$ 7,143,629</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, 2020:

	Beginning Balance July 1, 2019	Additions	Reductions	Ending Balance June 30, 2020	Current Portion
General Revenue Bonds:					
Series 2008A Series Bonds	\$ 20,805,000		\$ 430,000	\$ 20,375,000	\$ 555,000
Series 2009A Series Bonds	18,545,000		18,545,000		
Series 2009A Unamortized Premium	1,247,000		1,247,000		
Series 2012A Series Bonds	21,060,000		580,000	20,480,000	725,000
Series 2014:					
Series Bonds	40,030,000		1,680,000	38,350,000	1,765,000
Term Bonds	22,105,000			22,105,000	
Series 2014 Unamortized Premium	6,868,000		272,000	6,596,000	272,000
Series 2016 Series Bonds	18,705,000		740,000	17,965,000	780,000
Series 2016 Unamortized Premium	2,535,000		156,000	2,379,000	156,000
Series 2019 Series Bonds		\$ 25,410,000		25,410,000	2,125,000
Series 2019 Unamortized Premium		4,416,750	255,750	4,161,000	292,000
Total Long-Term Debt	151,900,000	29,826,750	23,905,750	157,821,000	6,670,000
Note Payable	300,000		100,000	200,000	100,000
Hedging Instruments	5,509,327	1,063,061		6,572,388	
Compensated Absences	5,486,163	627,672		6,113,835	231,695
Retirement Service Programs	998,772		239,535	759,237	171,518
Other Obligations	16,216	49,954	62,478	3,692	3,692
Total	\$ 164,210,478	\$ 31,567,437	\$ 24,307,763	\$ 171,470,152	\$ 7,176,905

GENERAL REVENUE BONDS

On July 9, 2019, the university issued \$25,410,000 in General Revenue Bonds, Series 2019. The outstanding bonds bear an interest rate of 5.00% and mature in fiscal years 2022 through 2035. A portion of the proceeds from the issuance were used to advance refund \$16,610,000 of outstanding General Revenue Bonds, Series 2009. The advance refunding reduced total debt service payments over the next 7 years by approximately \$2.1 million, which represents an economic gain of approximately \$1.9 million. The additional \$13.0 million in proceeds from the issuance were used to pay the costs of the demolition of a residence hall and the redevelopment of the site as green space, upgrades and improvements to the North Community Residence Halls, including electrical and life safety infrastructure upgrades and interior and exterior renovations and East, South and Towers Residence Halls infrastructure upgrades and improvements.

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 years 2022 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 2022 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 2.75% and 3.75% and mature in fiscal years 2021 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%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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 2022 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 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, 2021 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
2022	\$ 6,210,000	\$ 5,315,121	\$ 877,294	\$ 12,402,415
2023	6,505,000	5,043,269	859,609	12,407,878
2024	6,780,000	4,766,634	841,723	12,388,357
2025	7,120,000	4,476,583	819,981	12,416,564
2026	7,425,000	4,170,474	798,274	12,393,748
2027-2031	42,995,000	16,390,096	2,942,888	62,327,984
2032-2036	41,365,000	8,471,101	311,080	50,147,181
2037-2041	10,315,000	3,241,700		13,556,700
2042-2045	10,020,000	821,600		10,841,600
Total	138,735,000	\$ 52,696,578	\$ 7,450,849	\$ 198,882,427
Unamortized Premium	12,416,000			
	\$ 151,151,000			

Subsequent to June 30, 2021, the university issued \$29,790,000 in General Revenue Bonds, Series 2021. The outstanding bonds bear an interest rate between 3.00% and 5.00% and mature in fiscal years 2023 through 2052. A portion of the proceeds from the issuance will be used to advance refund \$19,090,000 of outstanding General Revenue Bonds, Series 2012. The additional \$17.5 million in proceeds from the issuance will be used to pay a portion of the costs of certain capital improvement projects on the main campus of the university, including the renovation of the existing Troutman, Cobb and Wheeler residence halls to transform existing residence hall configurations into two-person, apartment-style living arrangements; the replacement of seating at McGuirk Arena; the replacement of theatrical lighting and controls in Bush Theatre and various other infrastructure enhancement projects.

HEDGING INSTRUMENTS

The university has one pay-fixed, receive-variable, interest rate swap at June 30, 2021 and 2020. The objective of this swap is to hedge interest rate risk on the Series 2008A bonds. A description of the swap is as follows:

Under this 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) (0.03859% at June 30, 2021). 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, 2021 and 2020, the swap agreement had a notional amount of \$19,700,000 and \$20,250,000, respectively, and was in a negative position of \$5,319,801 and \$6,572,388, respectively. 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 \$1,252,587 for fiscal year 2021 and an increase to deferred

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

outflows of \$1,063,061 for fiscal year 2020. The accumulated change in fair value of (\$5,319,801) and (\$6,572,388) is recorded in deferred outflows at June 30, 2021 and 2020, 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.

Credit Risk

As of June 30, 2021 and 2020, the hedging derivative instrument is a liability and therefore the university is not exposed to the credit risk of its swap counterparties. However, should interest rates change and the fair value of the swap become positive, the university would be exposed to credit risk in the amount of the hedging instrument's fair value. As of June 30, 2021 and 2020, the derivative counterparty is rated Baa3 which suggests a capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparty from complying with the terms of the derivative agreement. The university monitors counterparty credit risk on an ongoing basis for any significant adverse changes.

Interest Rate Risk

Interest payments on the hedged variable-rate debt are generally expected to increase (decrease) as SIFMA rate increases (decreases). 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 swap 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, 2021, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

Market Access Risk

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

CREDIT LIMIT

The university entered into a commercial card services agreement as of January 28, 2011 and amended as of July 16, 2013 and December 21, 2017, which supports the university business card program. As part of the agreement, the university has an available credit limit in the amount of \$8 million as of June 30, 2021 and June 30, 2020. The outstanding balance is due monthly. Due to the timing of the monthly close for the credit card statements, the university had an outstanding balance of \$215,063 as of June 30, 2021 under the credit limit. There was an outstanding balance of \$125,761 as of June 30, 2020.

LETTER OF CREDIT

In June 2019, the university signed a new stand by Letter of Credit agreement with a new counter party in the amount of outstanding bond principal plus 35 days interest equal to \$20,010,055 to provide credit enhancement and liquidity support for certain General Revenue Refunding Bonds, Series 2008A. The expiration date of the stand by Letter of Credit is July 3, 2024.

LINE OF CREDIT

On June 4, 2021, the university extended a revolving line of credit agreement, dated June 25, 2020, by which it can borrow up to \$60 million. Borrowings against the line of credit are payable from general revenues and secured by a pledge of general revenues of equal standing and priority with the pledge of general revenues for general revenue bonds or notes payable. The expiration date of the line of credit is March 1, 2022. Interest will be paid on amounts outstanding at a rate per annum equal to the sum of LIBOR plus 112.5 basis points. There have been no draws on this line of credit as of June 30, 2021.

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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, 2021:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2021	Fair Market Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt Securities				
Domestic short term duration	\$ 11,177,051	\$ 11,177,051		
Domestic intermediate duration	7,991,396	7,785,744		\$ 205,652
Global and unconstrained duration	32,593,264	32,593,264		
Total debt securities	51,761,711	51,556,059		205,652
Equity securities				
Domestic	93,156,460	93,156,460		
Global	522,047	522,047		
Total equity securities	93,678,507	93,678,507		
Real asset funds				
Domestic	80,003	80,003		
Total real asset funds	80,003	80,003		
Alternative Strategies				
Multi-asset class funds	19,840,386	19,840,386		
Total alternative strategies	19,840,386	19,840,386		
Beneficial Interests				
Beneficial Interests in Split-Interest	4,902,646			4,902,646
Total Beneficial Interests	4,902,646			4,902,646
Total investments by fair value level	\$ 170,263,253	\$ 165,154,955		\$ 5,108,298
Investments measured at the net asset value (NAV)				
Debt Securities - domestic/global	46,655,748			
Equity securities - domestic/global	145,683,843			
Private investments - domestic/global	30,727,542			
Equity long/short hedge funds	13,109,548			
Event-driven hedge funds				
Multi-strategy hedge funds	28,682,772			
Multi-asset class funds				
Real asset funds	12,997,846			
Total investments measured at the NAV	277,857,299			
Total investments measured at fair value	\$ 448,120,552			
Hedging derivative instruments				
Interest rate swaps - effective	\$ (5,319,801)		\$ (5,319,801)	
Total hedging derivatives	\$ (5,319,801)		\$ (5,319,801)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

The university has the following recurring fair value measurements as of June 30, 2020:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2020	Fair Market Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt Securities				
Domestic short term duration	\$ 20,439,244	\$ 20,439,244		
Domestic intermediate duration	6,089,669	5,850,644		\$ 239,025
Global and unconstrained duration	37,934,534	37,934,534		
Total debt securities	64,463,447	64,224,422		239,025
Equity securities				
Domestic	79,064,191	79,064,191		
Global	729,913	729,913		
Total equity securities	79,794,104	79,794,104		
Real asset funds				
Domestic	51,385	51,385		
Total real asset funds	51,385	51,385		
Alternative Strategies				
Multi-asset class funds	26,996,816	26,996,816		
Total alternative strategies	26,996,816	26,996,816		
Beneficial Interests				
Beneficial Interests in Split-Interest	4,339,831			4,339,831
Total Beneficial Interests	4,339,831			4,339,831
Total investments by fair value level	\$ 175,645,583	\$ 171,066,727	\$	\$ 4,578,856
Investments measured at the net asset value (NAV)				
Debt Securities - domestic/global	38,167,630			
Equity securities - domestic/global	109,849,048			
Private investments - domestic/global	20,639,741			
Equity long/short hedge funds	12,235,516			
Event-driven hedge funds	50,641			
Multi-strategy hedge funds	25,468,993			
Multi-asset class funds	11,755,848			
Real asset funds	9,323,358			
Total investments measured at the NAV	227,490,775			
Total investments measured at fair value	\$ 403,136,358			
Hedging derivative instruments				
Interest rate swaps - effective	\$ (6,572,388)		\$ (6,572,388)	
Total hedging derivatives	\$ (6,572,388)		\$ (6,572,388)	

The total investments measured at fair value is inclusive of cash in endowments held by others of \$628,896 and \$275,796 at June 30, 2021 and June 30, 2020, respectively.

The fair value of debt and equity securities classified in Level 1 at June 30, 2021 and 2020 were valued using prices quoted in active markets for those securities.

The fair value of debt and equity securities classified in Level 3 at June 30, 2021 and 2020 were valued using otherwise unobservable inputs. The life insurance policies, \$205,652 and \$239,025 at June 30, 2021 and June 30, 2020 respectively, were valued using their cash surrender value. The beneficial interests in split-interest agreements, \$4,902,646 and \$4,339,831 at June 30, 2021 and June 30, 2020 respectively, 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 below.

The fair value of hedging derivative instruments classified in Level 2 at June 30, 2021 and 2020 were 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 fiscal year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2021	June 30, 2020	June 30, 2021	
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible
Debt securities	\$ 46,655,748	\$ 38,167,630		Daily to Monthly
Equity securities	145,683,843	109,849,048		Daily to Monthly
Private Investments	30,727,542	20,639,741	\$ 14,477,129	N/A
Equity long/short hedge fund	13,109,548	12,235,516		Quarterly to Semi-Annually
Event driven hedge fund		50,641		Rolling 2 Year
Multi-strategy hedge fund	28,682,772	25,468,993		Quarterly to Annually
Multi-asset class fund		11,755,848		Daily to Monthly
Real asset funds	12,997,846	9,323,358	5,030,597	N/A
Total	\$ 277,857,299	\$ 227,490,775	\$ 19,507,726	

The debt securities class includes 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 domestic and international comingled asset vehicles invested long-only in publicly listed equity securities. 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 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 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 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 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 investments in actively managed commingled funds that seek 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. These investments can typically be liquidated within one month or less.

The real asset funds class includes 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. The nature of several 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.

NOTE 9--RETIREMENT PLANS

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

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 2021 are summarized as follows:

	TIAA	MPSERS	University Total
Pension Contributions			
University Defined Contribution	\$ 16,073,997	\$ 9,873	\$ 16,083,870
University Normal Defined Benefit		568,541	568,541
Required Employee DB		326,888	
University DB UAAL		6,663,455	6,663,455
Payroll Floor UAAL (Estimated)		4,131,595	4,131,595
Stabilization UAAL Contribution		2,901,636	2,901,636
Health Contributions			
University Personal Health Fund DC		10,826	10,826
Required Employee PHF DC		10,826	
University Normal Defined Benefit		70,007	70,007
Required Employee DB		261,607	
University DB UAAL		2,021,991	2,021,991
Payroll Floor UAAL (Estimated)		1,253,711	1,253,711
Covered Payroll	158,086,226	9,083,791	167,170,017

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 \$489,347 for fiscal year 2021 and \$673,716 for fiscal year 2020 related to this program are included in the university Statements of Net Position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with university's long-term debt, hedging instruments and other long-term obligations.

MPSERS – 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 elected 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 and net other postemployment benefits (OPEB) liability. Separate pension and OPEB 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 and OPEB 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 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 \$54,686,170 and \$53,613,315 for fiscal year 2021 and 2020, respectively. 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
10/01/20 – 06/30/21	6.52%	19.74%	0.92%	5.99%
10/01/19 – 09/30/20	6.29%	19.74%	0.58%	5.99%
07/01/19 – 09/30/19	5.29%	19.74%	0.43%	5.99%

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

The university's required defined benefit contributions to MPSERS normal pension costs, totaled \$568,541 in fiscal year 2021 and \$661,179 in fiscal year 2020. Required employee contributions were \$326,888 in fiscal year 2021 and \$361,653 in fiscal year 2020. The university's contributions to the unfunded MPSERS

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

defined benefit pensions totaled \$10,795,050 in fiscal year 2021 and \$10,583,277 in fiscal year 2020. The university also recorded \$2,901,636 and \$1,244,765 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, 2021 and June 30, 2020, respectively. The university's contributions toward the MPSERS defined contribution plan totaled \$9,873 in fiscal year 2021 and \$11,509 in fiscal year 2020.

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, 2021 and June 30, 2020, the university reported a pension liability of \$168,997,255 and \$164,606,252, 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 2021 was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019, that used update procedures to roll forward the estimated liability to September 30, 2020. The net pension liability for fiscal year 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, that used update procedures to roll forward the estimated liability to September 30, 2019. The university's proportion of the net pension liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2020, September 30, 2019 and September 30, 2018, the university's proportion was 24.74 percent, 24.58 percent and 24.49 percent respectively of the universities reporting unit.

For the year ended June 30, 2021 and June 30, 2020, the university recognized pension expense of \$13,733,078 and \$19,283,343, respectively.

At June 30, 2021 and June 30, 2020, the university reported a payable of \$527,570 and \$226,320, respectively for the outstanding amount of contributions to the pension plan.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

At June 30, 2021 and June 30, 2020, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual plan investment earnings	\$ 214,903			\$ 2,979,059
Contributions subsequent to the measurement date	11,442,121		\$ 9,717,976	
Total	\$ <u>11,657,024</u>	\$ <u> </u>	\$ <u>9,717,976</u>	\$ <u>2,979,059</u>

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
2021	\$ (1,180,712)
2022	30,591
2023	933,936
2024	431,088
Total	\$ <u>214,903</u>

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

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

The following presents the net pension liability of the university, calculated using the current discount rate, 6.80% as of June 30, 2021 and 6.80% as of June 30, 2020 as well as what the university's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Discount Rate	1.00 percent increase
June 30, 2021	\$ 198,054,504	\$ 168,997,255	\$ 144,217,357
June 30, 2020	\$ 193,813,989	\$ 164,606,252	\$ 139,722,807

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 employer contribution rate to fund the benefits. For the plan years beginning October 1, 2020 and October 1, 2019 the university contribution rate was 5.99% of both member and non-member payroll wages to cover

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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, aggregated to \$3,345,709 during the 2021 university fiscal year and \$3,268,784 during the 2020 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 \$10,826 and \$10,687 for the university fiscal years ended June 30, 2021 and June 30, 2020, respectively.

At June 30, 2021 and June 2020, the university reported a liability of \$10,470,434 and \$22,739,133, respectively, for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPSERS. The net OPEB liability for fiscal year 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019, that used update procedures to roll forward the estimated liability to September 30, 2020. The net OPEB liability for fiscal year 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018, that used update procedures to roll forward the estimated liability to September 30, 2019. The university's proportion of the net OPEB liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2020, September 30, 2019, and September 30, 2018, the university's proportion was 24.78 percent, 24.78 percent and 24.78 percent respectively, of the universities reporting unit.

For the year ended June 30, 2021 and June 30, 2020, the university recognized OPEB expense of \$(10,507,108) and \$(4,597,806), respectively.

At June 30, 2021 and June 30, 2020, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 285,208		\$ 1,404,316
Changes of assumptions	\$ 51,084		\$ 564,511	
Net difference between projected and actual plan investment earnings	217,827			700,622
Changes in proportion and differences between contributions and proportionate share of contributions	81	256		430
Contributions subsequent to the measurement date	2,519,454		2,457,973	
Total	\$ <u>2,788,446</u>	\$ <u>285,464</u>	\$ <u>3,022,484</u>	\$ <u>2,105,368</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 September 30	Amount
2021	\$ (466,211)
2022	54,072
2023	258,338
2024	137,329
Total	\$ <u>(16,472)</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.

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 current discount rate, 6.95% as of June 30, 2021 and 6.95% as of June 30, 2020 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 or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Discount Rate	1.00 percent increase
June 30, 2021	\$ 15,653,031	\$ 10,470,434	\$ 6,053,424
June 30, 2020	\$ 28,574,644	\$ 22,739,133	\$ 17,771,605

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, 7.0% as of June 30, 2021 and 7.50% as of June 30, 2020 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 or 1.00 percentage point higher than the current rate:

	1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
June 30, 2021	\$ 5,762,066	\$ 10,470,434	\$ 15,859,066
June 30, 2020	\$ 17,436,658	\$ 22,739,133	\$ 28,815,063

Actuarial Assumptions

The total pension and OPEB liabilities measured as of September 30, 2020 are based on the results of an actuarial valuation date of September 30, 2019 and rolled forward using generally accepted actuarial procedures.

Actuarial cost method	Entry age, normal cost
Assumed rate of return	6.80 percent, net of investment expenses based on the groups (Pension) 6.95 percent, net of investment expenses based on the groups (OPEB)
Salary increases	2.75-11.55 percent, including wage inflation of 2.75%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded for MIP Members

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

Healthcare cost trend rate	7.00 percent, year 1 graded to 3.5% year 15; 3.00% Year 120
Mortality basis	
Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

The actuarial assumptions used for the September 30, 2019 valuation were based on the results of an actuarial experience study for the periods 2012 through 2017.

There were no significant changes to benefit terms for the pension or OPEB plans since the prior measurement date of September 30, 2019.

For 2020, the healthcare cost trend rate decreased by 0.50% and actual per person health benefit costs were lower than projected for the September 30, 2019 annual actuarial valuation.

The total pension and OPEB liabilities measured as of September 30, 2019 are based on the results of an actuarial valuation date of September 30, 2018 and rolled forward using generally accepted actuarial procedures.

Actuarial cost method	Entry age, normal cost
Assumed rate of return	6.80 percent, net of investment expenses based on the groups (Pension) 6.95 percent, net of investment expenses based on the groups (OPEB)
Salary increases	2.75-11.55 percent, including wage inflation of 2.75%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded for MIP Members
Healthcare cost trend rate	7.50 percent, year 1 graded to 3.5% year 12
Mortality basis	
Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

The actuarial assumptions used for the September 30, 2018 valuation were based on the results of an actuarial experience study for the periods 2012 through 2017. 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 6.80 percent at September 30, 2020 and 6.80 percent at September 30, 2019. The discount rate used to measure the total OPEB liability was 6.95 percent at September 30, 2020 and 6.95 percent at September 30, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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 September 30, 2020		Plan Year September 30, 2019	
	Expected		Expected	
	Target Allocation	Real Rate of Return	Target Allocation	Real Rate of Return
Domestic Equity Pools	25.0%	5.6%	28.0%	5.5%
Private Equity Pools	16.0%	9.3%	18.0%	8.6%
International Equity Pools	15.0%	7.4%	16.0%	7.3%
Fixed Income Pools	10.5%	0.5%	10.5%	1.2%
Real Estate & Infrastructure Pools	10.0%	4.9%	10.0%	4.2%
Absolute Return Pools	9.0%	3.2%	15.5%	5.4%
Short Term Investment Pools	2.0%	-0.1%	2.0%	0.8%
Real Return/Opportunistic Pools	12.5%	6.6%	0.0%	0.0%
Total	<u>100.0%</u>		<u>100.0%</u>	

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.

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

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:

2022	\$	1,610,868
2023		730,586
2024		442,497
2025		417,520
2026		351,984
	\$	<u>3,553,455</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

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, fiduciary, 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, CMEP 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, CMEP's management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of CMEP's management, all such matters are adequately covered by prior and existing insurance programs.

NOTE 13—FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

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

	2021					
	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	\$ 128,178,349	\$ 118,553,256	5,682,177	\$ 3,759,437	\$ 183,479	
Research	20,563,023	13,873,859	5,958,076	731,088		
Public Service	15,353,754	8,452,304	6,541,297	29,669	330,484	
Academic Support	45,665,181	33,830,166	11,660,085	139,447	35,483	
Student Services	21,958,107	16,208,932	5,493,237	255,938		
Institutional Support	32,425,727	23,848,705	8,455,845	35,172	86,005	
Operations and						
Maintenance of Plant	36,001,347	11,463,248	24,519,781	10,005	8,313	
Scholarships & Fellowships	24,461,871	974,840	(138,396)	23,625,427		
Auxiliary Enterprises	75,036,941	36,764,316	33,191,542	(1,868,769)	6,949,852	
Depreciation	28,196,756					\$ 28,196,756
Other	(14,272,081)	87,359	(14,359,440)			
Total Operating Expenses	<u>413,568,975</u>	<u>\$ 264,056,985</u>	<u>\$ 87,004,204</u>	<u>\$ 26,717,414</u>	<u>\$ 7,593,616</u>	<u>\$ 28,196,756</u>
Interest Expense	5,973,484					
Total Expenses	<u>\$ 419,542,459</u>					

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Central Michigan University

	2020					
	Total	Compensation and Benefits	Supplies and Other	Scholarships and Fellowships	Utilities	Depreciation
Instruction	\$ 139,709,389	\$ 127,220,867	\$ 7,713,564	\$ 4,592,512	\$ 182,446	
Research	15,992,944	8,338,893	6,908,787	745,264		
Public Service	17,422,713	9,434,832	7,621,104	41,270	325,507	
Academic Support	49,401,126	35,146,481	14,042,918	176,270	35,457	
Student Services	23,893,827	17,670,664	6,045,415	177,748		
Institutional Support	35,857,518	27,199,950	8,542,303	41,917	73,348	
Operations and						
Maintenance of Plant	33,493,714	11,173,725	22,285,087	23,812	11,090	
Scholarships & Fellowships	18,727,516	1,025,994	200,294	17,501,228		
Auxiliary Enterprises	85,518,220	39,611,654	39,896,934	(785,771)	6,795,403	
Depreciation	27,721,522					\$ 27,721,522
Other	(967,910)	(51,150)	(916,760)			
Total Operating Expenses	446,770,579	\$ 276,771,910	\$ 112,339,646	\$ 22,514,250	\$ 7,423,251	\$ 27,721,522
Interest Expense	6,075,061					
Total Expenses	\$ 452,845,640					

NOTE 14--NEW ACCOUNTING PRONOUNCEMENTS

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 an impact 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, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. With the London Interbank Offered Rate (LIBOR) expected to cease existence in its current form at the end of 2021, this statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) in hedging derivative instruments and leases. The removal of LIBOR as an appropriate benchmark interest rate for a hedging derivative instrument is effective for the University's financial statements for the year ending June 30, 2022. All other requirements of the statement are effective for the University's financial statements for the year ending June 30, 2021. Lease modification requirements are effective one year later.

In May 2020, the GASB issued Statement No. 96 *Subscription-Based Information Technology Arrangements* (SBITAs), that addresses accounting and financial reporting issues regarding the right-to-use subscription assets (an intangible asset) and the corresponding subscription liability, and capitalization criteria for outlays other than subscription payments, including implementation costs. This statement will provide consistency by establishing standard capitalization criteria for implementation costs, and improve comparability of financial reporting across governmental entities. Effective for the university's fiscal year ending June 30, 2023, this new statement may have an impact on the financial statements, but the full effect has not yet been determined.

Required Supplemental Information

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)

	2020	2019	2018	2017	2016	2015	2014
University's proportion of the Universities collective MPSERS net pension liability:							
As a percentage	24.74%	24.58%	24.49%	24.54%	24.49%	23.49%	24.89%
Amount	\$168,997,255	\$164,606,252	\$156,499,530	\$141,154,617	\$137,188,658	\$128,881,423	\$93,365,966
University's covered payroll	\$53,878,000	\$52,821,000	\$51,785,566	\$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 payroll	313.67%	311.63%	302.21%	268.63%	270.22%	315.52%	206.05%
MPSERS fiduciary net position as a percentage of the total pension liability	43.07%	44.24%	45.87%	47.42%	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)

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$14,265,277	\$12,489,221	\$12,220,875	\$11,850,788	\$10,398,409	\$9,124,243	\$8,048,600
Contributions in relation to the actuarially determined contractually required contribution	\$14,265,277	\$12,489,221	\$12,220,875	\$11,850,788	\$10,398,409	\$9,124,243	\$8,048,600
Contribution deficiency (excess)							
Covered payroll	\$54,686,170	\$53,613,315	\$52,562,142	\$51,975,500	\$52,102,750	\$42,389,435	\$41,843,844
Contributions as a percentage of covered payroll	26.09%	23.29%	23.25%	22.80%	19.96%	21.52%	19.23%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2021

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 2020, 2019, 2018, 2017, 2016, 2015 or 2014.

Changes of assumptions: For 2020, the discount rate for the September 30, 2019 annual actuarial valuation was unchanged. For 2019, the discount rate for the September 30, 2018 annual actuarial valuation decreased by 0.25%. For 2018, the discount rate for the September 30, 2017 annual actuarial valuation decreased by 0.45% and the valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. For 2017, the discount rate for the September 30, 2016 annual actuarial valuation decreased by 0.50%. There were no changes of assumptions in 2016, 2015 or 2014.

REQUIRED SUPPLEMENTAL INFORMATION (continued)**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)

	2020	2019	2018	2017
University's proportion of the Universities collective MPSERS net OPEB liability:				
As a percentage	24.78%	24.78%	24.78%	24.66%
Amount	\$10,470,434	\$22,739,133	\$29,395,383	\$35,090,380
University's covered payroll	\$53,878,000	\$52,821,000	\$51,785,566	\$52,547,000
University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered payroll	19.43%	43.05%	56.76%	66.78%
MPSERS fiduciary net position as a percentage of the total OPEB liability	77.20%	61.07%	51.90%	44.11%

Schedule of Institution OPEB Contributions

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

	2021	2020	2019	2018
Statutorily required contribution	\$3,345,709	\$3,268,784	\$3,215,494	\$3,330,389
Contributions in relation to the actuarially determined contractually required contribution	\$3,345,709	\$3,268,784	\$3,215,494	\$3,330,389
Contribution deficiency (excess)				
Covered payroll	\$54,686,170	\$53,613,315	\$52,562,142	\$51,975,500
Contributions as a percentage of covered payroll	6.12%	6.10%	6.12%	6.41%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2021

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 2020, 2019, 2018 or 2017.

Changes of assumptions: For 2020, the discount rate was unchanged, the healthcare cost trend rate decreased by 0.50% and actual per person health benefit costs were lower than projected for the September 30, 2019 annual actuarial valuation. For 2019, the discount rate for the September 30, 2018 annual actuarial valuation decreased by 0.20%. For 2018, the discount rate for the September 30, 2017 annual actuarial valuation decreased by 0.35%. There were no changes in assumptions in 2017.