

Central Michigan University

State of Michigan ACFR Financial Schedules

June 30, 2021

Contents

Independent Auditor's Report	1
Basic Financial Statements	
Component Unit – Statement of Net Position	2
Exhibit I – Reclassified Statement of Net Position and Reclassifying Entries	3-5
Component Unit – Statement of Activities	6
Exhibit II – Reclassified Statement of Activities and Reclassifying Entries	7-8
Notes to State of Michigan ACFR	9-22

Independent Auditor's Report

To the Board of Trustees
Central Michigan University

We have audited the 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 year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 23, 2021, which contained unmodified opinions on the financial statements of Central Michigan University. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We did not audit the financial statements of Central Health Advancement Solutions (CHAS) or The Institute for Excellence in Education (IEE), which represent all the balances of the assets, net assets, and revenue of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHAS and IEE, is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to September 23, 2021.

Report on the State of Michigan ACFR Financial Schedules

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

Emphasis of Matters

As discussed in Note 1 to the financial statements of the University and Note 1 to the State of Michigan ACFR Financial Schedules, 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 of the University and Note 4 to the State of Michigan ACFR Financial Schedules, in 2021, the University adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Restriction on Use

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

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

STATE OF MICHIGAN
STATEMENT OF NET POSITION
COMPONENT UNIT
June 30, 2021

CENTRAL
MICHIGAN
UNIVERSITY

ASSETS	
Current Assets:	
Cash	\$ 69,335,342
Equity in common cash (Note 5)	
Amounts due from component units	
Amounts due from primary government	58,780,217
Amounts due from federal government	2,296,297
Amounts due from local units	
Inventories	2,695,532
Investments (Note 8)	4,052,905
Other current assets	29,950,816
Total Current Assets	<u>167,111,109</u>
Restricted Assets:	
Cash and cash equivalents	10
Investments	
Mortgages and loans receivable	
Advances to primary government	
Amounts due from local units	
Mortgages and loans receivable	
Investments (Note 8)	456,757,229
Land and property held for resale	
Capital Assets (Note 9):	
Land and other non-depreciable assets	14,433,347
Buildings, equipment, and other depreciable assets	1,047,468,978
Less accumulated depreciation	(512,721,946)
Infrastructure	
Construction in progress	12,431,933
Total capital assets	<u>561,612,312</u>
Other noncurrent assets	4,782,028
Total Noncurrent assets	<u>4,782,028</u>
Total Assets	<u>1,190,262,688</u>
DEFERRED OUTFLOWS OF RESOURCES (Note 27)	<u>18,651,825</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and other liabilities	68,884,454
Amounts due to component units	
Amounts due to primary government	4,743,765
Bonds and notes payable (Note 14)	7,030,000
Interest payable	1,484,004
Unearned revenue	12,950,017
Current portion of other long-term obligations	272,753
Total Current Liabilities	<u>95,364,993</u>
Long-Term Liabilities:	
Unearned revenue	
Bonds and notes payable (Note 14)	144,845,905
Noncurrent portion of other long-term obligations	195,538,316
Total Long-Term Liabilities	<u>195,538,316</u>
Total Liabilities	<u>435,749,214</u>
DEFERRED INFLOWS OF RESOURCES (Note 27)	<u>6,390,047</u>
NET POSITION	
Net investment in capital assets	406,352,192
Restricted For:	
Education	28,628,916
Construction and debt service	6,750,286
Other purposes	
Funds Held as Permanent Investments:	
Expendable	65,701,177
Nonexpendable	67,830,823
Unrestricted	191,511,858
Total Net Position	<u>\$ 766,775,252</u>

STATE OF MICHIGAN

STATEMENT OF NET POSITION

EXHIBIT I

COMPONENT UNIT-CENTRAL MICHIGAN UNIVERSITY

June 30, 2021

	University	Discrete	Eliminations	Total	Adjustments and		SOMACFR
	Financial	Component		University	Reclassifications		
	Report	Units			Debit	Credit	
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 62,759,052	\$ 6,576,290		\$ 69,335,342		\$ 69,335,342	1
Investments		4,052,905		4,052,905		4,052,905	1
Accounts receivable, net	22,582,351	3,860,431	\$ (571,351)	25,871,431		25,871,431	2
State appropriations receivable, SBA	0	0		0		0	2
State appropriations receivable, operations	16,812,020	0		16,812,020		16,812,020	2
State appropriations receivable, Charter Schools	40,848,585	0		40,848,585		40,848,585	2
Inventories	2,635,296	60,236		2,695,532		2,695,532	1
Other assets	6,422,099	1,073,195		7,495,294		7,495,294	2
Total current assets	152,059,403	15,623,057	(571,351)	167,111,109			
CURRENT ASSETS							
Cash				\$ 69,335,342	1		\$ 69,335,342
Amounts due from primary government				58,780,217	2		58,780,217
Amounts due from federal government				2,296,297	2		2,296,297
Amounts due from local units							
Inventories				2,695,532	1		2,695,532
Investments (Note 8)				4,052,905	1		4,052,905
Securities lending collateral							
Other Current Assets				29,950,816	2		29,950,816
Total Current Assets	152,059,403	15,623,057	(571,351)	167,111,109	167,111,109	167,111,109	167,111,109
NONCURRENT ASSETS:							
Restricted cash and cash equivalents	10	0		10		10	1
Pledges receivable, net	4,768,488	0		4,768,488		4,768,488	1
Endowment investments	243,740,257	0		243,740,257		243,740,257	3
Other assets		13,540		13,540		13,540	1
Other long-term investments	208,287,340	4,729,632		213,016,972		213,016,972	3
Capital assets, net	556,641,952	4,970,360		561,612,312		561,612,312	4
RESTRICTED ASSETS							
Cash and cash equivalents					10		10
INVESTMENTS							
					456,757,229		456,757,229
CAPITAL ASSETS:							
Land and other non depreciable assets				14,433,347	4		14,433,347
Buildings, equipment and other depreciable assets				1,047,468,978	4		1,047,468,978
Less accumulated depreciation						512,721,946	(512,721,946)
Construction in progress				12,431,933	4		12,431,933
Net capital assets							561,612,312
Other noncurrent assets				4,782,028	1		4,782,028
Total noncurrent assets	1,013,438,047	9,713,532		1,023,151,579	1,535,873,525	1,535,873,525	1,023,151,579
TOTAL ASSETS	1,165,497,450	25,336,589	(571,351)	1,190,262,688	1,702,984,634	1,702,984,634	1,190,262,688
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated change in fair value of hedging derivatives and deferred on bond refunding	7,107,991			7,107,991			7,107,991
Deferred outflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability	14,445,470			14,445,470		2,901,636	11,543,834
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,553,461			21,553,461		2,901,636	18,651,825

See notes to supplemental financial statements.

STATE OF MICHIGAN

STATEMENT OF NET POSITION

EXHIBIT I

COMPONENT UNIT-CENTRAL MICHIGAN UNIVERSITY

June 30, 2021

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and		SOMACFR Format
					Reclassifications		
					Debit	Credit	
LIABILITIES:							
CURRENT LIABILITIES							
Accounts payable and accrued liabilities	70,516,730	4,440,525	(571,351)	74,385,904	74,385,904	5	
Unearned revenue	12,527,505	422,512		12,950,017	12,950,017	1	
Deposits	726,319	0		726,319	726,319	5	
Long term liabilities - current portion	7,143,629	159,124		7,302,753	7,302,753	6	
Total Current Liabilities	90,914,183	5,022,161	(571,351)	95,364,993	95,364,993		
CURRENT LIABILITIES							
Accounts payable and other liabilities							68,884,454 5 68,884,454
Amounts due to primary government							4,743,765 5 4,743,765
Bond and notes payable							7,030,000 6 7,030,000
Interest payable							1,484,004 5 1,484,004
Unearned revenue							12,950,017 1 12,950,017
Other long term obligations - current portion							272,753 6 272,753
Total Current Liabilities	90,914,183	5,022,161	(571,351)	95,364,993	95,364,993		95,364,993
Amounts due to CMU		0	0				
NONCURRENT LIABILITIES:							
Long-term debt, hedging instruments and other obligations	156,120,081	624,905		156,744,986	156,744,986	7	
Net Pension Liability	168,997,255			168,997,255	168,997,255	7	
Net OPEB Liability	10,470,434			10,470,434	10,470,434	7	
Unearned Revenue		0		0			0
Bonds and notes payable							144,845,905 7 144,845,905
Noncurrent portion of other long-term obligations		4,171,546		4,171,546			191,366,770 7 195,538,316
TOTAL LIABILITIES	426,501,953	9,818,612	(571,351)	435,749,214	431,577,668		435,749,214
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow on bond refunding	826,950			826,950			826,950
Deferred inflow related to CMU's proportionate share of the MPSERS net pension & OPEB liability	3,187,100			3,187,100	2,901,636	9	285,464
Deferred inflow related to Split Interest Agreements	5,277,633			5,277,633			5,277,633
TOTAL DEFERRED INFLOWS OF RESOURCES	9,291,683			9,291,683	2,901,636		6,390,047
NET POSITION							
Net investment in capital assets	406,352,192			406,352,192	406,352,192	1	
Restricted for:							
Expendable							
Scholarships, fellowships, research and other	70,923,001			70,923,001	70,923,001	8	
Instructional department uses	23,407,092			23,407,092	23,407,092	8	
Capital projects and debt service	6,750,286			6,750,286	6,750,286	1	
Nonexpendable							
Scholarships, fellowships, and research	67,830,823			67,830,823	67,830,823	8	
Unrestricted	175,993,881	15,517,977		191,511,858	191,511,858	1	
Total net position	751,257,275	15,517,977		766,775,252	766,775,252		
NET POSITION							
Net investment in capital assets							406,352,192 1 406,352,192
Restricted for:							
Education							28,628,916 8 28,628,916
Construction and debt service							6,750,286 1 6,750,286
Other Purposes							0 1 0
Funds Held as Permanent Investments							
Expendable							65,701,177 8 65,701,177
Nonexpendable							67,830,823 8 67,830,823
Unrestricted Net Position							191,511,858 1 191,511,858
TOTAL NET POSITION	\$ 751,257,275	\$ 15,517,977		\$ 766,775,252	\$ 766,775,252		\$ 766,775,252

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF NET POSITION
COMPONENT UNIT - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2021

EXHIBIT I

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

2) Reclassify current receivables

	Other Receivables	Due from Primary Government	Due from Federal Government
Accounts receivable, net	\$ 25,871,431		
State appropriations receivable, SBA	0		
State appropriations receivable, operations	16,812,020		
State appropriations receivable, Charter Schools	40,848,585		
State Appropriations - SBA	0	\$ 0	
State Appropriations - operations	(16,812,020)	16,812,020	
State Appropriations - Charter Schools	(40,848,585)	40,848,585	
State Grants	(1,119,612)	1,119,612	
Federal Agencies	(2,296,297)		\$ 2,296,297
	<u>22,455,522</u>	<u>\$ 58,780,217</u>	<u>\$ 2,296,297</u>
Other current assets	7,495,294		
	<u>\$ 29,950,816</u>		

3) Reclassify investments

	Investments
Endowment investments	\$ 243,740,257
Other long-term investments (includes component units)	213,016,972
Investments	<u>\$ 456,757,229</u>

4) Reclassify capital assets

	University Capital Assets	Discrete CU Capital Assets	Total Capital Assets
Land and other nondepreciable assets	\$ 14,433,347		\$ 14,433,347
Buildings, equipment, and other depreciable assets	1,031,379,002	\$ 16,089,976	1,047,468,978
Construction in progress	12,431,933		12,431,933
Total	<u>1,058,244,282</u>	<u>16,089,976</u>	<u>1,074,334,258</u>
Less accumulated depreciation	501,602,330	11,119,616	512,721,946
Capital Assets, net	<u>\$ 556,641,952</u>	<u>\$ 4,970,360</u>	<u>\$ 561,612,312</u>

5) Reclassify current liabilities

	Accounts Payable and Other Liabilities	Due to Primary Government	Interest Payable
Accounts payable and accrued liabilities	\$ 74,385,904		
Deposits	726,319		
Mich income tax	(50,304)	\$ 50,304	
Payroll Floor UAAL Payment	(4,090,792)	4,090,792	
Sec 236(4) UAAL Payment	(527,570)	527,570	
MPERS Member Payments on Accrued Payroll	(60,545)	60,545	
Mich sales tax owed	(14,554)	14,554	
Interest	(1,484,004)		\$ 1,484,004
	<u>\$ 68,884,454</u>	<u>\$ 4,743,765</u>	<u>\$ 1,484,004</u>

6) Reclassify current portion of debt obligation

	Long Term Liab Current portion	Bonds & Notes Payable
Current portions of long term obligations	\$ 7,302,753	
Bonds and notes payable	(7,030,000)	\$ 7,030,000
	<u>\$ 272,753</u>	<u>\$ 7,030,000</u>

7) Reclassify noncurrent liabilities

	Other Long-Term Liabilities	Bonds & Notes Payable
Long-term debt and other obligations	\$ 156,744,986	
Long-term bonds and notes payable	(144,845,905)	\$ 144,845,905
Net Pension Liability	168,997,255	
Net OPEB Liability	10,470,434	
	<u>\$ 191,366,770</u>	<u>\$ 144,845,905</u>

8) Combine restricted net position

	Restricted for Endowments	Restricted for Education
Restricted for:		
Nonexpendable-scholarships, fellowships, research	\$ 67,830,823	
Expendable-scholarships, fellowships, research	65,701,177	\$ 5,221,824
Instructional department uses		23,407,092
	<u>\$ 133,532,000</u>	<u>\$ 28,628,916</u>

9) Reclassify Pension Related State Approps Deferred Inflows

	Deferred Outflow	Deferred Inflow
Pension & OPEB Related Deferreds	\$ 14,445,470	\$ 3,187,100
Def Inflows-State Approps Contributions Subsq to Msrmt Date	(2,901,636)	(2,901,636)
	<u>\$ 11,543,834</u>	<u>\$ 285,464</u>

See notes to supplemental financial statements.

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNIT
June 30, 2021

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				GENERAL REVENUES				CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR	NET POSITION END OF YEAR
		SERVICES	OPERATING GRANTS/	CAPITAL GRANTS/	NET (EXPENSE) REVENUE	INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	EXTRAORDINARY ITEMS			
Central Michigan University	\$ 475,452,479	\$ 303,394,158	\$ 82,440,898	\$ 3,009,552	\$ (86,607,871)	\$ 40,676,155	\$ 91,804,634	\$ 63,619,316	\$ -	\$ 109,492,234	\$ 657,283,018	\$ 766,775,252
Total	<u>\$ 475,452,479</u>	<u>\$ 303,394,158</u>	<u>\$ 82,440,898</u>	<u>\$ 3,009,552</u>	<u>\$ (86,607,871)</u>	<u>\$ 40,676,155</u>	<u>\$ 91,804,634</u>	<u>\$ 63,619,316</u>	<u>\$ -</u>	<u>\$ 109,492,234</u>	<u>\$ 657,283,018</u>	<u>\$ 766,775,252</u>

STATE OF MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNIT - CENTRAL MICHIGAN UNIVERSITY
June 30, 2021

EXHIBIT II

	University Financial Report	Discrete Component Units	Eliminations	Total University	Adjustments and Reclassifications		SOMACFR Format
					Debit	Credit	
OPERATING REVENUES							
Tuition and fees	\$ 172,531,424			\$ 172,531,424	\$ 172,531,424	1	
Federal grants and contracts	7,839,888	\$ 864,413		8,704,301	8,704,301	2	
State and local grants and contracts	652,842			652,842	652,842	2	
Private grants and contracts	9,848,321			9,848,321	9,848,321	2	
Sales and services of educational activities	24,199,584	5,060,912	\$ (189,338)	29,071,158	29,071,158	1	
Auxiliary enterprises	50,681,861	51,109,715		101,791,576	101,791,576	1	
Total operating revenues	265,753,920	57,035,040	(189,338)	322,599,622	322,599,622		
OPERATING EXPENSES	413,568,975	56,608,903	(698,883)	469,478,995		\$ 469,478,995	3
NONOPERATING REVENUES (EXPENSES)							
State appropriations	91,016,204	509,545	(509,545)	91,016,204	91,016,204	4	
Gifts and pledges net of allowance	8,567,771	326,375		8,894,146	8,894,146	2	
Investment income net of expense	92,294,554	273,572		92,568,126	92,568,126	2,5	
Interest on capital assets related debt	(5,973,484)			(5,973,484)			5,973,484 3
Federal Pell grant program	20,177,397			20,177,397	20,177,397	6	
Governmental Coronavirus Support programs	37,262,709	5,675,238		42,937,947	42,937,947	6	
Other nonoperating revenue (expense)	530,000	(26,028)		503,972	503,972	6	
Net nonoperating revenues	243,875,151	6,758,702	(509,545)	250,124,308	256,097,792		5,973,484
OTHER							
Capital appropriations	788,430			788,430	788,430	4	
Capital grants and gifts	3,009,552			3,009,552	3,009,552	7	
Additions to permanent endowments	2,449,317			2,449,317	2,449,317	2	
Total other revenues	6,247,299			6,247,299	6,247,299		
Increase in net position	102,307,395	7,184,839	0	109,492,234	584,944,713		475,452,479
EXPENSES					475,452,479	3	\$ 475,452,479
PROGRAM REVENUES							
Charges for services						303,394,158	1 303,394,158
Operating grants/contributions						82,440,898	2 82,440,898
Capital grants/contributions						3,009,552	7 3,009,552
TOTAL PROGRAM REVENUES						388,844,608	388,844,608
NET (EXPENSE) REVENUE							(86,607,871)
GENERAL REVENUES							
Interest and investment earnings						40,676,155	5 40,676,155
Payments from State of Michigan						91,804,634	4 91,804,634
Other						63,619,316	6 63,619,316
TOTAL GENERAL REVENUES						196,100,105	196,100,105
Change in net position	102,307,395	7,184,839		109,492,234			109,492,234
Beginning Net Position:	648,949,880	8,333,138		657,283,018			657,283,018
Ending Net Position	\$ 751,257,275	\$ 15,517,977	\$ 0	\$ 766,775,252	\$ 0	\$ 0	\$ 766,775,252

See notes to supplemental financial statements.

STATE OF MICHIGAN
RECLASSIFYING ENTRIES FOR STATEMENT OF ACTIVITIES
COMPONENT UNIT - CENTRAL MICHIGAN UNIVERSITY
JUNE 30, 2021

EXHIBIT II

1)	Charges for services	Charges for Services
	Tuition and fees	\$ 172,531,424
	Sales and services of educational activities	29,071,158
	Auxiliary enterprises	101,791,576
		<u>\$ 303,394,158</u>
2)	Operating grants/contributions	Operating Grants/Contributions
	Federal grants and contracts	\$ 8,704,301
	State and local grants and contracts	652,842
	Private grants and contracts	9,848,321
	Gifts and pledges net of allowance	8,894,146
	Additions to permanent endowments	2,449,317
	Investment Income - Exp Rest Fund	244
	Investment Income - Endowment Fund	51,891,727
		<u>\$ 82,440,898</u>
3)	Expenses	Expenses
	Operating expenses - CMU	\$ 413,568,975
	Operating expenses - CMU to component unit	(698,883)
	Operating expenses - component unit (CMEP)	50,136,018
	Operating expenses - component unit IEE	6,472,885
	Interest on capital assets, net of related debt	5,973,484
		<u>\$ 475,452,479</u>
4)	Revenue from State of Michigan	Revenue from State of Michigan
	State appropriations	\$ 88,114,568
	Capital appropriations	788,430
	Section 236(4) retirement contribution	2,901,636
		<u>\$ 91,804,634</u>
5)	Interest and investment earnings	Investment Income
	Investment Income - Exp Rest Fund	\$ 92,568,126
	Investment Income - Endowment Fund	(244)
		(51,891,727)
		<u>\$ 40,676,155</u>
6)	Other Revenues	Other Revenues
	Federal Pell Grant Program	\$ 20,177,397
	Governmental Coronavirus Support Programs	42,937,947
	Other nonoperating revenues	503,972
		<u>\$ 63,619,316</u>
7)	Reclassify financial data into the specified format to be used in the State's ACFR Statement.	

See notes to supplemental financial statements.

NOTES TO THE STATE OF MICHIGAN ACFR

Central Michigan University

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The university has two discretely presented component units, Central Health Advancement Solutions (CHAS) and the Institute for Excellence in Education (IEE). The sole purpose of CHAS is to hold a 90% membership interest in CMU Medical Education Partners (CMEP). The financial activity for CMEP on behalf of CHAS is discretely presented in the university's financial statements. The financial statements of both CMEP and IEE have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Cash and Cash Equivalents

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

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

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

Inventories

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

Investments

All investments are stated at fair value.

Capital Assets

Capital assets for the university are stated at cost or, when donated, at 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

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

Equipment – Digital TV	20 years
Equipment	8 years
Library books	8 years
Vehicles	4 years
Software	Lesser of 5 years or actual

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

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

Deferred Outflows and Deferred Inflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources consist of interest rate swap agreements that are stated at fair value based on the zero coupon valuation method, gains or losses on the defeasance of debt and deferred resources related to the university's proportionate share of the net pension and other post-employment benefit (OPEB) liability for the Michigan Public School Employee's Retirement System (MPERS) plan. The university recorded deferred outflows for hedging instruments (noncurrent liabilities) of \$5,319,801 at June 30, 2021. Also included in deferred outflows is the gain on the defeasance of three General Revenue Bonds Series: Series 2002A valued at \$841,466, net of amortization, at June 30, 2021; Series 2005 valued at \$779,259, net of amortization, at June 30, 2021; and Series 2006 valued at \$167,465, net of amortization, at June 30, 2021. The value of the deferred outflows related to the MPERS plan for pensions was \$11,657,024 as of June 30, 2021, and for other post-employment benefits was \$2,788,446 as of June 30, 2021. See Note 28 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 so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of future revenue streams related to the defeasance of debt and split-interest agreements, deferred inflows of resources related to state appropriations received after the measurement date, and deferred inflows of resources related to the university's proportionate share of the net pension and net OPEB liability for the MPERS 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, net of amortization, at June 30, 2021. Deferred inflows of resources applicable to split-interest agreements were \$5,277,633 at June 30, 2021. There were no deferred inflows related to changes in the pension portion of the MPERS plan at June 30, 2021. The value related to changes in the OPEB portion of the MPERS plan was \$285,464 at June 30, 2021. Deferred inflows of resources at June 30, 2021 also include \$2,901,636 for funding received through state appropriations for contributions to the MPERS pension plan after the measurement date. See Note 28 for additional information on deferred inflows related to the MPERS plan.

Operating and Non-operating Revenues

Operating revenues of the university consist of tuition, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, federal COVID revenue, gifts and investment income. Restricted

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

and unrestricted resources are spent and tracked at the discretion of the recipient university department within the guidelines of donor restrictions, if any.

Significant Events Impacting the Organization

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.

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 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.

NOTE 4—ACCOUNTING CHANGES AND RESTATEMENTS

Adoption of New Standard

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

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

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.

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 8--DEPOSITS AND INVESTMENTS

The university and its component units had the following investments as of June 30, 2021:

	Fair Market Value	Investment Maturities (in Years)		
		Less Than 1	1-5	N/A
Time deposits	\$ 73,895,532	\$ 73,895,532		
Money market accounts	2,304,101	2,304,101		
Commercial paper				
Repurchase agreements				
Government securities				
Insured mortgage backed securities				
Government backed securities				
Investment agreements				
Corporate bonds and notes				
Equities	138,056,362	138,056,362		
Real estate	80,003	80,003		
Venture capital & leveraged buyouts				
Mutual bond/equity funds	225,183,482	5,333,964		\$ 219,849,518
Pooled investment funds				
Other Investments	90,626,006		\$ 85,723,360	4,902,646
Total Investments	<u>\$ 530,145,486</u>	<u>\$ 219,669,962</u>	<u>\$ 85,723,360</u>	<u>\$ 224,752,164</u>
Less Investments Reported as "Cash" on Statement of Net Position	<u>69,335,342</u>			
Total Investments	<u>\$ 460,810,144</u>			
<u>As Reported on the Statement of Net Position</u>				
Current Investments	4,052,905			
Noncurrent - Restricted Cash	10			
Noncurrent investments	<u>456,757,229</u>			
Total Investments	<u>\$ 460,810,144</u>			

Credit Risk

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

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

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

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.

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 are as follows:

Investment Type	June 30, 2021 Fixed Income Investment Maturities				Total
	Less than 1 year	1-5 years	5-10 years	More than 10 years	
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	\$ 15,102,364	\$ 53,136,283	\$ 30,897,600	\$ 18,287,050	\$ 117,423,297

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.

Foreign Currency Risk

All of the university's holdings of foreign investments were in US dollars at June 30, 2021, 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. The deposits were reflected in the accounts of the banks at \$38,339,291 at June 30, 2021. Of the bank balance, \$37,942,949 at June 30, 2021 was uninsured and uncollateralized.

For CMEP deposits reflected in the accounts of the banks were \$5,259,129 at June 30, 2021. Of the bank balance, \$4,524,119 at June 30, 2021, was uninsured and uncollateralized.

For IEE deposits reflected in the accounts of the banks were \$1,258,448 at June 30, 2021. Of the bank balance, \$917,652 at June 30, 2021, was uninsured and uncollateralized.

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

Total deposits as of June 30, 2021 are as follows:

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Uninsured, uncollateralized</u>	<u>Insured</u>
\$ 39,142,010	\$ 44,856,868	\$ 43,384,720	\$ 1,472,148

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

NOTE 9--CAPITAL ASSETS

Capital assets, net of depreciation, for the university and its component units consist of the following as of June 30, 2021:

	<u>Ending Balance June 30, 2021</u>
Capital assets, not being depreciated:	
Land	\$ 12,927,599
Intangible Assets	425,936
Capitalized Collections	1,079,812
Construction in progress	12,431,933
Total non-depreciated capital assets	<u>26,865,280</u>
Capital assets, being depreciated:	
Land Improvements	43,630,515
Equipment, Furniture, Leasehold Improvements	91,803,170
Buildings	841,212,230
Infrastructure	28,027,250
Library Materials	32,113,733
Intangible Assets and Goodwill	10,682,080
Total capital assets, being depreciated	<u>1,047,468,978</u>
Less accumulated depreciation for:	
Land Improvements	32,829,728
Equipment, Furniture, Leasehold Improvements	75,092,498
Buildings	353,207,072
Infrastructure	15,564,453
Library Materials	29,076,508
Intangible Assets and Goodwill	6,951,687
Total accumulated depreciation	<u>512,721,946</u>
Capital Assets, Net	<u><u>\$ 561,612,312</u></u>

NOTE 10--RETIREMENT PLANS

In addition to the Michigan Public School Employees' Retirement System (MPERS), the university has established a defined contribution retirement plan for all qualified employees. CMU currently has one record-keeper for this plan, Teachers Insurance and Annuity Association (TIAA). Full-time faculty and

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

professional administrators hired prior to January 1, 1996, who chose to participate in the defined contribution plan, receive university contributions equal to 12% of their base salary into the plan. All other employees participating in this plan, receive contributions equal to 10% of their base salary into the plan. All contributions are subject to IRS limits. University contributions begin immediately and employee benefits vest immediately.

Contributions and covered payroll under all plans in fiscal year 2021 are summarized as follows:

	All Other	Fidelity	TIAA-CREF	Covered
	Non-TIAA or Fidelity			
	Contributions*	Contributions	Contributions	Payroll
Pension Contributions	14,275,100		16,073,997	167,170,017

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 related to this program are included in the university Statements of Net Position. The assets are included with the university's cash and cash equivalents. The corresponding liabilities have been included with long-term debt, hedging instruments and other long-term obligations in the Statements of Net Position. During fiscal year 2021, the university updated and recorded the expected liability for this program.

MPERS – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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

Contributions

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

The university's contributions are determined based on employee elections. There are four different benefit options included in the plan available to employees based on date of hire. The university also contributes to MPERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions and health benefits. Public Act 136 of 2016 sets a rate cap of 25.73 percent for university employer UAAL contributions. In addition, the new law establishes a requirement for a payroll floor. In a given fiscal year, each university owes UAAL contributions based on the greater of its payroll floor or its actual payroll. The payroll floor was \$54,686,170 for fiscal year 2021. Contribution rates are adjusted annually by the ORS. The rates for the defined benefit plan are as follows:

	Unfunded			
	Normal Pension Rate	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%

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.

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

The university's required defined benefit contributions to MPERS normal pension costs, totaled \$568,541 in fiscal year 2021. Required employee contributions were \$326,888 in fiscal year 2021. The university's contributions to the unfunded MPERS defined benefit pensions totaled \$10,795,050 in fiscal year 2021. The university also recorded \$2,901,636 of stabilization rate revenue from the State of Michigan to assist in funding the MPERS pension Unfunded Actuarial Accrued Liability (UAAL) for the year ended June 30, 2021. The university's contributions toward the MPERS defined contribution plan totaled \$9,873 in fiscal year 2021.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2021, the university reported a liability of \$168,997,255 for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPERS. The net pension liability for fiscal year 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, which used update procedures to roll forward the estimated liability to September 30, 2020. 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, the university's proportion was 24.74 percent, of the universities reporting unit.

For the year ended June 30, 2021, the university recognized pension expense of \$13,733,078. At June 30, 2021, the university also reported a payable of \$527,570 for the outstanding amount of contributions to the pension plan required for the year-ended June 30, 2021.

At June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

Net OPEB Liability, Deferrals, and OPEB Expense

At June 30, 2021 the university reported a liability of \$10,470,434 for its proportionate share of the net OPEB liability calculated for the universities reporting unit of MPERS. 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 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 the university's proportion was 24.78 percent of the universities reporting unit.

For the year ended June 30, 2021 the university recognized OPEB expense of \$(10,507,108).

At June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB a portion of which includes the difference in required contributions. See Note 28 for additional information on deferred resources.

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NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

NOTE 12--LEASE COMMITMENTS

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

Fiscal Year June 30	Operating Lease Commitments
2022	\$ 2,612,284
2023	1,577,586
2024	1,275,497
2025	1,242,520
2026	1,170,984
2027-2031	942,000
	<u>\$ 8,820,871</u>

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

Long-term debt, hedging instruments and other obligations consist of the following as of June 30, 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	6,169,092	\$ 624,905	6,069,092	724,905	100,000
Hedging Instruments	6,572,388		1,252,587	5,319,801	
Compensated Absences	6,274,559	12,091	1,600	6,285,050	260,811
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>\$ 177,599,968</u>	<u>\$ 689,027</u>	<u>\$ 14,241,256</u>	<u>\$ 164,047,739</u>	<u>\$ 7,302,753</u>

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NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The principal and interest (using June 30, 2021 rates) amounts due in each of the succeeding five years ending June 30 and thereafter are as follows:

	BONDS PAYABLE		All Other Debt		Direct Placement Debt	
	Total Debt		Bonds		Direct Placement Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 6,210,000	\$ 6,192,415	\$ 6,210,000	\$ 6,192,415	\$	
2023	6,505,000	5,902,878	6,505,000	5,902,878		
2024	6,780,000	5,608,357	6,780,000	5,608,357		
2025	7,120,000	5,296,564	7,120,000	5,296,564		
2026	7,425,000	4,968,748	7,425,000	4,968,748		
2027-2031	42,995,000	19,332,984	42,995,000	19,332,984		
2032-2036	41,365,000	8,782,181	41,365,000	8,782,181		
2037-2041	10,315,000	3,241,700	10,315,000	3,241,700		
2042-2045	10,020,000	821,600	10,020,000	821,600		
Total	138,735,000	\$ 60,147,427	\$ 138,735,000	\$ 60,147,427	\$	\$
Unamortized Premium	12,416,000					
Total	\$ 151,151,000					
	\$ 720,000	Current Portion of Unamortized				

*None of the bonds included in the table above are demand bonds

NOTES PAYABLE	Total Notes Payable	Other	Direct Placement	Direct Borrowing
Short-term	\$ 100,000			\$ 100,000
Long-term	624,905			624,905
Total	\$ 724,905	\$	\$	\$ 724,905

HEDGING INSTRUMENTS

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

Under the March 2002 swap, the university pays the counterparty a fixed payment of 4.44% and receives a variable payment of 67% of the London Interbank Offered Rate (LIBOR) (0.03859% 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, the swap agreement had a notional amount of \$19,700,000 and was in a negative position of \$5,319,801. 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. The accumulated change in fair value of (\$5,319,801) is recorded in deferred outflows at June 30, 2021.

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.

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

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, 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, the derivative counterparty is currently rated Baa3 which suggests a capacity to meet financial commitments. The university is not aware of any circumstance or condition that would preclude the counterparty from complying with the terms of the derivative agreement. The university monitors counterparty credit risk on an ongoing basis for any significant adverse changes.

Interest Rate Risk

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

Basis Risk

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

Termination Risk

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

Rollover Risk

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

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.

NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

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. 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.

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 obligation have been determined to be primarily short-term liabilities.

NOTE 25--COMMITMENTS AND CONTINGENCIES

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

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 STATE OF MICHIGAN ACFR (continued)

Central Michigan University

NOTE 26--RISK MANAGEMENT

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

Additionally, the university either self-insures or purchases commercially available coverage for exposures outside of the M.U.S.I.C. program, some of which are: property insurance, medical malpractice, workers compensation, 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.

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

Professional Liability Insurance

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

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

	<u>June 30, 2021</u>
Estimated professional liability under self-insurance	\$ 200,000
Less: Investments under professional liability funding arrangement – held by the trustee, at fair value	<u>(1,020,857)</u>
Estimated over funding of liability	<u>\$ (820,857)</u>

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

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

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

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NOTES TO THE STATE OF MICHIGAN ACFR (continued)

Central Michigan University

NOTE 28--DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Accumulated fair value of hedging derivatives	\$ 5,319,801	
Gain or Loss on Defeasance of Debt	1,788,190	\$ 826,950
Split Interest Agreements		5,277,633
Pension Related:		
Differences between expected and actual experience		
Changes of assumptions		
Net difference between projected and actual earnings on pension plan assets	214,903	
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	8,540,485	
OPEB Related:		
Differences between expected and actual experience		285,208
Changes of assumptions	51,084	
Net difference between projected and actual earnings on OPEB plan assets	217,827	
Changes in proportion and differences between contributions and proportionate share of contributions	81	256
Contributions subsequent to the measurement date	2,519,454	
Total	<u>\$ 18,651,825</u>	<u>\$ 6,390,047</u>

Deferred outflows of resources and deferred inflows of resources do not include \$2,901,636 of UAAL stabilization funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date.

NOTE 29--SUBSEQUENT EVENTS

Subsequent to June 30, 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.