



Financial
Statements and
Supplemental
Information
as of June 30,
2020 and 2019
Together with
Auditor's
Report

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Independent Auditor's Report

To the Board of Regents
Eastern Michigan University

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Michigan University, a component unit of the State of Michigan (the "University"), and its discretely presented component unit, as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise Eastern 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 opinions on these financial statements based on our audits. 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 discretely presented component unit was 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of Eastern Michigan University and its discretely presented component unit as of June 30, 2020 and 2019 and the respective changes in their financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

To the Board of Regents
Eastern Michigan University

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the University's proportionate share of the net pension liability, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability, schedule of the University's OPEB contributions, and schedule of changes in the University's total OPEB liability and related ratios 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020 on our consideration of Eastern 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 Eastern Michigan University's internal control over financial reporting and compliance.



October 22, 2020

As of June 30, 2020

Board of Regents

Name	Position
Mr. James Webb	Chair
Ms. Eunice Jeffries	Vice Chair
Mr. Richard Baird	Board Member
Mr. Dennis Beagen	Board Member
Ms. Michelle Crumm	Board Member
Mr. Michael Hawks	Board Member
Mr. Alexander Simpson	Board Member
Ms. Mary Treder Lang	Board Member

Executive Officers

Name	Position
Dr. James M. Smith	President
Dr. Rhonda Longworth	Provost and Executive Vice President
Mr. Leigh Greden	Chief of Staff
Mr. Michael Valdes	Chief Financial Officer and Treasurer to the Board of Regents
Ms. Lauren London	General Counsel and University Attorney
Mr. Walter Kraft	Vice President Communications
Mr. John Donegan	Vice President, Operations and Facilities
Mr. Scott Wetherbee	Vice President and Director of Athletics
Dr. James Carroll	Associate Provost and Vice President
Mr. Ron Woody	Chief Information Officer
Mr. Kevin Kucera	Vice President, Enrollment Management
Ms. Vicki Reaume	Vice President and Secretary to the Board of Regents
Mr. William Shepard	Vice President, Advancement
Dr. Calvin Phillips	Associate Vice President, Student Affairs
Mr. Bob Heighes	Executive Director, Public Safety
Mr. Brett Last	Chief Human Resources Officer

Financial Administration

Name	Position
Ms. Doris M. Celian	Controller
Mr. Todd Ohmer	Executive Director, Financial Planning and Budgets
Ms. Sandra Mullally	Assistant Controller
Mr. Daniel Merritt	Accounting Operations and Financial Reporting Manager

The following discussion and analysis of Eastern Michigan University's ("University") financial statements provides an overview of the University's financial activities for the years ended June 30, 2020, 2019, and 2018. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

The University's financial report was prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental entities to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships. Based on the application of the criteria, the University has one component unit -- the Eastern Michigan University Foundation. The Foundation's statements are discretely presented as part of the University's reporting entity in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB).

Eastern Michigan University offers a supportive, accessible, affordable, and quality learning and living environment. The University's distinct mix of comprehensive academic resources, strong community initiatives, focus on education first, and nationally recognized undergraduate research achievements set it apart.

Founded in historic Ypsilanti in 1849, the University occupies 880 acres on the main campus with 122 buildings and a student body of approximately 18,000 students. In addition, the EMU Parsons Center in Traverse City provides opportunities for the study of the Arts and Sciences in Northern Michigan.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic, now known as COVID-19. In response to the COVID-19 pandemic, governments have taken preventative or protective actions, such as temporary closures of non-essential businesses and "shelter-at-home" guidelines for individuals. As a result, the global economy has been negatively affected, and the University's operations were also impacted, including shifting to a remote online learning environment, sending students off campus, eliminating non-essential travel, and cancelling or postponing certain athletic and other auxiliary events. The following sections will discuss further the specific impacts related in the financial statements for the year ending June 30, 2020.

Financial Highlights for the Year Ended June 30, 2020

• Total net position	\$ 106,160,416
• Change in total net position	(14,160,258)
• Capital assets - Net	637,016,141
• Change in capital assets - Net	43,273,313
• Total long-term debt	347,251,718
• Change in total long-term debt	(4,567,831)

Financial Statements

The University's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Net position is one indicator of the current financial condition of the University and is measured by assets plus deferred outflows minus liabilities and deferred inflows.

Following is a summary of the major components of the net position and operating results of the University for the years ended June 30, 2020, 2019, and 2018:

Net Position as of June 30	2020	2019	2018
Assets			
Current assets	\$ 55,089,572	\$ 51,770,433	\$ 76,172,091
Noncurrent assets:			
Capital assets - net of depreciation	637,016,141	593,742,828	523,051,769
Other	60,452,954	132,202,779	140,266,876
Total Assets	752,558,667	777,716,040	739,490,736
Deferred Outflows	70,140,568	29,211,505	8,799,352
Liabilities			
Current liabilities	81,346,008	89,177,296	65,207,302
Noncurrent liabilities	575,220,975	533,526,554	506,638,016
Total Liabilities	656,566,983	622,703,850	571,845,318
Deferred Inflows	59,971,836	63,903,021	63,868,851
Net Position			
Net investment in capital assets	277,454,267	266,530,673	209,898,117
Restricted	13,607,326	15,739,048	11,000,644
Unrestricted (deficit)	(184,901,177)	(161,949,047)	(108,322,842)
Total Net Position	\$ 106,160,416	\$ 120,320,674	\$ 112,575,919

The University saw a significant increase in capital assets for fiscal year 2020 primarily due to ongoing building construction for Sill Hall and the renovation of the Rec IM building. The overall increase in current assets against the decline in non-current assets was due to the University shifting assets from investments to cash equivalents during market volatility caused by COVID-19. This change between current and non-current is offset by CARES act funding drawn down and recorded as restricted cash. Deferred outflows increased significantly due to changes in the annual swap valuation and the University's single employer OPEB valuation as described in Note 1. For fiscal year 2019, the University saw a significant increase in non-current assets for primarily due to construction of capital assets.

For fiscal year 2020, the reduction in current liabilities was the result of a decrease in outstanding construction project payables. The increase in non-current liabilities was the result of market experience changes in the University's annual swap valuation. For fiscal year 2019, the increase in current liabilities was due to invoices for ongoing construction projects. The increase in non-current liabilities was driven by an increase in the University's net pension liability and the voluntary employee retirement incentive plan offered by the University during the year.

Eastern Michigan University

Management's Discussion and Analysis

Following is a summary of the major components of the revenue, expenses, and changes in net position of the University for the years ended June 30, 2020, 2019, and 2018:

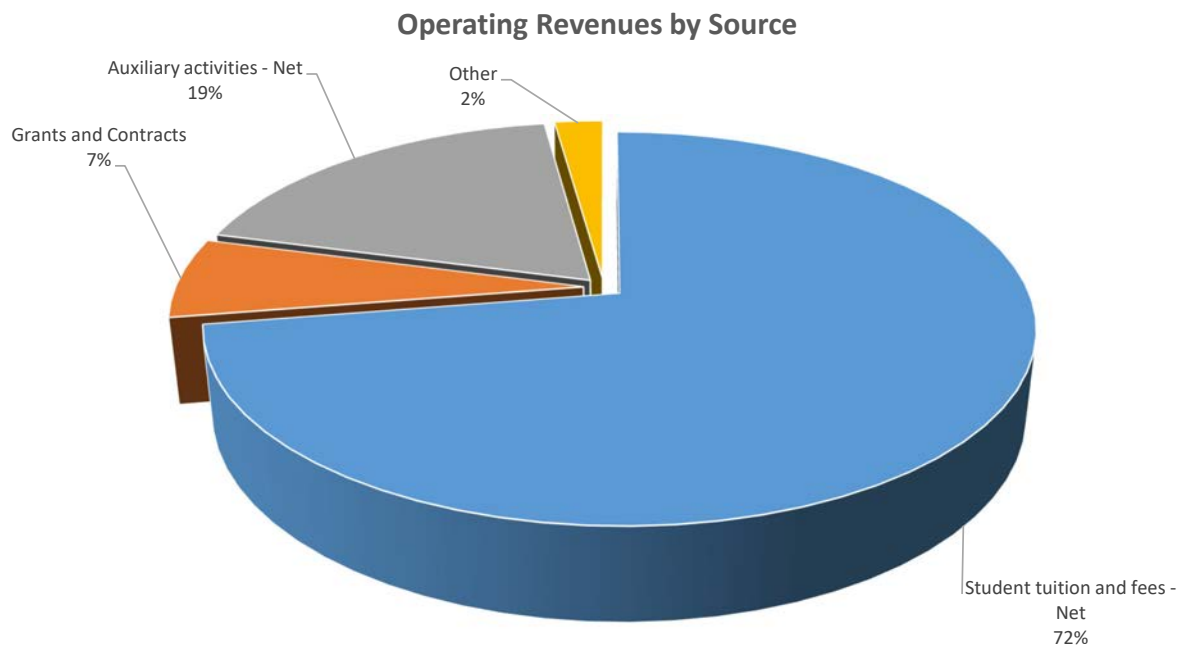
	Year Ended June 30		
	2020	2019	2018
Operating Revenue			
Student tuition and fees - Net	\$ 162,280,143	\$ 165,013,368	\$ 171,285,675
Grants and Contracts	14,946,808	16,059,616	13,042,830
Auxiliary activities - Net	41,707,989	45,436,166	49,447,478
Other	4,998,592	6,868,741	6,525,257
Total operating revenue	223,933,532	233,377,891	240,301,240
Operating Expenses			
Instruction	107,314,796	121,727,159	120,015,709
Research	8,516,762	6,398,911	4,638,257
Public service	13,003,683	13,546,729	11,342,917
Academic support	29,287,442	35,214,013	33,425,190
Student services	22,866,372	18,507,130	17,024,759
Institutional support	29,908,288	31,699,704	30,066,191
Scholarships and fellowships	32,889,134	32,726,905	35,645,811
Operations and maintenance of plant	28,494,837	31,173,745	29,988,407
Auxiliary activities - Net	44,046,869	48,880,204	48,604,159
Depreciation	17,067,008	15,308,854	14,609,595
Other expenditures	134,137	88,006	141,587
Total operating expenses	333,529,328	355,271,360	345,502,582
Net Operating Loss	(109,595,796)	(121,893,469)	(105,201,342)
Nonoperating Revenue (Expenses)			
State appropriations	69,697,392	77,541,090	75,836,240
Gifts	8,753,703	7,495,972	5,353,865
Pell grants	26,328,047	28,010,545	30,065,117
Investment income (loss)	(6,788,555)	(1,949,786)	4,417,060
CARES act grants	2,759,180	-	-
Other nonoperating revenue (expenses)	(7,025,369)	(9,111,214)	(6,184,675)
Net nonoperating revenue	93,724,398	101,986,607	109,487,607
Capital Contributions	1,711,140	27,651,617	2,576,074
(Decrease) Increase in net position	(14,160,258)	7,744,755	6,862,339
Net Position - Beginning of year	120,320,674	112,575,919	134,221,271
Adjustment for change in accounting principle	-	-	(28,507,691)
Net Position - Beginning of year, as restated	120,320,674	112,575,919	105,713,580
Net Position - End of year	\$ 106,160,416	\$ 120,320,674	\$ 112,575,919

Operating Revenues

Operating revenues include all transactions that result from the sales and/or receipts of goods and services such as tuition and fees, housing, and other auxiliary units. In addition, certain federal, state and private grants are considered operating if they are a contract for services and not for capital purposes.

Student tuition and fees revenue decreased slightly (1.66 percent) as a result of lower enrollment, offset by a Board of Regents approved tuition and mandatory fee weighted average increase of 4.4 percent effective Fall 2019.

The following is a graphic illustration of operating revenues by source:



Operating revenue for fiscal year 2020 decreased by approximately \$9.4 million over the prior year, primarily due to continued lower enrollment and a decline in credit hours. The University also experienced decreases in auxiliary revenue primarily due to operational shutdown due to COVID-19, which included special refunds issued for housing and dining. Non-governmental grants and contracts revenue and departmental revenue also declined as the result of expiring grant contracts and programs on temporary shutdown due to COVID-19.

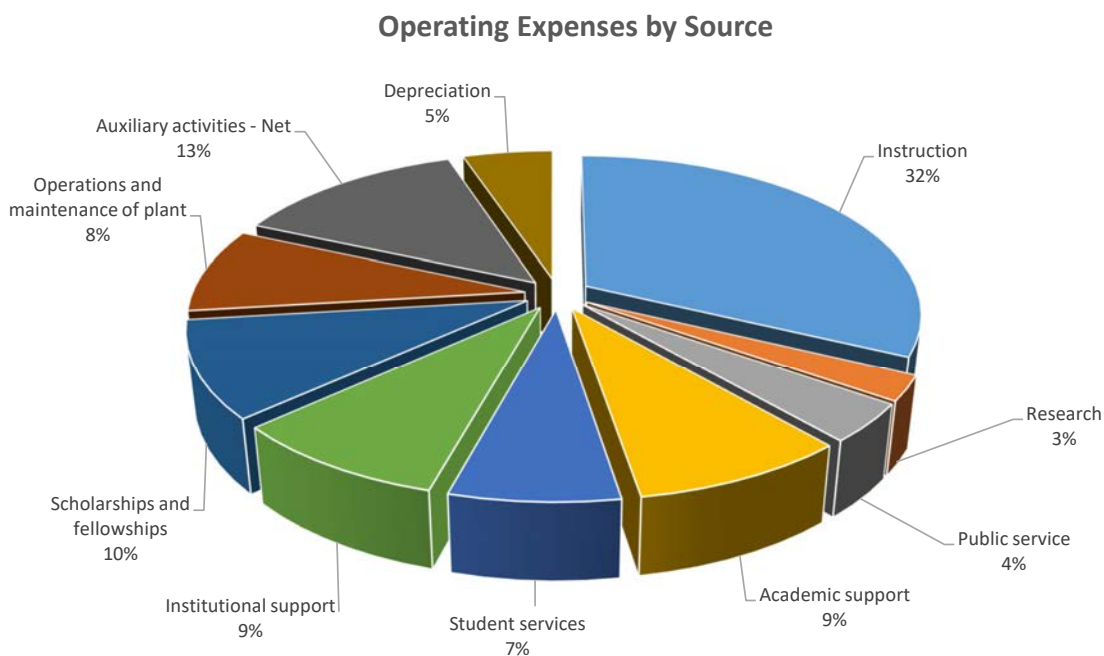
Operating revenue for fiscal year 2019 decreased by approximately \$6.9 million over the prior year, primarily due to continued lower enrollment and a decline in credit hours. The University also experienced a slight increase in grant and contract revenue, which offset decreases from student and auxiliary revenue.

Operating Expenses

Operating expenses are all costs necessary to perform and conduct the programs and primary purposes of the University.

The University is committed to providing financial support to students. The University has long sponsored its prestigious National Scholars program, which attracts some of the brightest and most promising students.

The following is a graphic illustration of operating expenses by source:



Operating expenses for fiscal year 2020 decreased by \$21.7 million from the prior year primarily due to conservative budgeting practices by the University, which has made difficult but necessary fiscal decisions over the past several years, including offering a voluntary employee retirement incentive program. The University also saw decreases in expenses for auxiliaries and the operations and maintenance of facilities related to the COVID-19 shut down.

Operating expenses for fiscal year 2019 increased by \$9.8 million from the prior year primarily due to the increase in the University's proportionate share of the Michigan Public School Employees Retirement Fund net pension liability (\$7 million), and the voluntary employee retirement incentive program (\$9.5 million) offered by the University during the fiscal year. After taking these into account, the University reduced operating expenses by \$6.8 million over the prior year due to fiscally responsible budgeting practices.

Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, Pell grant reimbursements, investment income (including realized and unrealized gains and losses), and restricted development funds that do not require any services to be performed. Nonoperating revenue was significantly impacted by the following factors:

- State operating appropriations decreased \$7.8 million to \$69.7 million in 2020 due to the State replacing the August state appropriation and a portion of the July State Appropriation with CARES Act funding. As such, that revenue will be recognized on an expenditure-driven basis during the 2021 fiscal year. State operating appropriations increased \$1.7 million to \$77.5 million in 2019 due to the State's economy and strong performance by the University on the State's metrics for determining appropriation increases.
- Interest expense decreased by \$3.0 million in fiscal year 2020, primarily driven by the up-front payment structure for refinanced debt, and the changes in recognition of interest expense on the valuation of swaps. In 2019, interest expense increased by \$4.4 million, primarily driven by the up-front payment structure on recently issued and refinanced debt, and the changes in recognition of interest expense on the valuation of swaps.
- Investment income from operations decreased by approximately \$4.8 million from the prior year. This is primarily due to a decrease of \$4.8 million recognized from the valuation of the University's interest rate swaps (a decrease of \$5.4 million was recognized in 2019 from the swap valuation). The University's investments otherwise held fairly stable - University investments were re-allocated to vehicles with lower risk during the COVID-19 crisis to reduce exposure to market volatility.
- Pell grants decreased \$1.6 million to \$26.3 million in 2020. In 2019, Pell grants decreased \$2.1 million to \$28 million. Pell grant revenue correlates to enrollment trends and a declining national average of Pell recipients as a percentage of the 12-month undergraduate headcount.

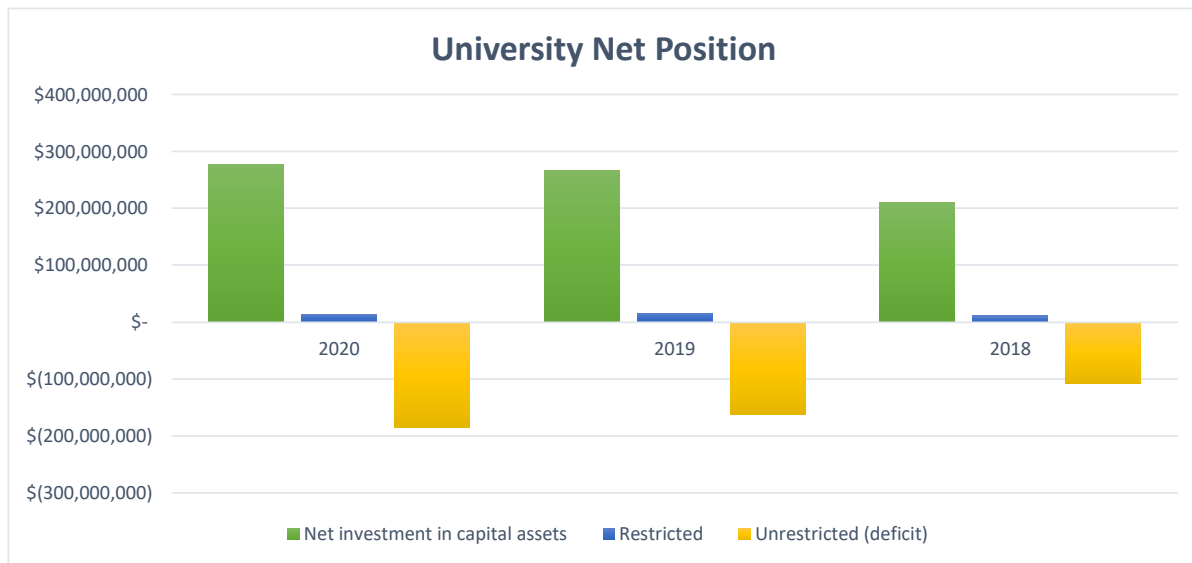
Capital Contributions

Capital contributions consist of items that are typically nonrecurring, extraordinary, or unusual to the University. Examples would be capital gifts, capital appropriations from the state or federal government, and transfers from related entities. Capital contributions amounted to \$1.7 million in 2020 and \$27.7 million in 2019. The change in capital contributions is primarily driven by \$26.7 million related to the State Capital Appropriation for Strong Hall recognized during 2019. The University reached its \$9.9 million floor investment for this project during fiscal year 2018, triggering state reimbursement for expenditures out of the capital appropriations fund. After the University floor, the remaining project cost was fully reimbursed by capital appropriations from the State.

University Net Position

The University's financial position at June 30, 2020 reflected assets and deferred outflows of \$822.7 million, and liabilities and deferred inflows of \$716.5 million. The University's assets and deferred outflows, and liabilities and deferred inflows both increased significantly due to the valuation of interest rate swaps, ongoing construction of capital assets (which led to an increase in both accrued expenses and an increase in non-current assets), and the voluntary employee retirement incentive program, which resulted in increases to both current and non-current liabilities.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2020, 2019, and 2018.



The University's net pension liability was \$83.9 million, \$80.5 million and \$72.5 million at June 30, 2020, 2019 and 2018, respectively. The University's net OPEB liabilities were \$34.9 million, \$29.2 million and \$31.9 million at June 30, 2020, 2019 and 2018, respectively. The University had a deficit in unrestricted net position of \$183.0 million, \$161.9 million and \$108.3 million at June 30, 2020, 2019 and 2018, respectively. The difference between net investment in capital assets and unrestricted net position of \$12.4 million at June 30, 2020 is restricted for identified future needs including contractual obligations, debt service, student loans, capital outlay and insurance reserves.

Statement of Cash Flows

Another way to assess the financial health of the University is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the University during a period. The statement of cash flows also helps users assess:

- The University's ability to generate future net cash flows
- The University's ability to meet obligations as they come due
- The University's need for external financing

	Year Ended June 30		
	2020	2019	2018
Cash Provided by (Used in):			
Operating activities	\$ (109,807,229)	\$ (67,731,558)	\$ (88,113,560)
Noncapital financing activities	129,857,939	113,073,653	170,255,222
Capital and related financing activities	(75,978,945)	(77,851,930)	12,703,071
Investing activities	78,184,292	13,569,801	(92,572,309)
Net Increase (Decrease) in Cash	22,256,057	(18,940,034)	2,272,424
 Cash and Cash Equivalents - Beginning of year	 14,581,235	 33,521,269	 31,248,845
 Cash and Cash Equivalents - End of year	 \$ 36,837,292	 \$ 14,581,235	 \$ 33,521,269

For fiscal year 2020, the most significant components of cash flows used in operating activities were tuition and fees, auxiliary activities, and grants and contracts. Net cash used in operating activities was \$109.8 million. To offset this, the net cash provided from noncapital financing activities was \$129.9 million, which consisted primarily of State appropriations and Federal Pell grants. Cash used in capital and related financing activities was mostly stable, and cash from investing activities increased as the University used proceeds from long-term investments to bolster cash reserves.

Cash and cash equivalents increased by \$22.3 million during fiscal year 2020, primarily due to CARES act funding from the Department of Education, the University moving funds from long-term investments into cash and cash equivalents, and investment capital used for cash paid to suppliers and employees on construction projects. For fiscal year 2019, cash and cash equivalents decreased by \$18.9 million, primarily due to University investments in capital projects and cash used for operating activities.

Funding for a Successful Future

Eastern Michigan University ("Eastern") enriches lives in a supportive, intellectually dynamic, and diverse community. Its dedicated faculty balance teaching and research to prepare students with relevant skills and real world awareness. Eastern is an institution of opportunity where students learn in and beyond the classroom to benefit the local and global communities.

The University's vision is to be a premier public university recognized for student-centered learning, high quality academic programs, and community impact. Eastern's focus remains on investing in its students and faculty, in academic quality, and in maintaining and improving facilities that enhance the learning environment for its approximately 18,000 students.

In December 2019, the Board approved a \$13.3 million capital budget for fiscal year 2021. The budget includes investment for improvements supporting necessary infrastructure improvements in academic, administrative, and auxiliary facilities, campus wide infrastructure improvements, Title IX compliance investments, information technology, safety and asset preservation.

In June of 2020, the Board approved an in-state undergraduate tuition increase of 2.9% as calculated by the State of Michigan's guidelines on performance funding and tuition reporting. With this tuition increase, Eastern will continue to invest in strong and high-demand academic programs while maintaining its commitment to provide students with a high-quality education at an affordable price.

The Board also approved a \$288.1 million general fund operating expenditure budget for fiscal year 2021. The budget reflected a 1.0% increase in State Appropriations and a student credit hour projection of 400,000 credit hours. The budget also includes projected personnel costs of \$175.2 million, revenue from departmental activities and other sources of \$2.7 million, and University-sponsored financial aid of \$51.3 million.

The University is continuing to evaluate the ongoing impact of COVID-19 on operations for coming fiscal periods. The University's executive leadership has created a Safe Return-to-Campus plan using a layered approach based on best practices. The University's number one priority is the health, safety and well-being of students, faculty and staff. The University has adjusted its budget and expectations for financial results for fiscal year 2021 taking into account the uncertainty around in-person operations due to COVID-19.

Eastern Michigan University's successful future depends on the collective efforts of its stakeholders. These efforts build on a solid foundation of exceptional academic programs that prepare students for real-world experience.

Statement of Net Position

	June 30	
	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 25,189,397	\$ 12,581,235
Accounts receivable, net (Note 3)	16,242,040	18,034,458
Appropriation receivable	5,387,925	13,996,231
Inventories	336,606	1,049,092
Deposits and prepaid expenses	5,864,842	4,361,319
Accrued interest receivable	2,068,762	1,748,098
Total current assets	55,089,572	51,770,433
Noncurrent Assets:		
Cash and cash equivalents - restricted (Note 2)	11,647,895	2,000,000
Student loans receivable, net (Note 3)	3,854,682	4,773,564
Long-term investments - unrestricted (Notes 2 & 4)	20,326,723	66,580,962
Long-term investments - restricted (Notes 2 & 4)	23,363,654	54,888,253
Long-term investments - real estate (Notes 2 & 4)	1,260,000	3,960,000
Capital assets, net (Note 5)	637,016,141	593,742,828
Total noncurrent assets	697,469,095	725,945,607
Total Assets	752,558,667	777,716,040
Deferred Outflows		
	70,140,568	29,211,505
Liabilities		
Current liabilities:		
Current portion of long-term debt (Note 6)	4,060,287	4,567,831
Current portion of interest rate swaps (Note 6)	2,235,606	2,155,264
Accounts payable and accrued liabilities	25,138,864	38,952,827
Accrued payroll	8,511,316	9,061,019
Payroll taxes and accrued fringe benefits	12,852,492	13,715,483
Unearned fees and deposits	25,852,362	17,485,321
Insurance and other claims payable (Note 8)	2,695,081	3,239,551
Total current liabilities	81,346,008	89,177,296
Noncurrent liabilities:		
Accrued compensated absences (Note 7)	1,883,626	1,944,558
Long-term debt (Note 6)	343,191,431	347,251,718
Long-term unearned fees and deposits	15,832,371	13,648,097
Long-term accrued benefits	5,719,320	6,291,558
Interest rate swaps (Note 6)	25,541,713	27,685,078
Fair value of derivative instruments (Note 6)	60,346,344	21,439,705
Net OPEB liabilities (Notes 9 & 10)	34,854,995	29,216,680
Net Pension liability (Note 9)	83,913,363	80,505,916
Federal Perkins	3,937,812	5,543,244
Total noncurrent liabilities	575,220,975	533,526,554
Total Liabilities	656,566,983	622,703,850
Deferred Inflows		
	59,971,836	63,903,021
Net Position		
Net Investment in capital assets	277,454,267	266,530,673
Restricted-University development & Perkins loans	13,607,326	15,739,048
Unrestricted (deficit)	(184,901,177)	(161,949,047)
Total Net Position	\$ 106,160,416	\$ 120,320,674

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2020	2019
Operating Revenues		
Student tuition and fees	\$ 218,258,731	\$ 221,693,639
Scholarship allowances	(55,978,588)	(56,680,271)
Net student tuition and fees	<u>162,280,143</u>	<u>165,013,368</u>
Federal grants and contracts	9,779,152	8,857,692
Federal financial aid	1,957,622	1,852,446
State grants and contracts	1,525,414	955,132
State financial aid	496,046	2,332,819
Nongovernmental grants & contracts	1,188,574	2,061,527
Departmental activities	4,823,477	6,644,740
Auxiliary activities revenue - net	41,707,989	45,436,166
Other operating	175,115	224,001
Total Operating Revenues	<u>223,933,532</u>	<u>233,377,891</u>
Operating Expenses		
Instruction	107,314,796	121,727,159
Research	8,516,762	6,398,911
Public service	13,003,683	13,546,729
Academic support	29,287,442	35,214,013
Student services	22,866,372	18,507,130
Institutional support	29,908,288	31,699,704
Scholarships and fellowships	32,889,134	32,726,905
Operation and maintenance of plant	28,494,837	31,173,745
Auxiliary activities expenses - net	44,046,869	48,880,204
Depreciation	17,067,008	15,308,854
Other	134,137	88,006
Total Operating Expenses	<u>333,529,328</u>	<u>355,271,360</u>
Operating Loss	<u>(109,595,796)</u>	<u>(121,893,469)</u>
Non-Operating Revenues (Expenses)		
State appropriations	69,697,392	77,541,090
Gifts	8,753,703	7,495,972
Investment income (loss)	(6,788,555)	(1,949,786)
Interest expense	(9,187,966)	(12,169,658)
Interest ARRA subsidy	-	1,396,487
Pell grants	26,328,047	28,010,545
Other non operating	2,137,709	1,709,717
CARES act grants	2,759,180	-
Gain (loss) on sale of assets	24,888	(47,760)
Total Non-Operating Revenues (Expenses)	<u>93,724,398</u>	<u>101,986,607</u>
Capital Contributions		
State capital appropriations	639,599	26,651,617
Capital gifts	1,071,541	1,000,000
Total Capital Contributions	<u>1,711,140</u>	<u>27,651,617</u>
(Decrease) Increase in net position	<u>(14,160,258)</u>	<u>7,744,755</u>
Net Position - Beginning of Year	<u>120,320,674</u>	<u>112,575,919</u>
Net Position - End of Year	<u>\$ 106,160,416</u>	<u>\$ 120,320,674</u>

Statement Cash Flows

	Year Ended June 30	
	2020	2019
Cash Flows from Operating Activities		
Cash received from students for tuition and fees	\$ 219,177,612	\$ 222,915,012
Cash received from auxiliary activities	50,528,268	53,549,352
Cash received from other sources	6,791,009	16,069,965
Grants and contracts	12,493,141	8,857,692
Student loans granted - net of repayments	(1,605,432)	1,404,804
Scholarship allowances	(63,635,696)	(64,773,157)
Cash paid to suppliers and employees	(249,756,185)	(219,845,427)
Cash paid for financial aid	(83,799,946)	(85,909,799)
Net cash from operating activities	<u>(109,807,229)</u>	<u>(67,731,558)</u>
Cash Flows from Noncapital Financing Activities		
Federal direct lending receipts	102,931,365	112,524,932
Federal direct lending disbursements	(102,931,365)	(112,524,932)
Cash received from State appropriations	78,305,698	77,541,090
Federal Pell grants	26,328,047	28,010,545
Gifts received from EMU Foundation	10,817,119	7,522,018
Cash received from CARES Act	14,407,075	-
Net cash from noncapital financing activities	<u>129,857,939</u>	<u>113,073,653</u>
Cash Flows from Capital and Related Financing Activities		
Principal payments under debt obligations	(4,567,832)	(5,856,577)
Cash received from State Building Authority	1,265,618	26,025,598
Interest paid	(11,095,682)	(12,169,658)
Purchases of Capital Assets	(61,581,049)	(85,851,293)
Net cash from capital and related financing activities	<u>(75,978,945)</u>	<u>(77,851,930)</u>
Cash Flows from Investing Activities		
Purchases of investments	(54,798,449)	(69,174,683)
Proceeds from sales and maturities of investments	130,198,039	79,914,484
Interest received	2,784,702	2,830,000
Net cash from investing activities	<u>78,184,292</u>	<u>13,569,801</u>
Net increase (decrease) in cash and cash equivalents	22,256,057	(18,940,034)
Cash and Cash Equivalents - Beginning of year	14,581,235	33,521,269
Cash and Cash Equivalents - End of year	<u>\$ 36,837,292</u>	<u>\$ 14,581,235</u>
Supplemental Disclosure of Noncash Items		
Disposal of capital assets, net of depreciation	\$ 5,103	\$ 366,886
Capital gifts received in-kind	\$ 109,079	\$ 133,855

Eastern Michigan University
Statement Cash Flows

	Year Ended June 30	
	2020	2019
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (109,595,796)	\$ (121,893,469)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	17,067,008	15,308,854
Changes in assets and liabilities:		
Accounts receivable - Net	1,792,418	3,948,112
Inventories	712,486	(405,435)
Deposits and prepaid expenses	(1,503,523)	(81,053)
Student loans receivable	(686,550)	1,490,109
Accounts payable and accrued liabilities	(13,813,963)	10,963,277
Accrued payroll	(549,703)	(795,536)
Payroll taxes and accrued fringe benefits	(1,435,229)	10,850,550
Unearned fees and deposits	(1,096,580)	4,235,320
Net pension liability	5,638,315	7,983,230
Net OPEB liability	3,407,447	(2,683,168)
Deferred resources - Pension	(1,128,924)	1,347,770
Deferred resources - OPEB	(8,009,233)	630,365
Insurance and other claims payable	(544,470)	1,313,299
Accrued compensated absences	(60,932)	56,217
Total change in assets and liabilities	<u>(17,278,441)</u>	<u>38,853,057</u>
Net cash from operating activities	<u>\$ (109,807,229)</u>	<u>\$ (67,731,558)</u>

Balance Sheet

	June 30	
	2020	2019
Assets		
Cash and cash equivalents	\$ 5,776,361	\$ 1,869,793
Investments	73,210,071	77,136,007
Contributions receivable	2,219,278	1,638,948
Accounts receivable	1,516	5,945
Cash surrender value of life insurance	154,347	210,514
Investments held under split-interest agreements	748,514	403,509
Buildings Held for Sale and Equipment	35,532	44,222
Total Assets	\$ 82,145,619	\$ 81,308,938
Liabilities		
Accounts payable	\$ 466,642	\$ 504,415
Split-interest obligations	539,277	319,749
Total Liabilities	1,005,919	824,164
Net Assets		
Net assets without donor restrictions	1,000,033	591,643
Net assets with donor restrictions	80,139,667	79,893,131
Total Net Assets	81,139,700	80,484,774
Total Liabilities and Net Assets	\$ 82,145,619	\$ 81,308,938



Eastern Michigan University Foundation

Statement of Activities and Changes in Net Assets

	Year Ended June 30	
	2020	2019
Revenue, Gains and Other Support		
Contributions	\$ 11,783,623	\$ 7,765,497
Investment income	211,878	815,023
Net realized and unrealized gains (losses)	(1,441,049)	2,429,218
Administrative and management fee	1,951,749	1,440,000
Other revenue	11,704	37,324
Total revenue, gains and other support	12,517,905	12,487,062
Expenses		
Contributions to EMU:		
Expendable contributions	6,558,210	6,048,287
Contributions from endowment income	2,027,832	2,016,140
General and administrative - Foundation management	455,575	821,451
Fundraising	2,898,069	3,147,546
Total Operating Expenses	11,939,686	12,033,424
Increase (Decrease) in Net Assets Before Other Changes in Net Assets	578,219	453,638
Other Changes in Net Assets		
Funds transferred from EMU	97,872	188,089
Change in value of split-interest agreements	(21,165)	50,203
Increase in Net Assets	654,926	691,930
Net Assets - Beginning of Year	80,484,774	79,792,844
Net Assets - End of Year	\$ 81,139,700	\$ 80,484,774

Eastern Michigan University Foundation

Statement Cash Flows

	Year Ended June 30	
	2020	2019
Cash Flows from Operating Activities		
Increase in net assets	\$ 654,926	\$ 691,930
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	16,007	20,626
Loss on disposal of property and equipment	-	229,857
Net realized and unrealized (gain) loss on investments	1,441,052	(3,109,426)
Change in cash surrender value of life insurance	56,167	8,688
Change in value of split-interest agreements	21,165	(50,203)
Contributions restricted for long-term purposes	(2,293,205)	(1,023,697)
Changes in assets and liabilities:		
Contributions receivable	(580,330)	382,122
Other assets	-	(601)
Prepaid expenses	4,429	-
Accounts payable	(37,773)	(5,169,797)
Net cash from operating activities	(717,562)	(8,020,501)
Cash Flows from Investing Activities		
Purchases of equipment	(7,317)	(17,396)
Proceeds from disposition of building	-	1,100,000
Purchases of investments	(21,135,415)	(22,992,558)
Proceeds from the sale of investments	23,275,294	23,849,653
Net cash from investing activities	2,132,562	1,939,699
Cash Flows from Financing Activities		
Payments on split-interest agreements	293,880	-
Proceeds from new split-interest agreements	(95,517)	(54,746)
Proceeds from contributions restricted for long-term purposes	2,293,205	1,023,697
Net cash from financing activities	2,491,568	968,951
Net increase (decrease) in cash and cash equivalents	3,906,568	(5,111,851)
Cash and Cash Equivalents - Beginning of year	1,869,793	6,981,644
Cash and Cash Equivalents - End of year	\$ 5,776,361	\$ 1,869,793

Footnote 1 - Basis of Presentation and Significant Accounting Policies

University - The University is an institution of higher education located in Ypsilanti, Michigan, and is considered to be a component unit of the State of Michigan (the "State") because its Board of Regents is appointed by the Governor of the State of Michigan. 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, grants from various state agencies, and payments to state retirement programs for the benefit of University employees.

Basis of Presentation

The financial statements of Eastern Michigan University (the "University") have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University reports as a special purpose government engaged primarily in business type activities (BTA), as defined by the GASB using the economic resources measurement focus, on the accrual basis. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

The University follows the "business-type" activities reporting requirements of GASB Statement No. 34. GASB 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 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 in those assets.
- **Restricted, expendable** - Net position 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 position not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents (the "Board") or may otherwise be limited by contractual agreements with outside parties. The University has committed the unrestricted net position to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and postemployment benefits.

These statements have also been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity GASB Statement No. 61, *Financial Reporting Entity: Omnibus*. These criteria include significant operational or financial relationships with the University. Based on application of the criteria, the University has one component unit.

Component Unit of the University - The Eastern Michigan University Foundation financial statements are discretely presented as part of the University's reporting entity. These statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB). The officers of Eastern Michigan University Foundation include certain University administrative officials and the University has controlling interest in the Foundation's board.

The Internal Revenue Service has determined that the Foundation is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Footnote 1 - Basis of Presentation and Significant Accounting Policies (continued)

The Eastern Michigan University Foundation exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of Eastern Michigan University. No modifications have been made to the Foundation financial statements included in the University's financial report. A complete copy of the audited financial statements of Eastern Michigan University Foundation is available at the Foundation offices located on the campus of the University.

Summary of Significant Accounting Policies

Cash and Investments - The University invests substantially all of its cash in interest-bearing instruments. Investments are reported at fair value, based on quoted market prices, with changes in fair value reported as investment income in the statement of revenue, expenses, and changes in net position. Cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Inventories - Inventories consist primarily of supplies and natural gas and are stated at the lower of cost or market with cost determined by the retail method.

Capital Assets - Capital assets are stated at cost if purchased or at acquisition value at the date of the gift for donated property. Physical properties, with the exception of land, are depreciated on the straight-line method over the estimated useful service lives of the respective assets. Estimated service lives are as follows:

Leasehold improvements	12 to 20 years
Buildings	40 to 60 years
Equipment	5 to 10 years
Library Holdings	5 to 10 years

Unearned Fees and Deposits - Unearned fees and deposits primarily include unearned tuition and fee revenue for future semesters, exclusivity contract unearned revenue, and agency balances held in custody for others. For fiscal year 2020, unearned fees and deposits included \$11,647,895 of CARES act funding received but not yet earned.

Interest Rate Swaps - The fair value of interest rate swaps deemed liabilities as of the date of termination of the related debt have been recorded as a liability that is being amortized over the life of the swap contracts using the effective interest method. Amortization for the years ended June 30, 2020 and 2019 was \$2,271,958 and \$2,364,197, respectively, and is recorded as a reduction to interest expense.

Accrued Compensated Absences - Accrued compensated absences are comprised of the portion of unused sick leave accrued as of June 30 but not expected to be paid within one year. The portion of sick leave expected to be paid within one year and all accrued vacation leave are included in accrued payroll, taxes, and fringe benefits.

Deferred Outflows - In addition to assets, the statement of net 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows consist of accumulated changes in the fair value of hedging derivative instruments, pension, and OPEB obligations described in Note 6 and Note 9, respectively. Deferred outflows also include the deferred gain or loss on refunding of debt and interest rate swaps.

Footnote 1 - Basis of Presentation and Significant Accounting Policies (continued)

Deferred Inflows – In addition to liabilities, the statement of net 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The University reports deferred inflows for funding received through state appropriations for contributions to the MPSERS pension and OPEB plan after the measurement date and for other deferrals related to the pension plan as described in Note 9. The University also reports deferred inflows for the deferred gain on refunding of interest rate swaps, and a deferred inflow for the parking money received that is attributable to future periods.

The University's deferred outflows/inflows for the year ended June 30, 2020 were:

	Deferred outflows	Deferred inflows
<i>MPSERS pension plan</i>		
Contributions subsequent to measurement date	\$ 4,691,691	\$ -
Changes in assumptions	-	-
Deferred Section 264 state aid payments	-	628,466
Differences between expected and actual experience	-	-
Net difference between projected and actual earnings	-	1,518,672
Changes in proportionate share of contributions	-	-
<i>MPSERS OPEB plan</i>		
Contributions subsequent to measurement date	1,172,623	-
Changes in assumptions	282,775	-
Differences between expected and actual experience	-	703,451
Net difference between projected and actual earnings	-	350,956
Changes in proportionate share of contributions	2,831	2,484
<i>Single employer OPEB plan</i>		
Changes in assumptions	3,143,063	-
Differences between expected and actual experience	4,533,608	79,000
Deferred loss on refunding of debt	1,958,353	-
Deferred gain/loss on refunding of interest rate swaps	-	4,728,874
Effective interest rate swaps FMV	54,355,624	395,250
Unamortized proceeds from parking service agreement	-	51,564,683
	<u>\$ 70,140,568</u>	<u>\$ 59,971,836</u>

Footnote 1 - Basis of Presentation and Significant Accounting Policies (continued)

The University's deferred outflows/inflows for the year ended June 30, 2019 were:

	Deferred outflows	Deferred inflows
<i>MPSERS pension plan</i>		
Contributions subsequent to measurement date	\$ 4,186,316	\$ -
Changes in assumptions	645,738	-
Deferred Section 264 state aid payments	-	674,924
Differences between expected and actual experience	-	62,439
Net difference between projected and actual earnings	-	2,663,041
Changes in proportionate share of contributions	-	16,021
<i>MPSERS OPEB plan</i>		
Contributions subsequent to measurement date	996,861	-
Changes in assumptions	628,194	-
Differences between expected and actual experience	-	1,157,013
Net difference between projected and actual earnings	-	837,869
Changes in proportionate share of contributions	-	62,396
<i>Single employer OPEB plan</i>		
Changes in assumptions	517,000	-
Differences between expected and actual experience	-	95,000
Deferred loss on refunding of debt	2,069,204	-
Deferred gain/loss on refunding of interest rate swaps	-	4,937,807
Effective interest rate swaps FMV	20,168,192	260,400
Unamortized proceeds from parking service agreement	-	53,136,111
	\$ 29,211,505	\$ 63,903,021

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS 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.

Other Postemployment Benefit Costs – For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the MPSERS and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, MPSERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. For the University's single employer OPEB plan, deferred outflows and inflows of resources, and the net OPEB liability for the plan were determined based on the report prepared by the University's actuary. There are no assets held in trust for the plan, and expense is recognized in accordance with full accrual accounting.

Footnote 1 - Basis of Presentation and Significant Accounting Policies (continued)

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

Auxiliary Activities - Auxiliary activities consist of the following as of June 30, 2020 and 2019:

	2020	2019
<u>Operating Revenues:</u>		
Auxiliary activities; gross	\$ 48,119,290	\$ 53,549,352
Less: Internal sales	(1,219,702)	(20,300)
Less: Scholarship allowances	(7,657,108)	(8,092,886)
Auxiliary activities revenue - net	\$ 39,242,480	\$ 45,436,166
	2020	2019
<u>Operating Expenses:</u>		
Auxiliary activities; gross	\$ 52,923,679	\$ 56,993,390
Less: Internal sales	(1,219,702)	(20,300)
Less: Scholarship allowances	(7,657,108)	(8,092,886)
Auxiliary activities expenses - net	\$ 44,046,869	\$ 48,880,204

The University's internal sales eliminations increased significantly over the prior year due to a new reporting structure for internal sales between departments related to the University's Event Management department. Internally generated events revenue is now classified as internal revenue and expense.

Operating and Nonoperating Revenues - The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues due to their non-exchange nature, which include state appropriations and investment income. Restricted and unrestricted resources are spent and tracked within donor guidelines, if any, by the awarded University department. Federal Pell grant revenue is also classified as nonoperating. The amounts received for 2020 and 2019 are \$26.3 million and \$28.0 million, respectively.

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. Any 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.

Footnote 1 - Basis of Presentation and Significant Accounting Policies (continued)

COVID-19 Impact: On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic, now known as COVID-19. In response to the COVID-19 pandemic, governments have taken preventative or protective actions, such as temporary closures of non-essential businesses and “shelter-at-home” guidelines for individuals. As a result, the global economy has been negatively affected, and the University's operations were also impacted. Due to the “shelter-at-home” guidelines during March 2020, the University shifted to a remote online learning environment and sent students home. The University also issued room and board refunds to students and had many conference and athletic events cancelled or temporarily postponed until the “shelter-at-home” guidelines were reduced or removed, which resulted in lost revenues for the University for the year ended June 30, 2020. To offset the financial impact to students and the losses incurred by the University due to the disruption caused by COVID-19, the University received grants and other relief primarily from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The University was allocated Higher Education Emergency Relief Fund (HEERF) grants totaling approximately \$13,700,000, of which 50 percent was required to be given directly to students. For the year ended June 30, 2020, recognized HEERF grant revenue totaling approximately \$2,800,000. In addition, the University also received other emergency relief under the CARES Act through the Strengthening Institutions Program totaling approximately \$680,000 and also elected to utilize payroll tax deferrals as allowed under the CARES Act. The severity of the continued impact due to COVID-19 on the University's financial condition, results of operations or cash flows will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the College's community, all of which are uncertain and cannot be predicted.

Upcoming GASB Statements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the University's fiscal year ending June 30, 2020 were extended to June 30, 2021 with the issuance of GASB Statement No. 95, Postponement of the Effective Date of Certain Authoritative Guidance.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were originally effective for the University's fiscal year ending June 30, 2021 were extended to June 30, 2022 with the issuance of GASB Statement No. 95, Postponement of the Effective Date of Certain Authoritative Guidance.

Footnote 1 - Basis of Presentation and Significant Accounting Policies (concluded)

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It 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 University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the University's fiscal year ending June 30, 2021 were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. With the London Interbank Offered Rate (LIBOR) expecting 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 fiscal year ending June 30, 2021. Lease modification requirements are effective one year later.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to bring a uniform guidance on how to report public-private and public-public partnership arrangements. As a result, transferors in public-private or public-public arrangements will recognize receivables for installment payments, deferred inflows of resources, and, when applicable, capital assets. Operators will recognize liabilities for installment payments and intangible right-to-use assets, and when applicable, deferred outflows of resources and liabilities for assets being transferred. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange of exchange-like transaction. The provisions of this statement are effective for the University's fiscal year ending June 30, 2023.

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's fiscal year ending June 30, 2023.

In June 2020, the Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the University's fiscal year ending June 30, 2022.

Footnote 2 - Cash and Investments

The University utilizes the pooled cash method of accounting for substantially all of its cash and cash equivalents. The University's investment policy, as set forth by the Board, authorizes investment in securities of the U.S. Treasury and agencies, corporate bonds and notes, commercial paper, time savings deposits, Eurodollars and certain external mutual funds, separately managed funds and other pooled funds. Restricted cash and investments represent unspent bond proceeds utilized for capital projects and unearned proceeds from federal CARES act funding. The University's investment objective is to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. Investment decisions are based on specific guidelines which incorporate quality, safety, diversity, and liquidity of funds.

Cash and investments consisted of the following as of June 30, 2020:

	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years
Cash and cash equivalents:				
Unrestricted:				
Time deposits	\$ 25,189,397	\$ 25,189,397	\$ -	\$ -
Total unrestricted cash and cash equivalents	<u>25,189,397</u>	<u>25,189,397</u>	<u>-</u>	<u>-</u>
Long-term investments:				
Unrestricted:				
Trust cash equivalents	12,433,950	12,433,950	-	-
Certificates of deposit	-	-	-	-
U.S. Treasury securities	-	-	-	-
Government bonds	99,490	-	99,490	-
Alternative investments - equity funds	2,290,732	2,290,732	-	-
Mutual funds - balanced	704,440	704,440	-	-
Mutual funds - fixed income	2,612,013	-	-	2,612,013
Mutual funds - international	-	-	-	-
Exchange traded equity funds	2,186,098	2,186,098	-	-
Real estate	1,260,000	-	1,260,000	-
Total long-term unrestricted investments	<u>21,586,723</u>	<u>17,615,220</u>	<u>1,359,490</u>	<u>2,612,013</u>
Restricted:				
Trust cash equivalents	1,524,970	1,524,970	-	-
Restricted cash & cash equivalents	11,647,895	11,647,895	-	-
Certificates of deposit	1,407,492	1,407,492	-	-
Treasury notes	11,360,369	11,360,369	-	-
Government bonds	9,070,823	9,070,823	-	-
Total long-term restricted investments	<u>35,011,549</u>	<u>35,011,549</u>	<u>-</u>	<u>-</u>
Total Cash and Investments	<u>\$ 81,787,669</u>	<u>\$ 77,816,166</u>	<u>\$ 1,359,490</u>	<u>\$ 2,612,013</u>

Footnote 2 - Cash and Investments (continued)

Cash and investments consisted of the following as of June 30, 2019:

	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years
Cash and cash equivalents:				
Unrestricted:				
Time deposits	\$ 12,581,235	\$ 12,581,235	\$ -	\$ -
Total unrestricted cash and cash equivalents	<u>12,581,235</u>	<u>12,581,235</u>	<u>-</u>	<u>-</u>
Long-term investments:				
Unrestricted:				
Trust cash equivalents	19,585,525	19,585,525	-	-
Certificates of deposit	5,000,000	5,000,000	-	-
U.S. Treasury securities	5,489,003	5,489,003	-	-
Government bonds	14,598,491	14,504,693	93,798	-
Alternative investments - equity funds	4,320,574	4,320,574	-	-
Mutual funds - balanced	4,908,174	4,908,174	-	-
Mutual funds - fixed income	6,432,341	-	2,530,531	3,901,810
Mutual funds - international	2,718,087	2,718,087	-	-
Exchange traded equity funds	3,528,767	3,528,767	-	-
Real estate	3,960,000	-	3,960,000	-
Total long-term unrestricted investments	<u>70,540,962</u>	<u>60,054,823</u>	<u>6,584,329</u>	<u>3,901,810</u>
Restricted:				
Trust cash equivalents	9,127,306	9,127,306	-	-
Restricted cash & cash equivalents	2,000,000	2,000,000	-	-
Certificates of deposit	4,310,306	2,906,329	1,403,977	-
Treasury notes	12,056,203	797,108	11,259,095	-
Government bonds	29,394,438	20,389,983	9,004,455	-
Total long-term restricted investments	<u>56,888,253</u>	<u>35,220,726</u>	<u>21,667,527</u>	<u>-</u>
Total Cash and Investments	<u>\$ 140,010,450</u>	<u>\$ 107,856,784</u>	<u>\$ 28,251,856</u>	<u>\$ 3,901,810</u>

Footnote 2 - Cash and Investments (continued)

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, the University's operating investment policy provides for a diversified portfolio comprised of short, intermediate, and long-term investments. Short-term investments are restricted to at least 50% of the portfolio in U.S. Government Securities and/or U.S. Government Agency issues. The asset allocation, as a percentage of the total market value of the investment pool, is targeted as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Permissible Range %</u>
Equity:	35%	20% - 60%
Domestic All Cap Equities	10%	5% - 40%
International Equities	5%	0% - 30%
Emerging International Equities	5%	0% - 8%
Global Equity	15%	10% - 30%
Fixed Income:	25%	20% - 60%
Core Fixed income	5%	0% - 60%
Absolute Return Fixed Income	5%	0% - 15%
Emerging Market Debt	5%	0% - 8%
Global Multi-Sector Fixed Income	5%	0% - 10%
Treasury Inflated Protected Securities	5%	0% - 15%
Global Asset Allocation / Risk Parity	20%	0% - 30%
Alternatives:	20%	0% - 25%
Hedge Funds	10%	0% - 20%
Real Assets	10%	0% - 15%

The University is also exposed to risk indirectly since its mutual fund investees hold investments such as futures, options, and collateralized mortgage obligations (generally referred to as "derivatives"). This risk is considered to be minimal.

Credit Risk - Investment policies for cash and investments as set forth by the Board shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. The weighted average credit quality is restricted to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool. There is no credit quality restriction for the long-term investment pool. At June 30, 2020 and 2019, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	<u>2020</u>		<u>2019</u>	
	<u>Market Value</u>	<u>S&P Rating</u>	<u>Market Value</u>	<u>S&P Rating</u>
Bond Mutual Funds:				
Mutual funds - fixed income	2,612,013	AAA-BBB	6,432,341	AAA-BBB
U.S. Government agency bonds				
Federal Farm Credit Agency	3,035,381	AA+	1,504,346	AA+
Federal Home Loan Banks	3,019,299	AA+	21,400,070	AA+
Federal Natl Management Assoc	3,016,143	AA+	18,992,508	AA+
United States Treasury	99,490	N/A	93,798	N/A
Tennessee Valley Authority	-		2,002,207	AA+
Total	<u>\$ 11,782,326</u>		<u>\$ 50,425,270</u>	

Footnote 2 - Cash and Investments (continued)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the University will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The University's cash investment policy does not limit the value of deposits or investments that may be held by an outside party. Investments in external investment pools and in open-ended mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. All cash and cash equivalents are held in the University's name as of June 30, 2020 and 2019. As of June 30, 2020, the report bank balance in depository accounts was \$37,873,988. Of these balances, \$1,907,342 was covered by federal depository insurance and \$35,966,646 was uninsured and uncollateralized. As of June 30, 2019, the report bank balance in depository accounts was \$24,001,244. Of these balances, \$10,071,707 was covered by federal depository insurance and \$13,929,537 was uninsured and uncollateralized.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy provides that investments will be diversified within equity and fixed income securities as well as alternative investments so as to provide a balance that will enhance total return while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

The following investments comprise more than 5% of the total investments portfolio as of June 30, 2020 and 2019:

June 30, 2020:

Northern Inst U.S. Govt Fund	\$ 13,958,920
Federal Farm Credit Agency	3,035,381
Federal Home Loan Banks	3,019,299
Federal Natl Mtg Assn	3,016,144
United States Treasury	11,459,859
Vanguard Index Participation Equities	2,186,098
	<u>\$ 36,675,701</u>

June 30, 2019:

Northern Inst U.S. Govt Fund	\$ 28,260,836
Federal Home Loan Banks	20,661,388
Federal Natl Mtg Assn	15,453,577
United States Treasury	17,639,004
	<u>\$ 82,014,805</u>

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2020 and 2019, the University had \$2,290,732 and \$8,082,305, respectively, invested in mutual funds that have funds invested in various countries throughout the world and, therefore, exposes the University to foreign currency risk indirectly. The University did not have any direct investments or deposits denominated in foreign currencies at June 30, 2020 and 2019.

Footnote 2 - Cash and Investments (concluded)

Investments at the Eastern Michigan University Foundation are as follows:

	<u>2020</u>	<u>2019</u>
Corporate stocks	\$ 108,477	\$ 121,975
Treasury/federal securities	-	198,789
Certificates of deposit (long-term)	350,000	350,000
Real estate	667,334	667,334
Land	-	-
Mutual funds	19,812,192	18,346,099
Commingled funds - equity	20,754,341	23,398,791
Commingled funds - fixed income	6,827,586	5,079,460
Commingled funds - balanced	2,930,503	9,782,606
Commingled funds - real assets	6,441,891	-
Hedge funds	8,227,274	12,822,497
Private equity funds	7,838,987	6,771,965
Total	<u>\$ 73,958,585</u>	<u>\$ 77,539,516</u>

Net gains/losses from security transactions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Investment income:		
Dividend and interest income	\$ 581,465	\$ 815,023
Unrealized gain (loss)	60,837	2,756,777
Realized gain (loss)	(1,501,886)	352,649
investment fees	(369,587)	(680,208)
Total investment income	<u>\$ (1,229,171)</u>	<u>\$ 3,244,241</u>

Footnote 3 - Receivables

University accounts receivable consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Sponsor accounts	\$ 3,263,518	\$ 3,681,104
Student accounts	4,953,755	5,038,161
Charter school appropriations	5,896,284	4,896,607
Third party tuition	1,025,729	282,485
Other	2,745,343	5,498,312
Subtotal	<u>17,884,629</u>	<u>19,396,669</u>
Less: allowances for uncollectibles	<u>(1,642,589)</u>	<u>(1,362,211)</u>
Accounts receivable - net	<u><u>\$ 16,242,040</u></u>	<u><u>\$ 18,034,458</u></u>

University student loans receivable consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Student loans receivable	\$ 4,491,427	\$ 5,510,640
Less: allowance for uncollectibles	<u>(636,745)</u>	<u>(737,076)</u>
Student loans receivable - net	<u><u>\$ 3,854,682</u></u>	<u><u>\$ 4,773,564</u></u>

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Contributions receivable:		
Gross contributions promised	\$ 2,856,686	\$ 2,192,320
Less: allowance for uncollectibles	<u>(571,337)</u>	<u>(438,464)</u>
Subtotal	2,285,349	1,753,856
Less: unamortized discount	<u>(66,071)</u>	<u>(114,908)</u>
Net unconditional promises to give:	<u><u>2,219,278</u></u>	<u><u>1,638,948</u></u>
Amounts due in:		
Less than one year	\$ 1,245,382	\$ 1,213,954
One to five years	932,085	956,366
More than five years	<u>679,219</u>	<u>22,000</u>
Total:	<u><u>2,856,686</u></u>	<u><u>2,192,320</u></u>

Subsequent to year end in July 2020, the State of Michigan passed Public Act 146 of 2020 that replaced the August 2020 and part of the July 2020 appropriation payments with CARES Act Relief Funds that the State had received from the federal government. Due to the timing of the Act and eligibility requirements of the funding, \$8,658,200 in appropriations originally appropriated for fiscal year 2020 will be recognized as revenue during the fiscal year ending June 30, 2021, which also reduced the State Appropriations Receivable as of June 30, 2020.

Footnote 4 - 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 had the following recurring fair value measurements as of June 30, 2020:

	Balance at June 30, 2020	Fair Market Value 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:				
Cash and cash equivalents				
Certificates of deposit	\$ 1,407,492	\$ -	\$ 1,407,492	\$ -
Trust cash equivalents	13,958,920	13,958,920	-	-
Debt securities				
U.S. Treasury securities	11,360,369	-	11,360,369	-
Government bonds	9,170,313	-	9,170,313	-
Mutual funds - fixed [B]	2,612,013	2,612,013	-	-
Real estate funds				
Real estate [G]	1,260,000	-	-	1,260,000
Equity securities [A]				
Mutual funds - Balanced	704,440	704,440	-	-
Mutual funds - International	-	-	-	-
Exchange traded equity funds	2,186,098	2,186,098	-	-
Total investments by fair value level	42,659,645	19,461,471	21,938,174	1,260,000
Investments measured at the net asset value (NAV)				
Equity funds [A]	2,290,732			
Total investments measured at fair value	<u>\$ 44,950,377</u>			
Investment derivative instruments				
Fair value of derivative instruments [F]	\$ (60,346,344)		\$ (60,346,344)	

Footnote 4 - Fair Value Measurements (continued)

The University had the following recurring fair value measurements as of June 30, 2019:

	Balance at June 30, 2019	Fair Market Value 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:				
Cash and cash equivalents				
Certificates of deposit	\$ 9,310,306	\$ -	\$ 9,310,306	\$ -
Trust cash equivalents	28,712,831	28,712,831	-	-
Debt securities				
U.S. Treasury securities	17,545,206	-	17,545,206	-
Government bonds	43,992,929	-	43,992,929	-
Mutual funds - fixed [B]	6,432,341	6,432,341	-	-
Real estate funds				
Real estate [G]	3,960,000	-	-	3,960,000
Equity securities [A]				
Mutual funds - Balanced	4,908,174	4,908,174	-	-
Mutual funds - International	2,718,087	2,718,087	-	-
Exchange traded equity funds	3,528,767	3,528,767	-	-
Total investments by fair value level	<u>121,108,641</u>	<u>46,300,200</u>	<u>70,848,441</u>	<u>3,960,000</u>
Investments measured at the net asset value (NAV)				
Equity funds [A]	4,320,574			
Total investments measured at fair value	<u>\$ 125,429,215</u>			
Investment derivative instruments				
Fair value of derivative instruments [F]	\$ (21,439,705)		\$ (21,439,705)	

Footnote 4 - Fair Value Measurements (continued)

The Foundation had the following recurring fair value measurements as of June 30, 2020:

	Balance at June 30, 2020	Fair Market Value 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:				
Investments - Including investments held under split-interest agreements				
Certificates of Deposit	\$ 350,000	\$ 350,000	\$ -	\$ -
Corporate stock securities	108,477	108,477	-	-
Mutual funds - Fixed Income	10,349,597	10,349,597	-	-
Mutual funds - Equity	5,352,510	5,352,510	-	-
Mutual funds - Balanced	4,110,085	4,110,085	-	-
Total investments by fair value level	<u>20,270,669</u>	<u>20,270,669</u>	-	-
Investments measured at the net asset value (NAV)				
Commingled equity funds [A]	20,754,341			
Commingled fixed-income [B]	6,827,586			
Commingled balanced fund [C]	2,930,503			
Commingled real assets [H]	6,441,891			
Hedge fund of funds [D]	8,227,274			
Private equity of funds [E]	7,838,987			
Total investments measured at Net Asset Value	<u>53,020,582</u>			
Total investments measured at fair value	<u>\$ 73,291,251</u>			

Footnote 4 - Fair Value Measurements (continued)

The Foundation had the following recurring fair value measurements as of June 30, 2019:

	Balance at June 30, 2019	Fair Market Value 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:				
Investments - Including investments held under split-interest agreements				
Certificates of Deposit	\$ 350,000	\$ 350,000	\$ -	\$ -
U.S. Government securities	198,789	-	198,789	-
Corporate stock securities	121,975	121,975	-	-
Mutual funds - Fixed Income	10,529,026	10,529,026	-	-
Mutual funds - Equity	5,197,710	5,197,710	-	-
Mutual funds - Real Estate	2,619,363	2,619,363	-	-
Total investments by fair value level	<u>19,016,863</u>	<u>18,818,074</u>	<u>198,789</u>	<u>-</u>
Investments measured at the net asset value (NAV)				
Commingled equity funds [A]	23,398,791			
Commingled fixed-income [B]	5,079,460			
Commingled balanced fund [C]	9,782,606			
Hedge fund of funds [D]	12,822,497			
Private equity of funds [E]	6,771,965			
Total investments measured at Net Asset Value	<u>57,855,319</u>			
Total investments measured at fair value	<u>\$ 76,872,182</u>			

Footnote 4 - Fair Value Measurements (continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. Treasury Securities at June 30, 2020 and 2019 was determined primarily based on level 2 inputs. The University estimates the fair value of these using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Investments in Entities that Calculate Net Asset Value per Share

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

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

University Investments Held at the Net Asset Value as of June 30, 2020

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Equity funds [A]	\$ 2,290,732	\$ -	Daily	30 days

University Investments Held at the Net Asset Value as of June 30, 2019

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Equity funds [A]	\$ 4,320,574	\$ -	Daily	30 days

Footnote 4 - Fair Value Measurements (continued)

Foundation Investments Held at the Net Asset Value as of June 30, 2020

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 20,754,341	\$ -	Daily	2-30 days
Fixed-income funds [B]	6,827,586	-	Daily	3 days
Balanced funds [C]	2,930,503	-	Monthly	30 days
Hedge fund of funds [D]	8,227,274	-	Quarterly	30-90 days
Real assets funds [H]	6,441,891	2,593,809	Daily, Monthly	2 days
Opportunistic/Private Equity [E]	7,838,987	4,363,140	N/A	N/A
Total	<u>\$ 53,020,582</u>	<u>\$ 6,956,949</u>		

Foundation Investments Held at the Net Asset Value as of June 30, 2019

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 23,398,791	\$ -	Daily	2-30 days
Fixed-income funds [B]	5,079,460	-	Daily	1-2 days
Balanced funds [C]	9,782,606	-	Weekly, Monthly	5-30 days
Hedge fund of funds [D]	12,822,497	-	Monthly, Quarterly	65-75 days
Opportunistic/Private Equity [E]	6,771,965	6,466,821	N/A	N/A
Total	<u>\$ 57,855,319</u>	<u>\$ 6,466,821</u>		

Description of Asset Classes for Fair Value Measurement

- [A] Equity funds invest in publicly traded securities listed in domestic, international, and/or emerging markets. This segment of the portfolio is intended to provide global growth exposure. Investments are diversified across market capitalization and geographic region.
- [B] Fixed-income funds are invested in debt instruments of sovereign and/or corporate issuers. This segment of the portfolio is primarily focused on income generation. Investments are diversified across credit quality, market sector, and geographic region.
- [C] Balanced funds have the ability to invest in equity, fixed income, and real assets. The balanced segment is primarily focused on diversification and volatility mitigation via liquid tactical strategies providing exposure which may otherwise be difficult for the portfolio to obtain. The strategies are focused on providing an attractive absolute return at a reasonable level of risk.

Footnote 4 - Fair Value Measurements (concluded)

- [D] Hedge fund of funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies are typically diversified by manager and investment style and may include allocations to styles such as relative value, event-driven, hedged equity, and global macro, among others. Fund of hedge funds typically target an absolute return that is independent of market returns. Investments in this asset class are meant to provide a diversified alpha source. Holdings in hedge funds are recognized to be less liquid than public market securities and may include a lockup for initial investments. Risk in this asset class is specific to the strategy being utilized. The volatility of hedge funds of funds typically is similar to that of fixed income.
- [E] Opportunistic/Private equity – Private equity is an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is primarily focused on providing global growth exposure. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multi-year investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.
- [F] The fair value of hedging derivative instruments classified in Level 2 was valued using available market inputs such as interest rates and yield curves adjusted for nonperformance risk that are observable at commonly quoted intervals.
- [G] For those assets with fair value measured using Level 3 inputs, the University determines fair value measurement policies and procedures in consultation with the real estate appraiser. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the observable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information. The Income Capitalization method was used for determining the appraised value of the real estate.
- [H] Real Asset Funds- Public segment is focused primarily on providing inflation-adjusted dividend yield, collateral return from Commodities, and can be a function of Net Operating Income within the Real Estate space. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Private Real Assets is an ownership interest in a nonpublicly traded limited liability company (LLC) or limited partnership (LP). The segment is focused primarily on providing inflation adjusted dividend yield, collateral return from Commodities, and can be a function of Net Operating Income within the Real Estate space. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multiyear investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.

Footnote 5 - Capital Assets

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2020:

	2019	Additions/ Transfers	Retirements/ Transfers	2020
Non-depreciable:				
Land	\$ 11,330,028	\$ -	\$ -	\$ 11,330,028
Construction in process	41,292,193	56,184,592	(39,678,950)	57,797,835
Total non-depreciable capital assets	<u>52,622,221</u>	<u>56,184,592</u>	<u>(39,678,950)</u>	<u>69,127,863</u>
Depreciable:				
Infrastructure	48,457,835	10,711,374	12,206,875	71,376,084
Leasehold improvements	375,996	-	-	375,996
Buildings	725,150,929	27,284,172	(6,286,012)	746,149,089
Library holdings	50,838,726	406,800	-	51,245,526
Equipment	93,408,461	5,427,230	(25,677,845)	73,157,846
Total depreciable capital assets	<u>918,231,947</u>	<u>43,829,576</u>	<u>(19,756,982)</u>	<u>942,304,541</u>
Total cost of capital assets	<u>970,854,168</u>	<u>100,014,168</u>	<u>(59,435,932)</u>	<u>1,011,432,404</u>
Less: Accumulated depreciation				
Infrastructure	33,767,786	2,358,210	3,292,097	39,418,093
Leasehold improvements	361,686	14,310	-	375,996
Buildings	215,004,894	11,578,955	-	226,583,849
Library holdings	48,980,603	571,996	-	49,552,599
Equipment	78,996,371	2,543,537	(23,054,182)	58,485,726
Total accumulated depreciation	<u>377,111,340</u>	<u>17,067,008</u>	<u>(19,762,085)</u>	<u>374,416,263</u>
Capital assets - Net	<u>\$ 593,742,828</u>	<u>\$ 82,947,160</u>	<u>\$ (39,673,847)</u>	<u>\$ 637,016,141</u>

During fiscal year 2020, the University retired equipment no longer in use with an original acquisition cost of \$18,417,779. The equipment retired was all fully depreciated and had a net book value of zero.

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2019:

	2018	Additions/ Transfers	Retirements/ Transfers	2019
Non-depreciable:				
Land	\$ 11,724,697	\$ -	\$ (394,669)	\$ 11,330,028
Construction in process	66,438,629	77,871,618	(103,018,054)	41,292,193
Total non-depreciable capital assets	<u>78,163,326</u>	<u>77,871,618</u>	<u>(103,412,723)</u>	<u>52,622,221</u>
Depreciable:				
Infrastructure	46,604,364	1,853,471	-	48,457,835
Leasehold improvements	514,689	-	(138,693)	375,996
Buildings	623,471,047	102,074,758	(394,876)	725,150,929
Library holdings	50,376,186	462,540	-	50,838,726
Equipment	86,655,327	7,517,135	(764,001)	93,408,461
Total depreciable capital assets	<u>807,621,613</u>	<u>111,907,904</u>	<u>(1,297,570)</u>	<u>918,231,947</u>
Total cost of capital assets	<u>885,784,939</u>	<u>189,779,522</u>	<u>(104,710,293)</u>	<u>970,854,168</u>
Less: Accumulated depreciation				
Infrastructure	32,512,572	1,255,214	-	33,767,786
Leasehold improvements	462,777	37,600	(138,691)	361,686
Buildings	204,421,925	10,705,228	(122,259)	215,004,894
Library holdings	48,289,130	691,473	-	48,980,603
Equipment	77,046,766	2,619,339	(669,734)	78,996,371
Total accumulated depreciation	<u>362,733,170</u>	<u>15,308,854</u>	<u>(930,684)</u>	<u>377,111,340</u>
Capital assets - Net	<u>\$ 523,051,769</u>	<u>\$ 174,470,668</u>	<u>\$ (103,779,609)</u>	<u>\$ 593,742,828</u>

Footnote 5 - Capital Assets (concluded)

Certain University facilities, including the Bruce T. Halle Library, John W. Porter College of Education, Boone Hall, Everett L. Marshall College of Health and Human Services Building, the William H. Smart Physical Plant, the Student Center, the Pray-Harrold Building and Strong Hall have been financed in whole or in part by State Building Authority ("SBA") bond issues which are secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the University will pay all operating and maintenance costs. At the expiration of the individual leases, the SBA has agreed to sell each building to the University for one dollar.

For the year ended June 30, 2020, the University capitalized \$957,508 in interest on 2018A bond projects (including Rec IM and Sill Hall). For the year ended June 30, 2019, the University capitalized \$1,296,771 in interest on 2018A bond projects (including Strong Hall, Rec IM, Sill Hall, Loop 1, and the Athletic Training Building & Performance Center), and capitalized \$867,107 in interest on 2016 Bond projects (including Co-Gen and ECM Phase II).

The following table presents the University's commitments for major construction projects for the year ended June 30, 2020:

<u>Project</u>	<u>Amount</u>
Sill Hall Renovations	\$ 9,855,125
Rec IM Renovations	5,153,656
Athletic Training - FFE	1,280,477
Health Center	1,098,032
Rec IM Locker Room Renovations	1,034,272
Roofing Allowance	522,525
Other Projects	2,824,028
	<u>\$ 21,768,115</u>

The following table presents the University's commitments for major construction projects for the year ended June 30, 2019:

<u>Project</u>	<u>Amount</u>
Rec IM Renovations	\$ 12,827,064
Strong Hall	11,148,163
Sill Hall Renovations	8,461,263
Health Center	4,550,766
Athletic Training Building	3,979,315
Athletic Training - FFE	1,632,266
Mark Jefferson 5th Floor Remodel	1,149,864
SAW Grant	695,470
Convo Ctr Production Room	643,295
Classroom Technology	629,776
Cornell Overhead Utilities	621,381
Other Projects	3,294,914
	<u>\$ 49,633,537</u>

Footnote 6 - Long-term Debt

Long-term debt consists of the following as of June 30, 2020 and 2019:

	Interest Rates	Maturity	2019	Additions	Retirements/ Defeasance	2020	Current Portion
General Revenue Bonds:							
Series 2018A	4.00%	2038 - 2047	\$ 78,270,000	\$ -	\$ -	\$ 78,270,000	\$ -
General Revenue Refunding Bonds:							
Series 2018B	5.00%	2047 - 2058	155,000,000	-	-	155,000,000	-
Series 2017A	3.00 - 5.00%	2020 - 2038	73,150,000	-	(2,855,000)	70,295,000	3,015,000
Series 2016	3.375 - 4.125%	2028 - 2047	24,060,000	-	-	24,060,000	-
Refunding Bonds:							
Series 2014	2.00 - 4.00%	2017 - 2029	9,785,000	-	(20,000)	9,765,000	20,000
Build America Bonds:							
Series 2009D	4.21 - 7.21%	2017 - 2019	-	-	-	-	-
Installment Financing Agreement							
	3.98%	2019 - 2023	3,057,454	-	(1,246,850)	1,810,604	579,303
			<u>343,322,454</u>	<u>-</u>	<u>(4,121,850)</u>	<u>339,200,604</u>	<u>\$ 3,614,303</u>
Unamortized Bond Premium:							
Series 2018A			707,451	-	(28,680)	678,771	28,680
Series 2017A			7,789,644	-	(417,301)	7,372,343	417,304
			<u>8,497,095</u>	<u>\$ -</u>	<u>\$ (445,981)</u>	<u>8,051,114</u>	<u>\$ 445,984</u>
Less current portion of long-term debt			4,121,849			3,614,303	
Less current portion of bond premium			445,982			445,984	
Long-term debt			<u>\$ 347,251,718</u>			<u>\$ 343,191,431</u>	

Long-term debt consists of the following as of June 30, 2019 and 2018:

	Interest Rates	Maturity	2018	Additions	Retirements/ Defeasance	2019	Current Portion
General Revenue Bonds:							
Series 2018A	4.00%	2038 - 2047	\$ 78,270,000	\$ -	\$ -	\$ 78,270,000	\$ -
General Revenue Refunding Bonds:							
Series 2018B	5.00%	2047 - 2058	155,000,000	-	-	155,000,000	-
Series 2017A	3.00 - 5.00%	2020 - 2038	73,150,000	-	-	73,150,000	2,855,000
Series 2016	3.375 - 4.125%	2028 - 2047	24,060,000	-	-	24,060,000	-
Refunding Bonds:							
Series 2014	2.00 - 4.00%	2017 - 2029	9,805,000	-	(20,000)	9,785,000	20,000
Build America Bonds:							
Series 2009D	4.21 - 7.21%	2017 - 2019	2,895,000	-	(2,895,000)	-	-
Installment Financing Agreement							
	3.98%	2019 - 2023	-	5,999,031	(2,941,577)	3,057,454	1,246,849
			<u>343,180,000</u>	<u>5,999,031</u>	<u>(5,856,577)</u>	<u>343,322,454</u>	<u>\$ 4,121,849</u>
Unamortized Bond Premium:							
Series 2018A			736,131	-	(28,680)	707,451	28,680
Series 2017A			8,206,947	-	(417,303)	7,789,644	417,302
			<u>8,943,078</u>	<u>\$ -</u>	<u>\$ (445,983)</u>	<u>8,497,095</u>	<u>\$ 445,982</u>
Less current portion of long-term debt			2,915,000			4,121,849	
Less current portion of bond premium			445,982			445,982	
Long-term debt			<u>\$ 348,762,095</u>			<u>\$ 347,251,718</u>	

Footnote 6 - Long-term Debt (continued)

Issuances and Refundings of Long-term Debt

Installment Financing Agreement

On July 20, 2018, EMU signed an installment financing agreement with Key Government Finance to finance the purchase of CISCO hardware, software, and maintenance. The payments of principal and interest will extend over 4 years and will provide for significant upgrades to the University's server systems. The University grants Key Government Finance a first lien to all of the property purchased through the financing agreement, as well as any substitutions or replacements to the property, or insurance proceeds generated by the property. This lien is Key Government Finance's collateral on the financing agreement.

General Revenue and Refunding Bonds

On May 17, 2018, the University issued \$78,270,000 of General Revenue Bonds, Series 2018A. The Series 2018A bonds amortize over 30 years with principal payments beginning in 2038. The proceeds from the issuance will go towards capital projects for the University.

On May 17, 2018, the University issued \$155,000,000 of General Revenue and Refunding Bonds, Series 2018B, to redeem the \$155,000,000 2017 General Revenue Refunding Bonds which terminated the 2017 Total Return Swap. The 2018 Total Return Swap was issued to further hedge the variable rate on the 2018B Series Bonds. The Series 2018B bonds amortize over 40 years with principal payments beginning in 2047. The refunding resulted in a reduction of total interest payments of \$11,700,935 and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$8,608,431.

On August 31, 2017, the University issued \$73,150,000 of General Revenue and Refunding Bonds, Series 2017A, to redeem the \$23,160,000 2009C General Revenue Bonds, and to redeem \$55,430,000 of the 2009D Build America Bonds. The Series 2017A bonds amortize over 21 years with principal payments beginning in 2020. The refunding was done for structural purposes, and to wrap around new money bonds.

On May 4, 2017, the University issued \$155,000,000 of General Revenue and Refunding Bonds, Series 2017. The Series 2017 refunded the \$155,000,000 2015 Term Loan and terminated the 2015 Total Return Swap. The 2017 Total Return Swap was issued in order to hedge the variable rate on the 2017 Series Bonds. The Series 2017 Bonds amortize over 29 years with principal payments beginning in 2021. The refunding resulted in a reduction of total interest payments of \$648,762 and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$18,021.

On November 30, 2016, the University issued \$24,060,000 of General Revenue and Refunding Bonds, Series 2016, to redeem the \$20,000,000 2016 Term Loan and provide \$4,060,000 for capital projects. The Series 2016 amortizes over 20 years with principal payments beginning in 2028.

On August 20, 2014, the University issued \$9,860,000 of General Revenue Refunding Bonds, Series 2014. These bonds refunded \$9,860,000 of General Revenue Build America Bonds, Series 2009D. 2014 Series bonds amortize over 14 years with principal payments beginning June 30, 2016.

Certain bonded debt agreements require student fees to equal or exceed 200% of the related debt service. The University is in compliance with these covenants.

Principal and interest on long-term debt are payable from operating revenues, allocated student fees and the excess of revenues over expenditures of specific auxiliary activities. The obligations are generally callable.

Footnote 6 - Long-term Debt (continued)

On May 17, 2018, the University entered into a 2018B Total Return Swap in order to hedge the variable rate on the 2018B Series Bonds. The 2018B Total Return Swap terminated the 2017 Total Return Swap and wraps around the 2001, 2006 and 2009 swap agreements, which were established at the same time and for the same amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. As a result, the Series 2015 swap now hedges the 2018B total return swap and reduced the financing element described below by \$2,324,223.

On May 4, 2017, the University entered into a 2017 Total Return Swap in order to hedge the variable rate on the 2017 Series Bonds. The 2017 Total Return Swap terminated the 2015 Total Return Swap and wraps around the 2001, 2006 and 2009 swap agreements, which were established at the same time and for the same amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly.

The May 4, 2017 refinancing of the 2015 Term Loan, the June 19, 2015 refinancing of the 2009 swap and the June 25, 2015 refunding of the debt associated with the original swaps created synthetic termination events. Under a synthetic termination event, the fair value of the swap associated with the termination event is deemed an additional borrowing (also referred to as a financing element) to be amortized over the life of the related debt. The synthetic terminated swaps are then revalued and considered new swaps and eligible for consideration as effective or ineffective swaps. Effective swaps are recorded as hedging derivative instrument assets or liabilities, with an offsetting deferred inflow or outflow. Ineffective swaps are recorded as hedging derivative investment assets or liabilities with offsetting changes in fair value running through investment income. Based on regression analysis and/or dollar offset method, all but two of the swap agreements have been determined to be ineffective hedging derivative instruments as of June 30, 2017 and 2016. All but one of the swap agreements were determined to be effective hedging derivative instruments as of June 30, 2015.

On June 25, 2015 the University entered into a Total Return swap transaction with Barclays Bank PLC in the notional amount of the 2015 Term Loan of \$155,000,000 plus a premium of \$3,569,650. The 2015 Total Return swap agreement wrapped around the 2001, 2006 and 2009 swap agreements, which were established at the same time and for the same amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. In addition, on June 19, 2015, the University refinanced the 2009 single-mini swap that is used to replace, over time, the amortizing notional amounts of the 2001 and 2006 swaps.

Regression analysis evaluated effectiveness by considering the statistical relationship between the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. The changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item when certain criteria were met. Under the dollar-offset method, the changes in the fair value of the derivative are divided by the changes in fair value of the hedgeable item. This evaluation may be made using changes in the current period or on a life-to-date basis. The result of the calculation must fall within 80% to 125% percent in order for the derivative to be considered effective.

In accordance with GASB 53, these swaps are considered hybrid instruments consisting of a financing element of \$27,777,318 and \$29,840,341 for June 30, 2020 and 2019, respectively - and a fair value of the derivative instrument (\$60,346,344) and (\$21,439,705) for June 30, 2020 and 2019, respectively. The financing element is reported as an interest rate swap liability that is being amortized over the remaining life of the original debt. The derivative is reported as a fair value of derivative instrument asset or liability with an offsetting deferred inflow or outflow within the Statement of Net Position. The swaps considered no longer effective are treated as an investment at fair value. The deferred inflow or outflow at time determined ineffective is immediately recognized in investment income.

Footnote 6 - Long-term Debt (continued)

June 30, 2020:

Series	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Contract Provider	Credit Rating (Moody's)	Scheduled	Inception Date
	Paid by EMU		Received by EMU	Received by EMU			Termination Date	
Total Return		68% of LIBOR						
Swap 2018B		+ 65 basis points	5.000%	-	Barclays	Baa2	9/1/2023	5/10/2018
Series 2001	4.465%	-	-	68% of LIBOR	JPMorgan	A2	6/1/2027	11/30/2012
Series 2001	4.720%	-	-	68% of LIBOR	JPMorgan	A2	6/1/2027	7/27/2001
				62% of LIBOR				
Series 2006	3.317%	-	-	+ 20 basis points	Barclays	Baa2	6/1/2036	1/23/2006
Series 2015	3.141%	-	-	68% of LIBOR	Barclays	Baa2	3/1/2049	6/19/2015

Hedging derivative instruments:

Series	Current Notional Amount	July 1, 2019 fair value	Change in fair value (reported as deferred)	June 30, 2020 fair value	June 30, 2020	June 30, 2020
					Deferred Inflow	Deferred Outflow
Receive-fixed, pay-variable interest rate swaps:						
Series 2018B, original notional amount of \$155.0 million	\$ 155,000,000	\$ 260,400	\$ 134,850	\$ 395,250	\$ 395,250	\$ -
Receive-variable, pay-fixed interest rate swaps:						
Series 2015, original notional amount of \$2.5 million maturities through 2049	44,440,000	(20,168,192)	(34,187,432)	(54,355,624)	-	54,355,624
Total hedging instruments				<u>\$ (53,960,374)</u>	<u>\$ 395,250</u>	<u>\$ 54,355,624</u>

Investment derivative instruments:

Series	Current Notional Amount	July 1, 2019 fair value	Change in fair value (reported as investment income)	June 30, 2020 fair value	Reclass to	Total
					Investment derivative included in investment income	impact on investment income year ended June 30, 2020
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 9,246,000	\$ (156,450)	\$ (345,570)	\$ (502,020)	\$ -	\$ (345,570)
Series 2001, original notional amount of \$24.8 million	13,869,000	(237,873)	(520,137)	(758,010)	-	(520,137)
Series 2006, original notional amount of \$85.7 million	58,240,000	(1,137,590)	(3,988,350)	(5,125,940)	-	(3,988,350)
Series 2015, original notional amount of \$2.5 million maturities 2021-2049	44,440,000	-	-	-	-	-
Total derivative instruments			<u>\$ (4,854,057)</u>	<u>\$ (6,385,970)</u>		<u>\$ (4,854,057)</u>

Footnote 6 - Long-term Debt (continued)

June 30, 2019:

Series	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Contract Provider	Credit Rating (Moody's)	Scheduled	Inception Date
	Paid by EMU		Received by EMU	Received by EMU			Termination Date	
Total Return		68% of LIBOR						
Swap 2018B		+ 65 basis points	5.000%	-	Barclays	Baa3	9/1/2023	5/10/2018
Series 2001	4.465%	-	-	68% of LIBOR	JPMorgan	A2	6/1/2027	11/30/2012
Series 2001	4.720%	-	-	68% of LIBOR	JPMorgan	A2	6/1/2027	7/27/2001
				62% of LIBOR				
Series 2006	3.317%	-	-	+ 20 basis points	Barclays	Baa3	6/1/2036	1/23/2006
Series 2015	3.141%	-	-	68% of LIBOR	Barclays	Baa3	3/1/2049	6/19/2015

Hedging derivative instruments:

Series	Current Notional Amount	July 1, 2018 fair value	Change in fair value (reported as deferred)	June 30, 2019 fair value	June 30, 2019	June 30, 2019
					Deferred Inflow	Deferred Outflow
Receive-fixed, pay-variable interest rate swaps:						
Series 2018B, original notional amount of \$155.0 million	\$ 155,000,000	\$ 235,600	\$ 24,800	\$ 260,400	\$ 260,400	\$ -
Receive-variable, pay-fixed interest rate swaps:						
Series 2015, original notional amount of \$2.5 million maturities through 2049	38,165,000	543,212	(20,711,404)	(20,168,192)	-	20,168,192
Total hedging instruments				<u>\$ (19,907,792)</u>	<u>\$ 260,400</u>	<u>\$ 20,168,192</u>

Investment derivative instruments:

Series	Current Notional Amount	July 1, 2018 fair value	Change in fair value (reported as investment income)	June 30, 2019 fair value	Reclass to	Total
					Investment derivative included in investment income	impact on investment income year ended June 30, 2019
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 10,328,000	\$ 278,597	\$ (435,047)	\$ (156,450)	\$ -	\$ (435,047)
Series 2001, original notional amount of \$24.8 million	15,492,000	423,737	(661,610)	(237,873)	-	(661,610)
Series 2006, original notional amount of \$85.7 million	61,810,000	3,145,542	(4,283,132)	(1,137,590)	-	(4,283,132)
Series 2015, original notional amount of \$2.5 million maturities 2021-2049	38,165,000	-	-	-	-	-
Total derivative instruments			<u>\$ (5,379,789)</u>	<u>\$ (1,531,913)</u>		<u>\$ (5,379,789)</u>

Footnote 6 - Long-term Debt (concluded)

Credit Risk: The University is exposed to credit risk on hedging derivative instruments that are in asset positions. The terms of the swap agreement require collateralization of the fair value of hedging derivative instruments in asset positions based on a scale that evaluates both the market value of the swap and the counterparty's credit rating. The terms of the Total Return Swap of 2018B call for the University to post collateral to the counterparty under certain conditions tied to the prevailing rating of the University and the mark to market valuations of the swaps. As of June 30, 2019, \$2.0 million of collateral was posted with Barclays. As of June 30, 2020, no collateral was posted or required due to restructuring of swap agreement with Barclays. There is no exposure to credit risk on the hedging derivative instruments in liability position.

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR swaps decrease, the University's net payment on the swaps increases.

Basis Risk: The University is exposed to basis risk on its LIBOR-based swaps due to variable-rate payments received by the University on these instruments based on a rate of index other than interest rates the University pays on its variable-rate debt, which is remarketed every 30 days. In December 2012, the University amended a portion of the 2001 fixed payer swap by changing the received rate from Securities Industry and Financial Markets Association (SIFMA) to a percentage of LIBOR. This amendment effectively decreased the swap fixed pay leg from 4.72% to 4.465%. Since the 2001, 2006, and 2015 swap agreements receive a percentage of LIBOR from the counterparty and pay a percentage of LIBOR for bonds, basis risk is mitigated. As of June 30, 2020, the variable interest rate was 0.11%, whereas 68 percent of three-month LIBOR was 0.20%. As of June 30, 2019, the variable interest rate was 1.49%, whereas 68 percent of one-month LIBOR was 1.63%. As of June 30, 2020, 62 percent of one-month LIBOR plus 20 basis points was 0.30%. As of June 30, 2019, 62 percent of one-month LIBOR plus 20 basis points was

Termination Risk: The University may terminate a derivative instrument on any business day and terminate and cash settle the instrument by providing prior written notice to the counterparty. Additional termination events will apply if either party fails to maintain the appropriate long-term senior debt credit ratings; or if the University fails to post collateral in accordance with the terms and conditions set forth in the ISDA Credit Support Annex.

Using rates as of June 30, 2020, debt service requirements of the variable rate debt associated with the 2001 swap agreement, 2006 swap agreement, and the 2015 swap agreement and net swap payments, assuming current interest rates remain the same for term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Scheduled maturities of long-term liabilities are as follows:

Year	Bond	Installment	Bond	Installment	Swap Interest	Net Interest	Net Principal and Interest
	Principal	Financing Principal	Interest	Financing Interest			
2021	\$ 3,035,000	\$ 579,304	\$ 15,347,944	\$ 74,706	\$ (1,916,316)	\$ 13,506,334	\$ 17,120,638
2022	2,925,000	603,206	15,196,594	50,804	(1,939,161)	13,308,237	16,836,443
2023	3,085,000	628,095	15,050,744	25,915	(1,993,455)	13,083,204	16,796,299
2024	3,260,000	-	14,896,894	-	(2,012,755)	12,884,139	16,144,139
2025	3,630,000	-	14,734,294	-	(1,992,549)	12,741,745	16,371,745
2026-2030	25,020,000	-	70,733,720	-	(10,522,767)	60,210,953	85,230,953
2031-2035	33,105,000	-	64,498,540	-	(10,541,915)	53,956,625	87,061,625
2036-2040	39,420,000	-	57,400,587	-	(9,259,830)	48,140,757	87,560,757
2041-2045	47,515,000	-	48,929,450	-	(5,646,078)	43,283,372	90,798,372
2046-2050	57,800,000	-	38,226,732	-	(1,207,277)	37,019,455	94,819,455
2051-2055	69,880,000	-	22,924,500	-	-	22,924,500	92,804,500
2056-2058	48,715,000	-	4,932,750	-	-	4,932,750	53,647,750
	<u>\$ 337,390,000</u>	<u>\$ 1,810,605</u>	<u>\$ 382,872,749</u>	<u>\$ 151,425</u>	<u>\$ (47,032,103)</u>	<u>\$ 335,992,071</u>	<u>\$ 675,192,676</u>

Footnote 7 - Retirement Benefits

Through December 31, 1995, the University offered participation in one of two retirement plans for all qualified employees: the Michigan Public School Employees' Retirement System ("MPSERS") and a defined contribution plan administered by Teachers Insurance and Annuities Association - College Retirement Equities Fund ("TIAA-CREF"). The MPSERS plan is further discussed in Note 9.

Defined Contribution Plan

The University provides a defined contribution plan administered by TIAA-CREF. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee contributions vest immediately. Employer contributions vest in accordance with their labor contract as seen in the schedule below. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract. Average contribution rates, covered payroll, and University contributions to the plan for the years ended June 30, 2020 and 2019 were as seen below. The University has no liability beyond its own contribution under the TIAA-CREF plan.

	<u>2020</u>	<u>2019</u>
Covered payroll	\$127,327,000	\$132,106,000
Average contribution rate	9.88%	9.74%
University contribution	\$12,584,000	\$12,863,000

<u>Labor Unit</u>	<u>Employee Vesting</u>	
AC, AH, AP, CA	Hired on or before 12/31/12: Immediate	Hired on or after 1/1/13: Two Years
CP	Hired on or before 6/30/16: Immediate	Hired on or after 7/1/16: Two Years
CS	Hired on or before 6/30/16: Immediate	Hired on or after 7/1/16: Two Years
FA	Immediate	Immediate
FM	Two years	Two years
LE	Hired on or before 12/31/16: Immediate	Hired on or after 1/1/17: Two Years
PE/PT	Two Years	Two Years
PS	Hired on or before 6/30/13: Immediate	Hired on or after 7/1/13: Two Years

Accrued Compensated Absences

The University provides benefits upon retirement resulting from unused earned sick days for certain bargaining units. In addition, the University provides benefits upon departure from the University resulting from unused earned vacation time for all employees. The University calculates its compensated absence liability in accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences. The current portion of accrued absences is included in payroll taxes and accrued fringe benefits. The remaining portion is included in accrued compensated absences.

	<u>2020</u>	<u>2019</u>
Accrued Sick/Comp Leave:		
Long-term	\$ 1,883,626	\$ 1,944,558
Current portion	<u>1,467,240</u>	<u>646,339</u>
	\$ 3,350,866	\$ 2,590,897
Accrued Vacation:		
Current portion	\$ 4,415,922	\$ 3,647,335

Footnote 8 - Contingencies and Commitments

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against any and all claims and is of the opinion that the outcome of current legal actions will not have a material effect on the University's financial position.

The University participates in the Michigan Universities Self-Insurance Corporation ("MUSIC"), which provides indemnity to members against comprehensive general liability, errors and omissions ("E&O"), and property losses commonly covered by insurance. MUSIC also provides risk management and loss control services and programs. Loss coverages are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer and commercial carriers covering the third. Comprehensive general liability coverage is provided on an occurrence basis. Errors and omissions and property coverage are provided on a claims-made basis.

The University is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. Liabilities for estimates of losses retained by the University under MUSIC and reserves for claims incurred but not reported under self-insurance programs have been established.

Claims activity for the year ended June 30, 2020 is as follows:

	Liability June 30, 2019	Claims incurred including changes in estimate	Claim Payments	Liability June 30, 2020
Medical Claims	\$ 1,788,547	\$ (27,053,256)	\$ 26,865,232	\$ 1,600,523
Property, General Liability, E&O	1,151,004	(605,688)	374,242	919,558
Workers Comp, Unemployment Comp	300,000	(605,386)	480,386	175,000
Total	\$ 3,239,551	\$ (28,264,330)	\$ 27,719,860	\$ 2,695,081

Claims activity for the year ended June 30, 2019 is as follows:

	Liability July 1, 2018	Claims incurred including changes in estimate	Claim Payments	Liability June 30, 2019
Medical Claims	\$ 867,418	\$ (21,348,086)	\$ 22,269,215	\$ 1,788,547
Property, General Liability, E&O	767,153	(223,213)	607,064	1,151,004
Workers Comp, Unemployment Comp	291,683	(433,869)	442,186	300,000
Total	\$ 1,926,254	\$ (22,005,168)	\$ 23,318,465	\$ 3,239,551

Claims activity for the year ended June 30, 2018 is as follows:

	Liability July 1, 2017	Claims incurred including changes in estimate	Claim Payments	Liability June 30, 2018
Medical Claims	\$ 2,061,177	\$ (28,498,123)	\$ 27,304,364	\$ 867,418
Property, General Liability, E&O	642,202	(341)	125,290	767,151
Workers Comp, Unemployment Comp	291,683	-	-	291,683
Total	\$ 2,995,062	\$ (28,498,464)	\$ 27,429,654	\$ 1,926,252

Footnote 8 - Contingencies and Commitments (Concluded)

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2020, the University has made \$1,509,000 in institutional capital contributions, which are reflected as part of the University's net position. Under current guidance issued by the Department of Education, at the time the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University will be forgoing its institutional capital contribution not yet received back through loan collections. The University has not yet been required to or elected to liquidate the loan portfolio.

Note 9 - Michigan Public School Employees' Retirement System

Plan Description

The University participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the University hired 1996 or earlier. Certain University employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Service (ORS), P.O. Box 30171, Lansing, MI 48909-7671.

Benefits Provided

Benefit provisions of the defined benefit pension plan and the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 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 to 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.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

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. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

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

Note 9 - Michigan Public School Employees' Retirement System (continued)

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 who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and instead opting out of the subsidy 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k)

The University's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - September 30, 2018	19.60%-24.47%	6.13%-6.44%
October 1, 2018 - September 30, 2019	19.74%-25.03%	5.99%-6.42%
October 1, 2019 - September 30, 2020	19.74%-26.03%	5.99%-6.57%

Note 9 - Michigan Public School Employees' Retirement System (continued)

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The University's required and actual pension contributions to the plan for the year ended June 30, 2020 and 2019 were \$6,003,732 and \$5,496,721, respectively, which include the University's contributions required for those members with a defined contribution benefit. The University's required and actual pension contributions include an allocation of \$628,466 and \$674,924 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2020 and 2019, respectively.

The University's required and actual OPEB contributions to the plan for the years ended June 30, 2020, and June 30, 2019, were \$1,553,094, and \$1,383,060, respectively. These amounts include the University's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2020 and 2019, the University reported a liability of \$83,913,363 and \$80,505,916, respectively, for its proportionate share of the net pension liability as calculated for the Universities reporting unit of MPSERS. The net pension liability was measured as of September 30, 2019 and 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and 2017, which used updated procedures to roll forward the estimated liability to September 30, 2019 and 2018. The University's proportion of the net pension liability was based on a projection of its long term share of contributions to the pension plan relative to the projected contributions of all participating Universities, actuarially determined. At September 30, 2019, 2018, and 2017, the University's proportion was 12.53 percent, 12.60 percent, and 12.61 percent respectively, of the Universities reporting unit.

Net OPEB Liability

At June 30, 2020 and 2019, the University reported a liability of \$11,390,501 and \$14,705,680, respectively, for its proportionate share of the net OPEB liability as calculated for the Universities reporting unit of MPSERS. The net OPEB liability was measured as of September 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and 2017, which used updated procedures to roll forward the estimated liability to September 30, 2019. The University's proportion of the net OPEB liability was based on a projection of its long term share of contributions to the OPEB plan relative to the projected contributions of all participating Universities, actuarially determined. At September 30, 2019, 2018, and 2017, the University's proportion was 12.41 percent, 12.40 percent, and 12.54 percent respectively, of the Universities reporting unit.

Note 9 - Michigan Public School Employees' Retirement System (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended 2020 and 2019, the University recognized pension expense of \$9,028,845 and \$15,072,964, respectively, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020		June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ (62,439)
Changes of assumptions	-	-	645,738	-
Net difference between projected and actual earnings on pension plan investments	-	(1,518,672)	-	(2,663,041)
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-	-	(16,021)
Total amortized deferrals	-	(1,518,672)	645,738	(2,741,501)
University contributions subsequent to the measurement date	4,691,691	-	4,186,316	-
Total	<u>\$ 4,691,691</u>	<u>\$ (1,518,672)</u>	<u>\$ 4,832,054</u>	<u>\$ (2,741,501)</u>

The \$628,466 and \$674,924 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 236(4) of the State School Aid Act (PA 94 of 1979), will be recognized as net pension expense for the years ended June 30, 2021 and 2020, respectively.

Note 9 - Michigan Public School Employees' Retirement System (continued)

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

Years Ending June 30	Amount
2021	\$ (754,144)
2022	(816,369)
2023	(202,850)
2024	254,691
	<u>\$ (1,518,672)</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.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020 and 2019, respectively, the University recognized OPEB recovery of (\$2,379,361) and (\$870,675). At June 30, 2020 and 2019, respectively, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2020		June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (703,451)	\$ -	\$ (1,157,013)
Changes of assumptions	282,775	-	628,194.00	-
Net difference between projected and actual earnings on pension plan investments	-	(350,956)	-	(837,869)
Changes in proportion and differences between University contributions and proportionate share of contributions	2,831	(2,484)	-	(62,396)
Total amortized deferrals	<u>285,606</u>	<u>(1,056,891)</u>	<u>628,194</u>	<u>(2,057,278)</u>
University contributions subsequent to the measurement date	1,172,623	-	996,861	-
Total	<u>\$ 1,458,229</u>	<u>\$ (1,056,891)</u>	<u>\$ 1,625,055</u>	<u>\$ (2,057,278)</u>

Note 9 - Michigan Public School Employees' Retirement System (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB was recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and therefore will not be included in future pension expense):

Years Ending June 30	Amount
2021	\$ (605,260)
2022	(184,931)
2023	(41,699)
2024	60,605
	<u>\$ (771,285)</u>

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2019 is based on the results of an actuarial valuation as of September 30, 2018, and rolled forward. The total pension and total OPEB liabilities were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial method
Investment rate of return - pension	6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses based on the groups
Salary Increases	2.75 - 11.55%	Including wage inflation of 2.75%
Healthcare Cost Trend Rate	7.50%	Year 1 graded to 3.0% Year 12
Mortality basis	Retirees & Active	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual non-compounded for MIP members

The total pension liability and total OPEB liability as of September 30, 2018 is based on the results of an actuarial valuation as of September 30, 2017, and rolled forward. The total pension and total OPEB liabilities were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial method
Investment rate of return - pension	7.05%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.15%	Net of investment expenses based on the groups
Salary Increases	2.75 - 11.55%	Including wage inflation of 2.75%
Healthcare Cost Trend Rate	7.50%	Year 1 graded to 3.0% Year 12
Mortality basis	Retirees & Active	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual non-compounded for MIP members

Note 9 - Michigan Public School Employees' Retirement System (continued)

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Significant assumption changes since the prior measurement date, September 30, 2018, for pension and OPEB include a reduction in both discount rates, continued impact of the updated experience study which resulted in a lower than projected per person health benefit costs for OPEB, and favorable investment experience for both plans. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 6.8 percent and 7.05 percent as of September 30, 2019 and 2018, respectively. The discount rate used to measure the total OPEB liability was 6.95 and 7.15 percent as of September 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that University contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of 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 liability 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 in which best estimate ranges of expected future real rates of return (expected returns, net of 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:

	September 30, 2019		September 30, 2018	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0%	5.5%	28.0%	5.7%
Private equity pools	18.0%	8.6%	18.0%	9.2%
International equity pools	16.0%	7.3%	16.0%	7.2%
Fixed-income pools	10.5%	1.2%	10.5%	5.0%
Real estate and infrastructure pools	10.0%	4.2%	10.0%	3.9%
Absolute return pools	15.5%	5.4%	15.5%	5.2%
Short-term investment pools	2.0%	0.8%	2.0%	0.0%
Total	100%		100%	

MPSERS approved a decrease in the discount rate for the September 30, 2018 annual actuarial valuation for the pension plan and the OPEB plan to 6.95% and 6.80%, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2019.

Note 9 - Michigan Public School Employees' Retirement System (continued)

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 discount rate depending on the plan option. The following also reflects what the University's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2020		
	1% Decrease (5.80%)	Current Discount Rate (6.80%)	1% Increase (7.80%)
University's proportionate share of the net pension liability - June 30, 2020	\$ 98,802,952	\$ 83,913,363	\$ 71,228,222
	2019		
	1% Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
University's proportionate share of the net pension liability - June 30, 2019	\$ 95,172,326	\$ 80,505,916	\$ 67,994,402

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. The following also reflects what the University's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2020		
	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
University's proportionate share of the net OPEB liability - June 30, 2020	\$ 14,313,629	\$ 11,390,501	\$ 8,902,164
	2019		
	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
University's proportionate share of the net OPEB liability - June 30, 2019	\$ 17,691,119	\$ 14,705,680	\$ 12,156,475

Note 9 - Michigan Public School Employees' Retirement System (concluded)

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. The following also reflects what the University's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2020		
	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
University's proportionate share of the net OPEB liability - June 30, 2020	\$ 8,734,382	\$ 11,390,501	\$ 14,434,060
	2019		
	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
University's proportionate share of the net OPEB liability - June 30, 2019	\$ 11,969,405	\$ 14,705,680	\$ 17,836,354

Pension Plan and OPEB Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan - At June 30, 2020, the University reported a payable of \$116,444 and \$48,895 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2020. At June 30, 2019, the University reported a payable of \$371,990 and \$136,447 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 10 - Other Postemployment Benefit Plan

Plan Description

The University provides Other Postemployment Benefits ("OPEB") for all retired employees who meet eligibility requirements. The benefits are provided through the Eastern Michigan University Postretirement Medical and Life Insurance Plan (the "Plan"), a single employer plan administered by the Eastern Michigan University Board of Regents. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Substantially all of the University's employees may become eligible for certain healthcare benefits if they reach retirement age while working for the University, are vested in a University sponsored retirement plan, and their years of University service and age total a minimum of 70 - age 55 + 15 years of service or age 60 + 10 years of service. Eligibility for life insurance benefits are vested in a University-sponsored plan when service and age total a minimum of 70 - age 55 + 15 years of service or age 60 + 10 years of service for certain employees or 60 - age 50 + 10 years of service for other employees.

Note 10 - Other Postemployment Benefit Plan (continued)

Benefits Provided

The Plan provides medical, medigap, dental, and life insurance benefits for retirees and their dependents. Benefits are provided through a third party insurer and the full cost of these benefits is covered by the plan for basic life insurance. The University's medigap, medical, and dental programs are self funded, and the full cost of these benefits is covered by the plan.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms as of June 30:

	Plan Membership	
	2020	2018
Inactive plan members or beneficiaries currently receiving benefits	1,074	1,002
Inactive plan members entitled to but not yet receiving benefits	-	-
Active plan members	1,411	1,544
Total	2,485	2,546

Contributions

Retiree healthcare costs are paid by the University on a "pay as you go" basis. The University has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2020 and 2019, the University's projected payments for postemployment health benefit premiums were \$598,584 and \$595,000. Currently, active members are not required to contribute to the plan.

Total OPEB Liability

The University's total OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2020. Changes in the total OPEB liability during the measurement year were as follows:

Changes in Total OPEB Liability	Total OPEB Liability	
	2020	2019
Beginning Balance	\$ 14,511,000	\$ 14,049,000
Changes for the year:		
Service cost	323,554	391,000
Interest	406,926	422,000
Differences between expected and actual experience	5,541,077	(95,000)
Changes of assumptions	3,280,521	339,000
Benefit payments	(598,584)	(595,000)
Net changes	8,953,494	462,000
Ending Balance at June 30:	\$ 23,464,494	\$ 14,511,000

Note 10 - Other Postemployment Benefit Plan (continued)

The primary change in assumptions for the University's single employer plan for the plan year 2020 was the change in discount rate from 2.79 to 2.21 percent. The primary change in assumptions for the University's single employer plan for the plan year 2019 was the change in discount rate from 2.98 to 2.79 percent. The University recorded a deferred outflow for its portion of changes in assumptions for the fiscal years ended June 30, 2020 and 2019.

The University also experienced a significant actuarial loss of expected and actual experience for plan year 2020. This was the net result of gains and losses due to demographic changes including an increase due to the number of members reported to be receiving Medicare reimbursements. The University recorded and amortized a deferred outflow of \$5,541,077 for its portion of changes in assumptions for the fiscal year ended June 30, 2020.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, respectively, the University recognized OPEB expense of \$2,422,407 and \$901,000.

At June 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 3,143,063	\$ -	\$ 517,000	\$ -
Difference between expected and actual experience	4,533,608	(79,000)	-	(95,000)
Total amortized deferrals	\$ 7,676,671	\$ (79,000)	\$ 517,000	\$ (95,000)

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

Years Ending	Amount
2021	\$ 1,691,927
2022	1,691,927
2023	1,691,927
2024	1,685,927
2025	835,963
	\$ 7,597,671

Note 10 - Other Postemployment Benefit Plan (continued)

Actuarial Assumptions

The June 30, 2020 Total OPEB Liability was measured by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions:

Salary increases	3.50%
Salary increases (including inflation)	2.21%
Healthcare cost trend rates	
Pre-Medicare Medical & Prescription Drugs	7.25% graded to 4.50% over 11 years
Medicare Reimbursement	Assumed to increase by \$10 per month every three years
Mortality Rates	
Pre-Retirement	Pri.H-2012 Employee Headcount-weighted Mortality Tables, projected generationally with Scale MP-2019
Post-Retirement	Pri.H-2012 Healthy Retiree Headcount-weighted Mortality Tables, projected generationally with Scale MP-2019

The total OPEB liability was determined using the following actuarial assumptions as of June 30, 2019:

Inflation	3.0%
Salary increases (including inflation)	3.5%
Healthcare cost trend rate mortality rates	RP 2014 Mortality Table

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2020 and 2019, was 2.21 percent and 2.79 percent, respectively. The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of those dates.

Note 10 - Other Postemployment Benefit Plan (continued)

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. The following also reflects what the University's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2020		
	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
University's proportionate share of the net OPEB liability - June 30, 2020	\$ 26,701,849	\$ 23,464,494	\$ 20,791,137
	2019		
	1% Decrease (1.98%)	Current Discount Rate (2.98%)	1% Increase (3.98%)
University's proportionate share of the net OPEB liability - June 30, 2019	\$ 16,520,000	\$ 14,511,000	\$ 12,858,000

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. The following also reflects what the University's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2020		
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
University's proportionate share of the net OPEB liability - June 30, 2020	\$ 21,540,130	\$ 23,464,494	\$ 25,818,887
	2019		
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
University's proportionate share of the net OPEB liability - June 30, 2019	\$ 13,496,000	\$ 14,511,000	\$ 15,776,000

Note 10 - Other Postemployment Benefit Plan (concluded)

Assumption Changes

Certain changes in assumptions contributed to the net change in total OPEB liability from July 1, 2019 through June 30, 2020. The primary change in assumption during the year was a change in the discount rate used to calculate the total OPEB liability from 2.79 to 2.21 percent. In addition, the valuation-year per capita health costs, retiree contribution rates, and the future trend on health costs and retiree contribution rates were updated, and the assumed mortality rates were modified.

Note 11 - Parking Lease and Concession Agreement

On January 4, 2018, the University entered into a 35-year lease and concession agreement with Provident Resources. Operations of the agreement began on April 23, 2018. ParkEMU operates the University's parking concession on the concessionaire's behalf. Under the agreement, ParkEMU operates, maintains and retains parking revenues from the University's parking lots and structures. This agreement also regulates the parking rates that may be charged and future increases in these rates. The University received a lump sum payment of \$55 million from this agreement and will use the proceeds for University reserves and operations, as necessary.

The lump-sum payment under this service concession agreement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were \$51.6 million and \$53.1 million at June 30, 2020 and 2019, respectively. The University reported the parking lots and structures as capital assets with a carrying value of \$12.9 million and \$14.0 million at June 30, 2020 and 2019, respectively.

Note 12 - Operating Leases

The University has entered into various operating leases, primarily for the University's agreement with Trinity Health, Ypsilanti Community Schools, and GreatAmerica Financial Services. 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:

	<u>Amount</u>
2021	\$ 343,037
2022	320,446
2023	327,207
2024	263,976
2025	50,000
	<u>\$ 1,304,666</u>

Note 13 - Subsequent Events

The University closed on the purchase of property at 800 Lowell Street for a total purchase price of \$2.65 million on August 13, 2020 using cash from operations.

Schedule of the University's Proportionate Share of the Net Pension Liability

Michigan Public School Employees Retirement Plan
(Plan Year October 1 - September 30)

	2019	2018	2017	2016	2015	2014
University's proportionate share of the Universities' collective MPSERS net pension liability						
As a percentage -	12.53%	12.60%	12.61%	12.64%	13.76%	13.56%
Total amount -	\$ 83,913,363	\$ 80,505,916	\$ 72,522,686	\$ 70,826,130	\$ 75,462,865	\$ 50,881,674
University's covered payroll	\$ 26,365,000	\$ 25,847,723	\$ 26,228,000	\$ 25,341,000	\$ 23,597,000	\$ 24,244,000
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered payroll	318.28%	311.46%	276.51%	279.49%	319.80%	209.87%
Fiduciary net position as a percentage of total pension liability (per ORS)	60.08%	62.12%	47.42%	46.77%	47.45%	63.00%

Schedule of Pension Contributions

Michigan Public School Employees' Retirement Plan
(Fiscal Year July 1 - June 30)

	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 5,984,850	\$ 5,496,721	\$ 5,930,902	\$ 5,506,014	\$ 4,720,008	\$ 4,386,720
Contributions in relation to actuarially determined contractually required contribution	5,984,850	5,496,721	5,930,902	5,506,014	4,720,008	4,386,720
Contributions deficiency (excess)	-	-	-	-	-	-
Covered payroll	26,760,475	26,235,681	25,943,000	23,420,000	23,272,000	23,935,000
Contributions as a percentage of covered payroll	22.36%	20.95%	22.86%	23.51%	20.28%	18.33%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively; ultimately, 10 years of data will be presented.

Schedule of the University's Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan
(Plan Year October 1 - September 30)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
University's proportionate share of the Universities' collective MPSERS net OPEB liability			
As a percentage -	12.41%	12.40%	12.54%
Total amount -	\$ 11,390,501	\$ 14,705,680	\$ 17,850,848
University's covered payroll	\$ 26,365,000	\$ 25,847,723	\$ 26,228,000
University's proportionate share of the collective pension OPEB (amount), as a percentage of the University's covered payroll	43.20%	56.89%	68.06%
Fiduciary net position as a percentage of total pension liability (per ORS)	48.67%	43.10%	44.11%

Schedule of OPEB Contributions

Michigan Public School Employees' Retirement Plan
(Fiscal Year July 1 - June 30)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 1,547,235	\$ 1,383,060	\$ 1,608,321
Contributions in relation to actuarially determined contractually required contribution	1,547,235	1,383,060	1,608,321
Contributions deficiency (excess)	-	-	-
Covered payroll	26,760,475	26,235,681	25,943,000
Contributions as a percentage of covered payroll	5.78%	5.27%	6.20%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively; ultimately, 10 years of data will be presented.

Schedule of Changes in the University's Total OPEB Liability and Related Ratios
University Single Employer Plan
Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 323,554	\$ 391,000	\$ 360,000
Interest	406,926	422,000	427,000
Differences between expected and actual experience	5,541,077	(95,000)	-
Changes of assumptions or other inputs	3,280,521	339,000	270,000
Benefit payments	<u>(598,584)</u>	<u>(595,000)</u>	<u>(574,000)</u>
Net change in total OPEB liability	8,953,494	462,000	483,000
Total OPEB liability - beginning	<u>\$ 14,511,000</u>	<u>\$ 14,049,000</u>	<u>\$ 13,566,000</u>
Total OPEB liability - ending	<u><u>\$ 23,464,494</u></u>	<u><u>\$ 14,511,000</u></u>	<u><u>\$ 14,049,000</u></u>
Covered employee payroll	\$ 127,327,000	\$ 132,106,000	\$ 133,694,000
Total OPEB liability as a percentage of covered-employee payroll	18.43%	10.98%	10.51%

Discount rates used in determining the total reported liability for postemployment benefits obligations were 2.21%, 2.79% and 2.98% at the measurement dates of June 30, 2020, 2019, and 2018, respectively.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively; ultimately, 10 years of data will be presented.

**Notes to Required Supplemental Information
For the Year Ended June 30, 2020**

RSI Covered-payroll

The employers' covered payroll to be reported in the required supplementary information 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. For non-university employers, covered payroll represents payroll on which contributions to both plans are based.

Changes of benefit terms

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes of assumptions

Michigan Public School Employees Retirement System - There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

2019 – The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25% percentage points.

2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45% percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.

2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50% percentage points.

Single Employer Plan - Certain changes in assumptions contributed to the net change in total OPEB liability from July 1, 2019 through June 30, 2020. The primary change in assumption during the year was a change in the discount rate used to calculate the total OPEB liability from 2.79% to 2.21%. In addition, the valuation-year per capita health costs, retiree contribution rates, and the future trend on health costs and retiree contribution rates were updated, and the assumed mortality rates were modified. The University recorded a deferred outflow for its portion of changes in assumptions for the fiscal year ended June 30, 2020. No assets have been accumulated in a trust to pay related benefits for the Plan.

Changes in Expected and Actual Experience

Single Employer Plan - The University also experienced a significant actuarial loss of expected and actual experience for plan year 2020. This was the net result of gains and losses due to demographic changes including an increase due to the number of members reported to be receiving Medicare reimbursements.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Regents
Eastern Michigan University

We have audited, 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, the financial statements of Eastern Michigan University (the "University") and its discretely presented component unit as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 22, 2020. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Regents
Eastern Michigan University

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 22, 2020