



WESTERN MICHIGAN UNIVERSITY

**General Purpose Financial Report
June 30, 2020**



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Independent Auditor's Report

To the Board of Trustees
Western Michigan University

Report on the Financial Statements

We have audited the accompanying financial statements of Western Michigan University, a component unit of the State of Michigan, and its discretely presented component units (the "University") as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise Western 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 units were not audited under *Governmental 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 financial position of Western Michigan University and its discretely presented component units as of June 30, 2020 and 2019 and the changes in their financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the COVID-19 pandemic has impacted the operations of the University. Our opinions are not modified with respect to this matter.

To the Board of Trustees
Western Michigan University

Other Matter

Required Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2020 on our consideration of Western 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 Western Michigan University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 24, 2020



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

Western Michigan University is a national research university enrolling over 21,000 students from across the United States and over 100 other countries. Founded in 1903, it is a learner-centered, discovery-driven and globally engaged public university that stands out among America's more than 4,000 higher education institutions. The University offers 156 bachelor's, 78 master's and 32 doctoral programs. These programs are offered through seven degree-granting colleges: arts and sciences, aviation, education and human development, engineering and applied sciences, fine arts, Haworth College of Business, and health and human services.

The Carnegie Foundation for the Advancement of Teaching places Western Michigan University among the 91 public institutions in the nation designated as research universities with high research activity. In addition, Western Michigan University is one of eight Michigan universities categorized at either the "higher" or "very high" levels of research activity. U.S. News & World Report's annual ranking of American colleges and universities includes Western Michigan University as one of the best national universities for 29 years in a row.

The University's undergraduate resident and non-resident tuition cost ranks seventh and twelfth, respectively, among the state's fifteen public universities, even though it is one of Michigan's eight largest, most complex, and highly regarded research institutions. The University is committed to providing financial support to students and continues to award dollars to students in an efficient and strategic way. The University has long sponsored its prestigious Medallion Scholarship program, which attracts some of the brightest and most promising students. The University also offers several other merit-based awards and continues to offer exceptional value to its students.

Financial Highlights

During fiscal year 2020, the University experienced unprecedented challenges in the face of a global pandemic. COVID-19 began to significantly impact university operations in March 2020. As we, and every other university, continue to respond to the challenges created by the pandemic, uncertainty about the future persists. The pandemic has negatively impacted our country's and the world's economy. The University began distance-learning on March 16, 2020 and due to the Governor's "Stay Home, Stay Safe" order, on-campus operations were suspended on March 22, 2020. The University continued distance-learning through the Summer semesters while developing a return-to-work plan and contingency plans for the Fall semester. The disruption in operations caused significant lost revenue, not just at the University, but at all Michigan public universities and at the State of Michigan as well.



The University plans to return to campus operations for the Fall 2020 semester with several changes to protect public health while still allowing the University to offer the highest quality education as the COVID-19 global pandemic remains significant. The changes include emphasizing distance learning whenever possible to minimize the exposure of our students, closing residence halls with community bathrooms that are not semi-private, requiring masks indoors, limiting occupancy in gathering spaces, and many other safeguards to keep students and the public safe.

The University's financial position remained strong at June 30, 2020, with assets and deferred outflows of \$1.244 billion and liabilities and deferred inflows of \$965 million.

Unrestricted net position includes long-term liabilities required to be accrued for by accounting principles issued by the Governmental Accounting Standards Board (GASB). These liabilities consist of the net pension liability and net other postemployment benefits (OPEB) liability from a statewide, cost-sharing, multiple-employer defined benefit plan and the total OPEB liability from a single-employer defined benefit plan. The University's unrestricted net position calculated without these liabilities continues to remain positive. The University has committed the unrestricted net position to provide for identified future needs. These needs include contractual obligations, debt service, capital outlay, insurance reserves, and academic programming needs.

The following is a breakdown of net position by category:

Net Position as of June 30 (in millions)

	2020	2019	2018
Net investment in capital assets	\$ 498.0	\$ 486.9	\$ 445.5
Restricted	6.8	6.0	7.0
Unrestricted - operations	218.7	226.7	221.9
Unrestricted - pension activity	(148.3)	(141.8)	(124.2)
Unrestricted - other postemployment benefit (OPEB) activity	(296.0)	(317.1)	(334.5)
Total net position	<u>279.2</u>	<u>260.7</u>	<u>215.7</u>

Net Position Excluding Pension and OPEB Accounting as of June 30 (in millions)

	2020	2019	2018
Net investment in capital assets	\$ 498.0	\$ 486.9	\$ 445.5
Restricted	6.8	6.0	7.0
Unrestricted - operations	<u>218.7</u>	<u>226.7</u>	<u>221.9</u>
Total net position excluding pension and OPEB	<u>723.5</u>	<u>719.6</u>	<u>674.4</u>

The University's financial statements were prepared in accordance with criteria established by the GASB for determining the various governmental organizations 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 three component units.



The Western Michigan University Foundation, Paper Technology Foundation, Inc. (collectively, the “Foundations”), and Western Michigan University Homer Stryker M.D. School of Medicine’s (WMed) financial statements are discretely presented as part of the University’s reporting entity. The component units’ financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB).

The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position

The University’s financial report includes three financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows.

These financial statements include all assets, liabilities, deferred inflows, and deferred outflows using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year’s revenue and expenses are taken into account regardless of when cash is received or paid.

Statement of Net Position

The 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 (in millions)

	2020	2019	2018
Assets			
Current assets	\$ 129.2	\$ 133.9	\$ 289.2
Noncurrent assets:			
Capital assets - Net of depreciation	864.2	807.2	782.2
Other	231.6	193.7	191.1
Total assets	1,225.0	1,134.8	1,262.5
Deferred Outflows	18.8	19.1	18.1
Liabilities			
Current liabilities	106.1	101.9	255.7
Noncurrent liabilities	741.9	667.6	678.2
Total liabilities	848.0	769.5	933.9
Deferred Inflows	116.6	123.7	131.0
Net Position			
Net investment in capital assets	498.0	486.9	445.5
Restricted	6.8	6.0	7.0
Unrestricted	(225.6)	(232.2)	(236.8)
Total net position	<u>\$ 279.2</u>	<u>\$ 260.7</u>	<u>\$ 215.7</u>



An asset is a resource with economic value that the University owns and controls with the expectation that it will provide future benefit.

A liability is the University's financial debt that arises during the course of its business operations.

Current assets decreased \$4.7 million from fiscal year 2019 to fiscal year 2020. Accounts receivable for state appropriations decreased \$12.5 million due to a shift in funding from the State of Michigan and timing of the action taken by the State. Subsequent to June 30, 2020 the University received \$12.5 million in flow-through federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding from the State. The decrease in accounts receivable was offset by a \$9.0 million increase in cash resulting from strategic changes in operations to preserve cash, such as halting construction projects, effective management of vendor payments due to the stay-at-home order, and deferring employer payroll taxes pursuant to section 2302 of the CARES Act. Accordingly, current liabilities increased \$4.2 million from fiscal year 2019 to fiscal year 2020 primarily due to the \$5.2 million current portion of an early retirement incentive offered to faculty. The \$5.2 million noncurrent portion of the early retirement incentive liability, as well as \$3.2 million in deferred employer payroll taxes, contributed to the increase in other long-term obligations.

The University experienced a large fluctuation in current assets and current liabilities from fiscal year 2018 to fiscal year 2019. In fiscal year 2018, the University entered into an agency relationship which increased current assets and current liabilities by \$104.0 million. The termination of this agency relationship in fiscal year 2019 resulted in a \$104.8 million decrease in current assets with a corresponding decrease in current liabilities.

Additionally, the WMed capital lease receivable payments and direct purchase note payable were due in December 2018; therefore, the entire capital lease receivable and note payable were classified as current in fiscal year 2018. WMed refinanced the debt in October 2018 and used the proceeds to pay off the lease, which resulted in a \$64.3 million decrease in the University's current assets with a corresponding decrease in current liabilities in fiscal year 2019.

Other assets increased \$37.9 million and increased \$2.6 million in fiscal years 2020 and 2019, respectively. The increase in fiscal year 2020 was primarily due to an increase in the market value of long-term investments.

In fiscal year 2020, the University recognized an increase in the net pension liability of \$7.5 million and a decrease in the net OPEB liability of \$14.7 million. In fiscal year 2019, the University recognized an increase in the net pension liability of \$15.7 million and a decrease in the net OPEB liability of \$7.1 million. The current portion of long-term obligations decreased \$63.7 million due to the 2013 lease rental revenue bonds maturing.



At June 30, 2020, the University had \$1.5 billion invested in capital assets and accumulated depreciation of \$618.0 million. Depreciation charges totaled \$29.9 million, \$29.2 million, and \$28.6 million for the years ended June 30, 2020, 2019, and 2018, respectively.

Capital Assets as of June 30 (in millions)

	2020	2019	2018
Land, land improvements, and infrastructure	\$ 104.1	\$ 102.5	\$ 93.3
Buildings and improvements	1,055.8	1,037.0	1,032.2
Buildings under capital lease	24.3	24.3	20.8
Furniture, fixtures, and equipment	84.5	78.6	77.8
Library collections	97.2	95.8	94.5
Construction in progress	116.3	58.3	33.6
Total	<u>\$ 1,482.2</u>	<u>\$ 1,396.5</u>	<u>\$ 1,352.2</u>

Net capital assets increased \$57.0 million and \$25.0 million in fiscal years 2020 and 2019, respectively. The increase in fiscal year 2020 was due to construction of new student housing, student center and dining facility, College of Aviation Education Center, and Business Technology and Research Park 2 (BTR Park 2). The increase in fiscal year 2019 was due to construction of new student housing and Business Technology and Research Park 2 (BTR Park 2).

Planning for the redevelopment of the South Neighborhood on the University's main campus began several years ago. This revitalized section of campus will be known as Hilltop Village and is highly visible from Stadium Drive, creating a new campus gateway. A master plan will guide development through 2024 and includes Arcadia Flats student housing slated to open in January 2021 and a combined student center and dining facility planned for completion in Fall 2022. It is the University's intent to use existing reserves in conjunction with new borrowings that occurred in the fall of 2019 and additional borrowings that will occur in fiscal year 2020-21 to provide funding for these projects. As existing debt service is no longer needed for past projects due to payment in full, it will be deployed to finance the 2019 and 2020 debt.

During fiscal year 2019, the University received approval for a \$30.0 million capital outlay from the State of Michigan for renovations to Dunbar Hall, one of the most heavily used classroom buildings on campus. The University was to provide an additional \$12.5 million in funding towards this project, which would involve reconfiguring classroom layouts, adding student workspaces, upgrading technology, and improving building systems. Due to the COVID-19 global pandemic, the State of Michigan put this project on hold indefinitely.



The College of Aviation received approval for a \$15.0 million capital outlay from the State of Michigan for major improvements to the aviation education center located in Battle Creek. This capital outlay from the State coupled with \$7.8 million of University funding is being used to upgrade classrooms and labs to the standards necessary to prepare students for demanding careers in the aviation and aerospace industry. This project is expected to be completed in February 2021.

Construction of BTR Park 2 is nearing completion on the Colony Farm Orchard property in Oshtemo Township, located in close proximity to the College of Engineering and Applied Sciences. Certification under the Sustainable SITES Initiative is being sought to create an ecologically resilient community. This \$4.2 million project is being funded with a \$2.1 million grant, \$700 thousand from Oshtemo Township, and \$1.4 million of parcel sale proceeds.

At June 30, 2020, the University had \$348.0 million in bonded debt obligations outstanding versus \$286.4 million the previous year, an increase of 21.5 percent. The increase in bonded debt obligations outstanding is related to the November 2019 bond issuance of \$77.0 million of General Revenue and Refunding Bonds, Series 2019A and \$15.9 million of taxable general revenue bonds, Series 2019B to fund Arcadia Flats housing and the combined student center and dining facility projects. The 2019A bonds also advance refunded the outstanding obligations for the University's Series 2009 bonds to capture savings. Debt service payments account for the remaining change.

At June 30, 2019, the bonded debt obligations had decreased 22.2 percent, from a balance of \$368.2 million at June 30, 2018.

The University is rated by two of the major bond rating agencies. In October 2019, S&P Global Ratings affirmed the University's A/Stable outlook and Moody's Investor Services affirmed the University's Aa3/Stable rating.

**Statement of Revenue, Expenses, and Changes in Net Position****Operating Results for the Years Ended June 30 (in millions)**

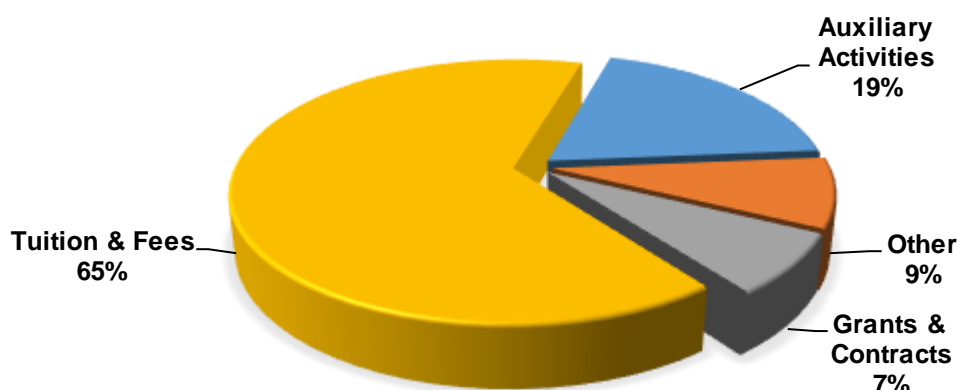
	2020	2019	2018
Operating Revenue			
Tuition and fees - Net	\$ 245.0	\$ 245.6	\$ 243.4
Grants and contracts	28.1	29.6	26.0
Auxiliary activities - Net	72.6	84.2	90.2
Other	<u>32.5</u>	<u>43.2</u>	<u>44.7</u>
Total operating revenue	378.2	402.6	404.3
Operating Expenses			
Instruction	206.5	198.0	193.6
Departmental research	13.8	16.2	17.1
Public service	9.2	10.0	8.8
Academic support	56.0	58.7	56.8
Student services	21.6	23.5	22.2
Institutional support	51.8	52.2	48.7
Operations and maintenance of plant	38.5	39.1	39.4
Scholarships and fellowships	18.2	19.0	16.3
Auxiliary activities	71.7	80.1	85.5
Depreciation	29.9	29.2	28.6
Other adjustments	<u>(12.7)</u>	<u>(3.9)</u>	<u>8.1</u>
Total operating expenses	<u>504.5</u>	<u>522.1</u>	<u>525.1</u>
Net Operating Loss	(126.3)	(119.5)	(120.8)
Nonoperating Revenue			
State appropriations	101.2	112.5	110.6
Gifts	30.4	35.5	32.1
Other net nonoperating revenue	<u>9.7</u>	<u>10.9</u>	<u>7.4</u>
Total nonoperating revenue	141.3	158.9	150.1
Other			
State capital appropriations	2.5	-	-
Capital grants, contracts, and other	<u>1.0</u>	<u>5.6</u>	<u>1.3</u>
Increase in Net Position	18.5	45.0	30.6
Net Position - Beginning of year	260.7	215.7	333.0
Adjustment for Changes in Accounting Principles	<u>-</u>	<u>-</u>	<u>(147.9)</u>
Net Position - End of year	<u><u>\$ 279.2</u></u>	<u><u>\$ 260.7</u></u>	<u><u>\$ 215.7</u></u>



Operating Revenue and Expenses

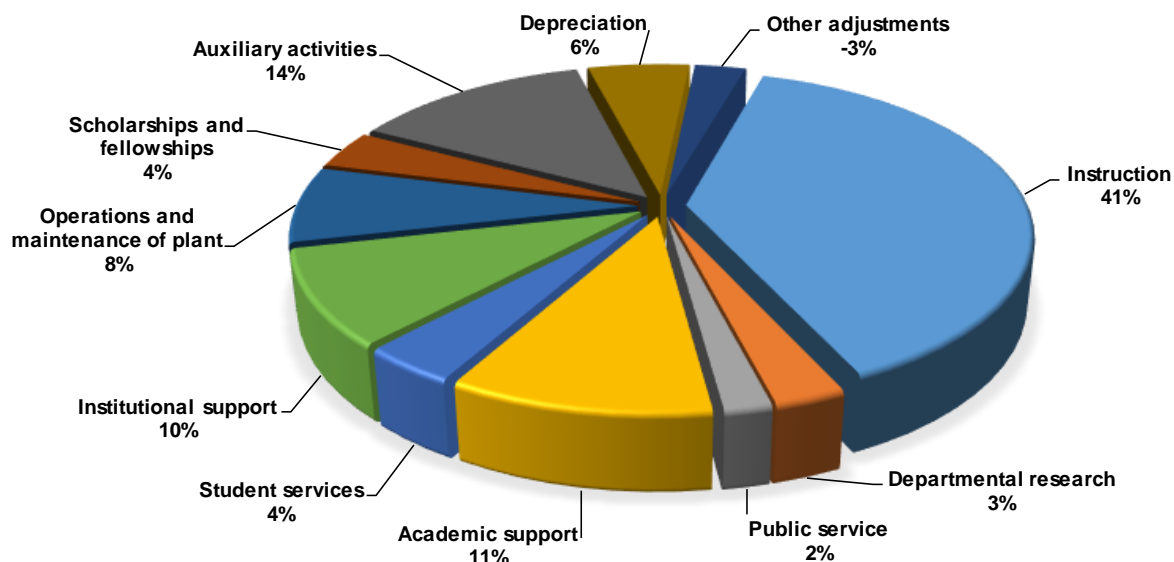
Operating revenue includes all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and dining operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

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



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

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





In fiscal year 2020, as a result of the COVID-19 global pandemic, there were significant impacts to revenues and expenses late in the academic year which are described in the following paragraphs.

Student tuition and fees revenue in fiscal year 2020 was consistent with fiscal year 2019 as a result of declining enrollment offset by an increase in rates by the Board of Trustees of 4.30 percent for resident undergraduate students. For resident undergraduate students enrolled in 30 credit hours during an academic year, this increase equates to an additional \$534 of tuition and fees. Room and meal plan rates increased 3.12 percent. This equates to an additional \$304 for the academic year for a traditional room and board 14-meal plan. Student tuition and fees revenue increased in fiscal year 2019 compared to fiscal year 2018 as a result of the Board of Trustees raising the rates by 3.88 percent for resident undergraduate students.

Auxiliary revenues and auxiliary expenses decreased a net of \$3.2 million in fiscal year 2020. This was mostly due to having to suspend nearly all auxiliary activities in March 2020 due to the COVID-19 global pandemic. The resulting decreases in revenue were offset by decreases in operating expenses with the exception of \$3.2 million of student refunds for on-campus housing.

Other operating revenues decreased \$10.7 million in fiscal year 2020 due to various departmental and other educational activities disrupted by the COVID-19 global pandemic, such as the cancellation of study abroad programs, the cancellation of conferences, the cancellation of in-person flight instruction, reduced services at campus health clinics, and virtual rather than in-person orientation.

Instruction expense increased \$8.5 million in fiscal year 2020 primarily due to the offering of a voluntary retirement incentive program for faculty estimated to cost \$10.4 million over two years. Instruction expense increased \$4.4 million in fiscal year 2019 mostly due to an increase in expenses of a significant grant. Corresponding revenue from governmental grants and contracts increased \$4.1 million, a significant portion of which was due to the aforementioned grant.

Departmental research expense decreased \$2.3 million in fiscal year 2020 primarily due to having to partially suspend research activity due to the COVID-19 global pandemic. This resulted in a decrease in supply purchases and compensation expense.

Academic support expense decreased \$2.7 million in fiscal year 2020 primarily due to a decrease in spending on supplies and travel due to the COVID-19 global pandemic. Academic support expense increased \$1.9 million in fiscal year 2019 primarily due to a \$1.1 million increase in compensation expense and a \$900 thousand increase in spending on supplies rather than building improvements which were capitalized in the prior year.

Institutional support expense increased \$3.5 million in fiscal year 2019 due to increases in supplies and equipment, \$2.2 million of which was for information technology infrastructure and upgrades.



Other adjustments decreased \$8.8 million in fiscal year 2020 due to changes in pension and OPEB expense and building maintenance expense. Other adjustments decreased \$12.0 million in fiscal year 2019 due to changes in pension and OPEB expense, a decrease in the loss on disposal of assets, and the absence of Perkins Loan reclassification expense.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses are primarily nonexchange in nature. They consist primarily of state appropriations, gifts, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

As a result of the COVID-19 global pandemic, the State of Michigan experienced a significant revenue shortfall which resulted in a shift in funding for all public universities. The State appropriation provided to the University was reduced by \$12.5 million in fiscal year 2020. The shift in funding occurred subsequent to June 30, 2020 with the University receiving one-time funding of \$12.5 million from the State in flow-through federal CARES Act funding in August 2020.

Other net nonoperating revenue for fiscal year 2020 includes \$2.1 million from the Higher Education Emergency Relief Fund (HEERF) established by the CARES Act to cover emergency financial aid grant disbursements made to students for expenses related to the disruption of campus operations due to the COVID-19 global pandemic.

Other net nonoperating revenue increased \$3.5 million in fiscal year 2019 primarily due to a \$6.6 million decrease in interest expense on capital asset-related debt offset by a \$1.4 million increase in other expense and a \$2.0 million decrease in Pell grant revenue. The decrease in other expense is primarily due to a \$2.5 million decrease in gift transfers to WMed and a \$6.3 million decrease in asset transfers from the Western Michigan University Research Foundation.

Other

Other activity consists of items that are typically nonrecurring, extraordinary, or unusual to the University. An example would be capital appropriations from the state or federal government and transfers from related entities.

The University recorded a \$2.5 million receivable and corresponding revenue for state capital appropriations for the aviation education center capital outlay.

Capital grants, contracts, and other revenue totaled \$1.0 million in 2020, \$5.6 million in 2019, and \$1.3 million in 2018. During fiscal years 2020 and 2018, the University did not receive significant donations for any particular project. In fiscal year 2019, the University liquidated \$1.0 million of an endowment that was established from parcel sale proceeds for BTR Park 2 and received \$3.4 million in gifts for the Product Design and Innovation Center in Kohrman Hall.

**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 an entity during a period. The statement of cash flows also helps users assess the following:

- An entity's ability to generate future net cash flows
- An entity's ability to meet obligations as they come due
- An entity's needs for external financing

Cash Flows for the Years Ended June 30 (in millions)

	2020	2019	2018
Cash (Used in) Provided by			
Operating activities	\$ (94.8)	\$ (73.6)	\$ (84.9)
Noncapital financing activities	157.2	54.4	262.0
Capital and related financing activities	(52.2)	(77.8)	(58.3)
Investing activities	<u>(1.1)</u>	<u>7.6</u>	<u>(14.9)</u>
Net Increase (Decrease) in Cash	9.1	(89.4)	103.9
Cash - Beginning of year	<u>89.5</u>	<u>178.9</u>	<u>75.0</u>
Cash - End of year	<u>\$ 98.6</u>	<u>\$ 89.5</u>	<u>\$ 178.9</u>

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, and grants and contracts. The most significant components of cash flows used in operations are payments to suppliers and employees. Net cash used in operating activities was \$94.8 million for the year ended June 30, 2020. This is compared to net cash used in operating activities in the amounts of \$73.6 million and \$84.9 million for the years ended June 30, 2019 and 2018, respectively.

To offset the \$94.8 million operating use, the net cash provided by noncapital financing activities was \$157.2 million for the year ended June 30, 2020, which consisted primarily of cash provided by state appropriations of \$113.7 million, gifts of \$30.4 million, and Pell grant receipts of \$24.1 million. Net cash provided by noncapital financing activities was \$54.4 million and \$262.0 million for the years ended June 30, 2019 and 2018, respectively.

Cash used in capital and related financing activities totaled \$52.2 million for the year ended June 30, 2020, primarily the result of capital additions during the year in the amount of \$87.2 million, interest paid on capital debt in the amount of \$15.4 million, cash used for debt instruments of \$31.9 million, cash proceeds from the issuance of debt of \$108.4 million, and unspent bond proceeds placed with a trustee of \$27.4 million. This is compared to cash used in capital and related financing activities of \$77.8 million and \$58.3 million for the years ended June 30, 2019 and 2018, respectively.



Cash used in investing activities was \$1.1 million for the year ended June 30, 2020. This is compared to cash provided by investing activities of \$7.6 million for the year ended June 30, 2019 and cash used by investing activities of and \$14.9 million for the year ended June 30, 2018.

Other Information

The University relaunched its Extended University Programs in fiscal year 2020 as WMUx which quickly became an integral division and played a vital role in supporting faculty who had to quickly transition their in-person courses to distance learning during the spring of 2020. WMUx will continue to offer guidance in the fall of 2020 to instructors who are exploring new teaching modalities that maintain the educational excellence our students expect. WMUx has assembled a group of faculty champions who are providing insight and guidance for their peers in transforming their classroom experience to meet the needs of the current pandemic situation, but they are also extending beyond it to advance the 21st century college experience.

Over the past two years, the University has been working on improving student success by determining how it could best provide students a path of discovery on their way to finding their purpose. The University needs to give them guidance and space without putting up hurdles that make them sacrifice a great deal of time or expense on their path toward graduation. This was a tall order, but thanks to the involvement and input from a number of great minds across campus, the University has a plan, called One WMU, that will truly give students, who may be searching now more than ever, a great option for beginning their college careers.

In the upcoming years, the University plans to re-imagine the entire southern portion of main campus, to include new student housing, a new student center and dining facility, retail venues and several other major building efforts. The project itself will be forward-thinking, reaching to create something unique not only to the University's campus, but to other college campuses as well. It will include the built environment, as well as new pedestrian and vehicular pathways, outdoor spaces, campus connections and other infrastructure for a truly cutting-edge user experience. Ultimately, the work will help drive the University's core missions, making the University the institution of choice for a wider range of students.



Economic Factors That Will Affect the Future

The COVID-19 global pandemic began to significantly impact university operations in March 2020. As the University continues to respond to the challenges created by the pandemic, uncertainty about the future persists. The pandemic has negatively impacted our country's and the world's economy. The State of Michigan has experienced revenue shortfalls that have been supplemented by one-time federal CARES Act funding. The State is projecting additional revenue shortfalls for fiscal year 2020-21, but at this time, it is unclear how this will impact higher education appropriations. It appears the State will take budget action closer to its year-end in September 2020. In addition to the uncertainty with the State's budget, it is also recognized that the higher education sector is not able to determine the impact that the pandemic will have on future enrollment. Some of this unpredictability recognizes the financial hardships that have been experienced by students and their families as a result of the pandemic. Enrollment unpredictability is also being magnified because current and future students have signaled they may sit out a year due to both health and instructional modality concerns. Across the country, higher education is predicting enrollment declines of 10 to 15 percent.

In order to provide a level of stability to help students and their families plan for the year ahead and to relieve financial pressures from the effects of the pandemic, the University is not increasing tuition and required fees or room and board rates for the fiscal year 2020-21.

Recognizing the level of uncertainty that exists, the University took early and proactive steps to begin budget planning for the 2020-21 fiscal year. Numerous scenarios were modeled and a range of likely outcomes determined. Mindful of our fiduciary responsibility to our students, faculty and staff, community and the State, the University developed plans to meet the needs of the most conservative budget model that reflected an \$85.0 million shortfall. The University was transparent in its communications to its many stakeholders regarding the financial modeling and budget planning. Budget plans were implemented prior to the start of the 2020-21 fiscal year to respond to the potential budget reduction.

As an outcome of the unprecedented level of uncertainty still facing the University and having already implemented its budget reduction planning, the Board of Trustees acted to pass a continuation of the fiscal year 2019-20 Board-approved general fund budget so that the University can continue to perform necessary day-to-day operations with an enacted budget. It is the University's intent to bring the fiscal year 2020-21 general fund budget to the Board of Trustees at its September 2020 meeting.



STATEMENT OF NET POSITION

	June 30	
	2020	2019
Current Assets		
Cash and cash equivalents	\$ 98,564,200	\$ 89,530,943
Short-term investments	129,842	175,900
Accounts receivable - Net	24,293,890	35,544,800
Deposits, prepaid expenses, and other assets	<u>6,220,746</u>	<u>8,688,602</u>
Total current assets	129,208,678	133,940,245
Noncurrent Assets		
Long-term investments	226,182,727	186,819,650
Student loans receivable - Net	5,127,384	6,465,135
Other assets	273,331	429,391
Capital assets - Net	<u>864,200,318</u>	<u>807,195,487</u>
Total noncurrent assets	<u>1,095,783,760</u>	<u>1,000,909,663</u>
Total assets	1,224,992,438	1,134,849,908
Deferred Outflows of Resources	18,761,607	19,059,886
Current Liabilities		
Current portion of long-term obligations	26,909,696	20,390,679
Current portion of total OPEB liability	4,338,724	5,699,240
Accounts payable	23,199,995	20,647,063
Due to depositors	1,133,256	1,023,836
Accrued payroll and withholdings	22,631,037	23,178,835
Insurance and other claims payable	6,214,666	6,415,812
Tuition and fees received in advance	7,406,476	7,185,661
Other liabilities	<u>14,304,908</u>	<u>17,344,936</u>
Total current liabilities	106,138,758	101,886,062
Noncurrent Liabilities		
Other long-term obligations - Net of current portion	394,381,375	314,299,975
Net OPEB liability - Net of current portion	194,404,199	207,793,307
Net pension liability	<u>153,069,975</u>	<u>145,574,677</u>
Total noncurrent liabilities	<u>741,855,549</u>	<u>667,667,959</u>
Total liabilities	847,994,307	769,554,021
Deferred Inflows of Resources	116,606,965	123,700,483
Net Position		
Net investment in capital assets	498,023,611	486,880,432
Restricted for:		
Expendable	5,951,197	4,711,684
Loans	866,963	1,131,512
Other	-	158,601
Unrestricted	<u>(225,688,998)</u>	<u>(232,226,939)</u>
Total net position	<u>\$ 279,152,773</u>	<u>\$ 260,655,290</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION

	Year Ended June 30	
	2020	2019
Operating Revenue		
Tuition and fees	\$ 306,499,647	\$ 306,503,699
Scholarship allowance	(61,492,115)	(60,900,858)
Net tuition and fees	245,007,532	245,602,841
Governmental grants and contracts	20,041,735	22,363,751
Other grants and contracts	8,016,005	7,264,805
Departmental and other educational activities	26,984,049	38,446,335
Auxiliary activities - Net	72,639,171	84,175,827
Other revenue	5,442,114	4,716,774
Total operating revenue	378,130,606	402,570,333
Operating Expenses		
Instruction	206,512,740	198,069,031
Departmental research	13,828,574	16,150,339
Public service	9,182,466	10,025,439
Academic support	55,981,695	58,689,627
Student services	21,615,211	23,534,876
Institutional support	51,799,341	52,172,356
Operations and maintenance of plant	38,451,400	39,073,958
Scholarships and fellowships	18,239,857	19,042,010
Auxiliary activities	71,685,688	80,075,927
Depreciation	29,863,098	29,188,249
Other adjustments	(12,654,579)	(3,894,774)
Total operating expenses	504,505,491	522,127,038
Net Operating Loss	(126,374,885)	(119,556,705)
Nonoperating Revenue (Expenses)		
State appropriations	101,208,910	112,516,599
Gifts	30,446,337	35,538,988
Pell grant revenue	24,130,654	25,960,626
CARES Act grant revenue	2,058,000	-
Other expense	(13,575,122)	(14,437,828)
Investment income and other interest	10,844,463	12,560,228
Interest on capital asset-related debt	(13,759,394)	(13,262,650)
Net nonoperating revenue	141,353,848	158,875,963
Income - Before other	14,978,963	39,319,258
Other		
State capital appropriations	2,515,624	-
Other revenue and capital gifts and grants	1,002,896	5,589,282
Increase in Net Position	18,497,483	44,908,540
Net Position		
Beginning of year	260,655,290	215,746,750
End of year	<u>\$ 279,152,773</u>	<u>\$ 260,655,290</u>

See accompanying notes to the financial statements.



STATEMENT OF CASH FLOWS

	Year Ended June 30	
	2020	2019
Cash Flows from Operating Activities		
Tuition and fees	\$ 304,757,798	\$ 310,926,920
Grants and contracts	28,757,884	28,725,690
Payments to suppliers	(218,920,895)	(205,209,234)
Payments to employees	(332,263,672)	(351,886,974)
Collection of loans from students	1,337,751	1,583,976
Student loan interest	49,571	160,577
Auxiliary enterprise charges	83,247,144	96,200,148
Departmental and other	38,241,041	45,935,339
Net cash used in operating activities	(94,793,378)	(73,563,558)
Cash Flows from Noncapital Financing Activities		
Gifts and contributions for other than capital purposes	30,446,337	35,538,988
William D. Ford direct lending receipts	89,642,462	101,079,417
William D. Ford direct lending disbursements	(89,642,462)	(101,079,417)
PLUS loan receipts	27,956,123	28,088,660
PLUS loan disbursements	(27,956,123)	(28,088,660)
Pell grant revenue	24,130,654	25,960,626
Agency transactions	421,131	(104,569,235)
Other	(11,517,122)	(14,437,828)
State appropriations	113,720,260	111,974,359
Net cash provided by noncapital financing activities	157,201,260	54,466,910
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(87,168,083)	(54,344,841)
Proceeds net of deposits from disposal of assets	300,154	208,160
Proceeds from issuance of debt	108,362,316	3,517,111
Principal paid on capital debt	(31,913,550)	(82,449,535)
Capital grant, gift, and other proceeds	1,002,896	5,589,282
(Deposits to) proceeds from trustee to purchase capital assets	(27,371,034)	7,971
Interest paid on capital debt	(15,436,231)	(15,206,413)
Proceeds from capital lease	-	64,820,288
Net cash used in capital and related financing activities	(52,223,532)	(77,857,977)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	63,898,781	6,500,000
Interest on investments	9,413,155	7,641,559
Purchase of investments	(74,463,029)	(6,564,530)
Net cash (used in) provided by investing activities	(1,151,093)	7,577,029
Net Increase (Decrease) in Cash and Cash Equivalents	9,033,257	(89,377,596)
Cash and Cash Equivalents - Beginning of year	89,530,943	178,908,539
Cash and Cash Equivalents - End of year	\$ 98,564,200	\$ 89,530,943

See accompanying notes to the financial statements.



STATEMENT OF CASH FLOWS (CONTINUED)

	Year Ended June 30	
	2020	2019
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (126,374,885)	\$ (119,556,705)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	29,863,098	29,188,249
Decrease (increase) in assets:		
Federal and state grants receivable	700,144	(902,866)
Accounts receivable - Net	1,825,927	2,030,001
Prepaid assets and other current assets	2,623,916	536,672
Loans to students	1,337,751	1,583,976
Increase (decrease) in liabilities:		
Accounts payable	999,220	8,989,576
Accrued payroll and other compensation	13,067,035	1,350,190
Net OPEB liability	(13,389,108)	(7,145,743)
Net pension liability	7,495,298	15,686,987
Other liabilities and deferreds	(13,162,589)	(5,523,719)
Unearned tuition and fees	220,815	199,824
Net cash used in operating activities	<u>\$ (94,793,378)</u>	<u>\$ (73,563,558)</u>

See accompanying notes to the financial statements.



DISCRETELY PRESENTED COMPONENT UNITS – BALANCE SHEET AND STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Balance Sheet	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Homer Stryker M.D. School of Medicine	
	June 30		June 30		June 30	
	2020	2019	2020	2019	2020	2019
Assets						
Cash and short-term investments	\$ 21,091,898	\$ 33,363,167	\$ 442,091	\$ 367,614	\$ 5,949,999	\$ 8,827,656
Investments	388,042,866	395,313,392	4,990,703	5,547,014	18,074,154	15,795,977
Pledges receivable - Net	17,650,456	13,325,291	156,557	265,418	357,500	275,800
Cash surrender value of life insurance policies	975,095	1,043,006	-	-	-	-
Other receivable	490,567	559,853	-	-	6,194,350	7,178,583
Other assets	-	-	-	-	2,413,012	2,351,946
Land, land contracts, and other property	2,775,897	2,775,897	-	-	98,734,529	99,725,505
Total assets	<u>\$ 431,026,779</u>	<u>\$ 446,380,606</u>	<u>\$ 5,589,351</u>	<u>\$ 6,180,046</u>	<u>\$ 131,723,544</u>	<u>\$ 134,155,467</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ 7,250	\$ 14,502	\$ 1,326,326	\$ 2,323,357
Deposits held in escrow	100,000	100,000	-	-	-	-
Accrued payroll, withholdings, and other	-	-	-	-	12,242,450	10,326,384
Deferred compensation	-	-	-	-	10,806,565	9,355,346
Other long-term debt	-	-	-	-	62,459,807	64,035,535
Total liabilities	100,000	100,000	7,250	14,502	86,835,148	86,040,622
Net Assets						
Without donor restrictions	264,359,046	269,184,671	1,449,478	1,482,197	18,903,946	20,813,657
With donor restrictions	166,567,733	177,095,935	4,132,623	4,683,347	25,984,450	27,301,188
Total net assets	430,926,779	446,280,606	5,582,101	6,165,544	44,888,396	48,114,845
Total liabilities and net assets	<u>\$ 431,026,779</u>	<u>\$ 446,380,606</u>	<u>\$ 5,589,351</u>	<u>\$ 6,180,046</u>	<u>\$ 131,723,544</u>	<u>\$ 134,155,467</u>
Statement of Activities and Changes in Net Assets						
	Year Ended June 30		Year Ended June 30		Year Ended June 30	
	2020	2019	2020	2019	2020	2019
Revenue Gains, Losses, and Other Support						
Gifts, contributions, and other	\$ 24,018,592	\$ 17,847,072	\$ 396,511	\$ 507,368	\$ 31,394,716	\$ 31,049,031
Investment income	11,936,955	11,484,713	148,210	147,843	-	-
Contracted services and support	-	-	-	-	43,859,735	45,726,793
Patient service revenue	-	-	-	-	10,163,074	9,099,644
Governmental grants and contracts	-	-	-	-	14,350,109	14,583,722
Other income	450,580	415,472	5,781	15,270	-	-
Net (loss) gain from security and other investment transactions	(19,740,257)	(1,934,384)	(398,346)	(30,551)	(325,641)	6,351
Transfers from Western Michigan University	5,555,408	2,767,654	90,161	467,721	-	-
Total revenue gains, losses, and other support	22,221,278	30,580,527	242,317	1,107,651	99,441,993	100,465,541
Expenditures and Distributions						
Program services	2,015,671	2,408,272	113,404	104,873	88,121,002	85,832,857
Management and general	1,155,538	1,341,009	64,376	66,532	14,547,440	15,076,581
Fundraising	2,109,369	2,338,728	141,054	128,290	-	-
Total expenditures	5,280,578	6,088,009	318,834	299,695	102,668,442	100,909,438
Distributions to Western Michigan University	32,294,527	41,996,230	506,926	991,010	-	-
Total expenditures and distributions	37,575,105	48,084,239	825,760	1,290,705	102,668,442	100,909,438
Change in Net Assets	(15,353,827)	(17,503,712)	(583,443)	(183,054)	(3,226,449)	(443,897)
Net Assets - Beginning of year	446,280,606	463,784,318	6,165,544	6,348,598	48,114,845	48,558,742
Net Assets - End of year	<u>\$ 430,926,779</u>	<u>\$ 446,280,606</u>	<u>\$ 5,582,101</u>	<u>\$ 6,165,544</u>	<u>\$ 44,888,396</u>	<u>\$ 48,114,845</u>

See accompanying notes to the financial statements.



Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The financial statements of Western 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 follows the “business-type” activities reporting requirements of GASB Statement No. 34.

The financial statements of the University have been prepared on the accrual basis, whereby all revenue is recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

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

- Net Investment in Capital Assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Net assets subject to externally imposed constraints such that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- Unrestricted - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of management or the board of trustees (the “Board”) or may otherwise be limited by contractual agreements with outside parties.

These statements have also been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships with the University. Based on application of the criteria, the University has three component units.



Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Summary of Significant Accounting Policies

Component Unit - Western Michigan University is an institution of higher education located in Kalamazoo, Michigan, and is considered to be a component unit of the State of Michigan (the “State”) because its board of trustees is appointed by the governor of the State of Michigan. Accordingly, the University is included in the State’s financial statements as a discretely presented 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.

Component Units of the University - Western Michigan University Foundation, Paper Technology Foundation, Inc., and Western Michigan University Homer Stryker M.D. School of Medicine (WMed) statements are discretely presented as part of the University’s reporting entity. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) and have not been modified for GASB. The officers of Western Michigan University Foundation and Paper Technology Foundation, Inc. include certain University administrative officials, but the University does not have controlling interest in those foundations’ boards. The University does have controlling interest in WMed.

Western Michigan University Foundation (the “Foundation”) operates exclusively for the benefit of Western Michigan University. The Foundation provides support for the objectives, goals, and mission of the University. The Foundation assists in accomplishing the educational purposes of the University.

Paper Technology Foundation, Inc. was established to aid and promote, by financial assistance and guidance, education and research in paper technology and related areas at Western Michigan University.

WMed operates and manages medical education and training programs. WMed’s clinics provide medical services to patients, a substantial portion of which are Medicaid and Medicare recipients.

**Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)**

Cash and Investments - Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased. The University's cash, comprised of working capital and permanent-core assets, is principally invested in investment-grade securities that are readily convertible to cash. The cash is allocated to securities that meet short and long-term investment objectives. Investments, except those held by Western Michigan University's Biosciences Research Commercialization Center (BRCC), 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. At June 30, 2020, there was approximately \$27.4 million of unspent bond proceeds included in long-term investments. There were no unspent bond proceeds included in long-term investments at June 30, 2019.

Accounts Receivable - The University records accounts receivable at net collectible value. Management reviews all the individual student accounts receivable as of June 30 and establishes an allowance for doubtful accounts based on specific assessment of each account as necessary. All amounts deemed uncollectible are charged against income for that fiscal year. More detailed information can be found in Note 4.

Operating and Nonoperating Revenue - Operating activities as reported on the statement of revenue, expenses, and changes in net position are 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 of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, federal CARES Act grant revenue, gifts, and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

Auxiliary Activities – As of June 30, 2020 and 2019, auxiliary activities consisted of the following:

	2020	2019
Auxiliary activities revenue, gross	\$ 82,649,515	\$ 94,923,037
Less: Scholarship allowance	(10,010,344)	(10,747,210)
Auxiliary activities revenue, net	<u>\$ 72,639,171</u>	<u>\$ 84,175,827</u>

**Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)**

Capital Assets - Capital assets are stated at cost, if purchased, or at appraised 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:

Land Improvements	20 Years
Buildings	50 Years
Equipment and Software	3-15 Years
Library Holdings	10 Years

Bond Issuance Costs - Bond issuance costs are expensed in the period incurred while prepaid insurance costs related to bond issuance are amortized over the life of the bonds using the straight-line method. Gains and losses resulting from refunding bonds are booked as deferred outflows of resources and deferred inflows of resources and recognized as a component of interest expense over the shorter of the remaining term of the old debt or the term of the new debt.

Postemployment Benefits Other Than Pensions - For purposes of measuring the net 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 Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, benefit payments are recognized 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.

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)**

Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

The University reports deferred outflows of resources for certain pension-related and OPEB-related amounts, such as changes in assumptions and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 10 and Note 11.

As of June 30, 2020 and 2019, deferred outflows of resources consisted of the following:

	2020	2019
Loss on refunding of bonds payable	\$ 98,615	\$ 105,659
Pension related	8,727,415	9,867,279
OPEB related	9,935,577	9,086,948
	<u>\$ 18,761,607</u>	<u>\$ 19,059,886</u>

Deferred Inflows of Resources - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The University reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments and changes in key assumptions. More detailed information can be found in Note 10 and Note 11.

As of June 30, 2020 and 2019, deferred inflows of resources consisted of the following:

	2020	2019
Gain on refunding of bonds payable	\$ 1,377,558	\$ 727,000
Annuity and trust related	4,086,487	4,129,182
Pension related	3,913,754	6,136,484
OPEB related	107,229,166	112,707,817
	<u>\$116,606,965</u>	<u>\$123,700,483</u>

Reclassifications - Certain prior year balances within the statement of revenue, expenses, and changes in net position as well as the statement of cash flows were reclassified to reflect the appropriate classification and to conform with current year presentation.

**Note 2 – Significant Events Impacting the University**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries implemented measures to combat the outbreak which impacted business operations globally. Effective March 16, 2020, the University quickly pivoted on-campus classes to distance-learning for the remainder of the spring 2020 semester. Resources continue to be allocated toward responding to this global pandemic to ensure operational sustainability. Federal funding is being received that will replenish University funds expended.

No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding the situation, management's professional perspective regarding this could change in the future.

Note 3 - Cash and Investments

The University uses the "pooled cash" method of accounting for substantially all of its cash and investments. In order to maximize earnings, the cash and certain investments of Western Michigan University Foundation and Paper Technology Foundation, Inc. are pooled with those of the University, as well as funds held for affiliates and others.

As of June 30, 2020, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money Market Funds	\$ 126,065,083	\$ 126,065,083	\$ -	\$ -	\$ -
Corporate Stock	34,024	-	-	-	34,024
Equity Funds	88,898,054	-	-	-	88,898,054
Bond Funds	83,188,964	-	68,399,638	14,789,326	-
Land and Land Contracts	275,000	-	-	-	275,000
Bank Loans	9,692,831	-	-	9,692,831	-
Mortgage Fund	11,386,329	-	11,386,329	-	-
Real Estate Investment Trust	357,944	-	-	-	357,944
Total	<u>\$ 319,898,229</u>	<u>\$ 126,065,083</u>	<u>\$ 79,785,967</u>	<u>\$ 24,482,157</u>	<u>\$ 89,565,022</u>

**Note 3 - Cash and Investments (Continued)**

As of June 30, 2019, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money Market Funds	\$ 89,706,843	\$ 89,706,843	\$ -	\$ -	\$ -
Corporate Stock	68,625	-	-	-	68,625
Equity Funds	70,576,986	-	-	-	70,576,986
Bond Funds	75,637,367	-	62,239,998	13,397,369	-
Land and Land Contracts	275,000	-	-	-	275,000
Bank Loans	9,451,515	-	-	9,451,515	-
Mortgage Fund	10,526,997	-	10,526,997	-	-
Real Estate Investment Trust	13,464,170	-	-	-	13,464,170
Total	<u>\$ 269,707,503</u>	<u>\$ 89,706,843</u>	<u>\$ 72,766,995</u>	<u>\$ 22,848,884</u>	<u>\$ 84,384,781</u>

Investments at Western Michigan University Foundation, Paper Technology Foundation, Inc., and WMed are as follows:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Homer Stryker M.D. School of Medicine	
	2020	2019	2020	2019	2020	2019
Money market funds	\$ 220,263	\$ 33,974	\$ 3,771	\$ 478	\$ 169,256	\$ 5,271
Corporate stock	1,910,952	1,738,711	33,446	32,478	48,676	37,710
Equity funds	188,824,798	200,815,626	2,638,372	3,097,459	5,482,146	5,407,152
Bond funds	74,408,925	86,480,414	349,269	572,115	1,663,160	1,289,724
Target date blended funds	-	-	-	-	7,849,853	6,914,495
Land and land contracts	2,876,389	2,883,596	50,343	53,863	73,268	62,540
Private equity/venture capital	25,685,076	21,126,105	449,543	394,618	654,259	458,190
Hedge funds	22,349,989	28,239,760	386,876	387,417	563,054	449,829
Credit/distressed	13,137,238	11,231,843	229,929	209,802	334,636	243,600
Private real assets	58,629,236	42,763,363	849,154	798,784	1,235,846	927,466
Total	<u>\$ 388,042,866</u>	<u>\$ 395,313,392</u>	<u>\$ 4,990,703</u>	<u>\$ 5,547,014</u>	<u>\$ 18,074,154</u>	<u>\$ 15,795,977</u>

**Note 3 - Cash and Investments (Continued)**

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

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Homer Stryker M.D. School of Medicine	
	2020	2019	2020	2019	2020	2019
Unrealized gains (losses)	\$ (21,258,720)	\$ (10,459,890)	\$ (278,024)	\$ (147,242)	\$ (180,885)	\$ (124,516)
Realized gains (losses)	1,518,463	8,525,506	(120,322)	116,691	(144,756)	130,867
Total	<u>\$ (19,740,257)</u>	<u>\$ (1,934,384)</u>	<u>\$ (398,346)</u>	<u>\$ (30,551)</u>	<u>\$ (325,641)</u>	<u>\$ 6,351</u>

Western Michigan University Foundation, Paper Technology Foundation, Inc., and WMed investments are stated at fair value based upon quoted market prices or are based on information provided by the fund managers or the general partners of the investment funds.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's operating investment policy provides for a diversified portfolio comprised of short and long-term investments. The investment policy does not specifically limit or restrict asset allocation except for the long-term investment pool.

The asset allocation, as a percentage of the total market value of the long-term investment pool, is targeted as follows:

Asset Category	Target	Range
U.S. equities	24.0%	10-30%
International equities	21.0%	10-30%
Fixed income	55.0%	45-65%

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").

The annuity and life income funds are invested and held to maturity; therefore, the interest rate risk is not considered in its decisions. The investment policy is to maintain a permanent core asset allocation committed to both equity and fixed-income securities.

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

**Note 3 - Cash and Investments (Continued)**

In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be "A" for the short-term pool accounts.

At June 30, 2020 and 2019, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2020	NRSRO	2019	NRSRO
	Market Value	Rating	Market Value	Rating
Bond mutual funds:				
Western Asset Intermediate Bond Portfolio	\$ 21,543,444	A+	\$ 19,203,730	AA-
iShares TIPs Bond ETF	12,822,317	AAA	11,322,674	AAA
SSGA Charitable Bond Fund	190,347	AA	184,141	AA
BlackRock High Yield Bond Portfolio	91,899	B	87,823	B
Vanguard Total Bond Fund	1,646,103	AA	1,764,866	AA
TIPs Index CTF Fund	38,661	AAA	37,865	AAA
Commonfund Contingent Asset Portfolio	11,386,329	AA	10,526,997	AA+
JP Morgan Short Duration Bond Fund	18,221,500	AA-	16,541,082	AA-
Loomis Sayles Senior Floating Rate Fund	9,692,831	BB-	9,451,515	BB-
Vanguard Short-Term Bond ETF	12,875,663	AA	11,622,543	AA
PIMCO Income Inst Fund	15,759,030	A-	14,872,643	BBB
Total	<u>\$ 104,268,124</u>		<u>\$ 95,615,879</u>	

At June 30, 2020 and 2019, Western Michigan University Foundation's and Paper Technology Foundation, Inc.'s debt instruments pooled with the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	Western Michigan University Foundation				Paper Technology Foundation, Inc.			
	2020		2019		2020		2019	
Western Asset Intermed. Bond Portfolio	\$ 1,387,754	A+	\$ 2,310,835	AA-	\$ 32,693	A+	\$ 25,829	AA-
iShares TIPs Bond ETF	807,357	AAA	1,324,048	AAA	19,020	AAA	14,800	AAA
Commonfund Contingent Asset Portfolio	733,468	AA	1,266,741	AA+	17,280	AA	14,159	AA+
JP Morgan Short Duration Bond Fund	1,173,766	AA-	1,990,432	AA-	27,652	AA-	22,248	AA-
Loomis Sayles Senior Floating Rate Fd	624,378	BB-	1,137,326	BB-	14,710	BB-	12,713	BB-
Vanguard Short-Term Bond ETF	829,405	AA	1,398,571	AA	19,540	AA	15,633	AA
PIMCO Income Inst Fund	1,015,142	A-	1,789,665	BBB	23,915	A-	20,004	BBB
Total	<u>\$ 6,571,270</u>		<u>\$ 11,217,618</u>		<u>\$ 154,810</u>		<u>\$ 125,386</u>	

The nationally recognized statistical rating organization (NRSRO) utilized was primarily Moody's Investors Services. The corporate bonds NRSRO rating is based on a weighted average of the individual investment ratings.

**Note 3 - 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 risk because their existence is not evidenced by securities that exist in physical or book-entry form. At June 30, 2020 and 2019, the carrying amount of the University's deposits was \$83,645,440 and \$42,054,985, respectively. These amounts include the Foundations' balances of \$7,574,856 and \$5,123,906, respectively. Of that amount, \$846,026 and \$1,166,507 was insured as of June 30, 2020 and 2019, respectively. The remaining \$82,799,414 and \$40,888,478 at June 30, 2020 and 2019, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

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 cash investment policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10 percent of its assets can be in any particular issue. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University did not have investments in any single issuer that equaled 10 percent or more in fiscal year 2020 or 2019.

Foreign Currency Risk – All of the University's and foundations' holdings of foreign investments were in U.S. dollars at June 30, 2020 and 2019; therefore, the University and foundations have no direct exposure to foreign currency risk.

Note 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.

In instances where inputs used to measure fair value fall into different levels in the 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.

**Note 4 – Fair Value Measurements (Continued)**

The University has the following recurring fair value measurements:

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2020:

	Fair Value Measurements Using			
	Balance at June 30, 2020	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:				
Money Market Funds	\$ 126,065,083	\$ 126,065,083	\$ -	\$ -
Corporate Stock	34,024	34,024	-	-
Equity Funds	88,898,054	30,158,345	58,739,709	-
Bond Funds	83,188,964	82,959,957	229,007	-
Land and Land Contracts	275,000	-	275,000	-
Real Estate Investment Trust Fund	357,944	357,944	-	-
Total investments by fair value level	<u>\$ 298,819,069</u>	<u>\$ 239,575,353</u>	<u>\$ 59,243,716</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Fixed Income - Senior Floating Rate Fund	9,692,831			
Mortgage-Back Securities Fund	11,386,329			
Total investments measured at the NAV	<u>21,079,160</u>			
Total investments measured at fair value	<u>\$ 319,898,229</u>			

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2019:

	Fair Value Measurements Using			
	Balance at June 30, 2019	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:				
Money Market Funds	\$ 89,706,843	\$ 89,706,843	\$ -	\$ -
Corporate Stock	68,625	68,625	-	-
Equity Funds	70,576,986	70,233,218	343,768	-
Bond Funds	75,637,367	75,415,361	222,006	-
Land and Land Contracts	275,000	-	275,000	-
Real Estate Investment Trust Fund	350,248	350,248	-	-
Total investments by fair value level	<u>\$ 236,615,069</u>	<u>\$ 235,774,295</u>	<u>\$ 840,774</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Fixed Income - Senior Floating Rate Fund	9,451,515			
Real Estate Investment Trust Fund	13,113,922			
Mortgage-Back Securities Fund	<u>10,526,997</u>			
Total investments measured at the NAV	<u>33,092,434</u>			
Total investments measured at fair value	<u>\$ 269,707,503</u>			

**Note 4 – Fair Value Measurements (Continued)**

Corporate stock, equity funds, bond funds, and the real estate investment trust fund classified in Level 1 are valued using prices quoted in active markets for those securities. Money market funds classified in Level 1 are included as cash and cash equivalents on the statement of net position.

The fair value of equity funds, bond funds, and land and land contracts at June 30, 2020 and 2019 was determined primarily based on level 2 inputs. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and other inputs such as appraisals that are observable and obtained annually.

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

Investments in Entities that Calculate Net Asset Value per Share

The University holds shares or interests in investment companies at year-end whereby 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.

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

	June 30, 2020	June 30, 2019		June 30, 2020	
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Fixed Income - Senior Floating Rate Fund	\$ 9,692,831	\$ 9,451,515	\$ -	Semi-Monthly	15 days
Real Estate Investment Trust Fund	-	13,113,922	-	Monthly	30 Days
Mortgage-Backed Securities Fund	11,386,329	10,526,997	-	Weekly	The Wednesday before, or 5 business days prior to month-end
Total	<u>\$ 21,079,160</u>	<u>\$ 33,092,434</u>	<u>\$ -</u>		

The Senior Floating Rate Fund Class's focus is to invest primarily in a managed portfolio of senior loans made to corporations, partnerships, and other entities that typically hold the most senior positions in the borrower's capital. The fair value of the investments of this class have been estimated using the net asset value per share of the investments.

**Note 4 – Fair Value Measurements (Continued)**

The Real Estate Investment Trust Fund Class's focus is to invest in companies that operate, develop or manage real estate. Investments are diversified across regions and capitalization structure. The fair value of the investments of this class have been estimated using the net asset value per share of the investments.

The Mortgage-Backed Securities Fund Class's focus is to invest in a portfolio of short-dated mortgages. The fair value of the investments of this class have been estimated using the net asset value per share of the investments.

Note 5 – Receivables

As of June 30, 2020 and 2019, accounts receivable consisted of the following:

	2020	2019
Appropriations from the State of Michigan for operations	\$ 7,917,578	\$ 20,428,928
Sponsored research grants receivable	4,315,399	5,015,543
Student accounts receivable	10,937,021	10,861,341
Capital appropriations from the State of Michigan	2,515,624	-
Other	<u>3,357,323</u>	<u>5,277,398</u>
Total	29,042,945	41,583,210
Less allowances for doubtful accounts	<u>(4,749,055)</u>	<u>(6,038,410)</u>
Net accounts receivable	<u>\$ 24,293,890</u>	<u>\$ 35,544,800</u>

As of June 30, 2020 and 2019, student loans receivable consisted of the following:

	2020	2019
Student loans receivable	\$ 5,422,465	\$ 6,863,573
Less: allowance for doubtful accounts	<u>(295,081)</u>	<u>(398,438)</u>
Net student loans receivable	<u>\$ 5,127,384</u>	<u>\$ 6,465,135</u>

**Note 5 – Receivables (Continued)**

As of June 30, 2020 and 2019, pledges receivable at the component units consisted of the following:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Homer Stryker M.D. School of Medicine	
	2020	2019	2020	2019	2020	2019
Pledges expected to be collected within 1 year	\$ 8,596,892	\$ 5,613,075	\$ 137,200	\$ 206,300	\$ 151,125	\$ 118,167
Pledges expected to be collected in 1-5 years	<u>9,979,628</u>	<u>8,515,754</u>	<u>28,000</u>	<u>68,000</u>	<u>206,375</u>	<u>157,633</u>
Total	18,576,520	14,128,829	165,200	274,300	357,500	275,800
Less:						
Allowance for uncollectible contributions	(862,889)	(490,912)	(8,260)	(6,205)	-	-
Present value discount	<u>(63,175)</u>	<u>(312,626)</u>	<u>(383)</u>	<u>(2,677)</u>	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 17,650,456</u>	<u>\$ 13,325,291</u>	<u>\$ 156,557</u>	<u>\$ 265,418</u>	<u>\$ 357,500</u>	<u>\$ 275,800</u>

Pledges receivable are presented net of a discount for the value of future cash flows and an allowance for uncollectible contributions. The discount to present value was calculated using the yield on a three-year Treasury bill rate, equal to 0.18 percent and 1.71 percent as of June 30, 2020 and 2019, respectively. The allowance for uncollectible contributions is a general valuation allowance of 5.0 percent for fiscal years 2020 and 2019, established based on historical contribution collection history. Estate gifts receivable at Western Michigan University Foundation of approximately \$1.3 million and \$1.1 million at June 30, 2020 and 2019, respectively, included in the total pledges receivable, have no allowance for uncollectible contributions. Pledges deemed uncollectible are charged against the allowance for uncollectible contributions in the period in which the determination is made.

Note 6 – Capital Lease Receivable

The University leased a building located at 300 Portage Street in downtown Kalamazoo to WMed. The lease was classified as a single-unit direct financing lease and specified that WMed pay the University lease rental payments which at a minimum were sufficient to pay the principal and interest on the lease rental revenue bonds issued by the University to fund the renovation cost of the building. The lease rental revenue bonds were payable over five years with a 30-year amortization and a balloon payment due December 2018. The lease called for an initial 50-year term with an automatic five-year renewal option.

The lease was capitalized using a 1.9 percent capitalization rate and remained in effect until October 2018 at which point it was refinanced by WMed with a direct-placement bond issuance. The proceeds were used by WMed to settle the capital lease receivable held by the University, and the University in turn used the proceeds to pay off the 2013 lease rental revenue bonds.

**Note 7 – Capital Assets**

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

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets:				
Land	\$ 13,392,390	\$ -	\$ -	\$ 13,392,390
Construction in progress	58,262,155	90,590,993	32,508,202	116,344,946
Total nondepreciable property	71,654,545	90,590,993	32,508,202	129,737,336
Land improvements	89,090,843	1,599,629	-	90,690,472
Buildings	1,036,952,250	18,832,971	-	1,055,785,221
Buildings under capitalized lease	24,313,502	-	-	24,313,502
Equipment, software, and other	78,634,064	7,077,060	1,239,035	84,472,089
Library holdings	95,831,208	1,336,047	-	97,167,255
Total depreciable property	1,324,821,867	28,845,707	1,239,035	1,352,428,539
Total capital assets	1,396,476,412	119,436,700	33,747,237	1,482,165,875
Less accumulated depreciation:				
Land improvements	49,317,461	3,400,676	-	52,718,137
Buildings	384,805,604	19,102,389	-	403,907,993
Buildings under capitalized lease	5,055,465	678,550	-	5,734,015
Equipment, software, and other	63,203,564	4,921,843	1,178,466	66,946,941
Library holdings	86,898,831	1,759,640	-	88,658,471
Total accumulated depreciation	589,280,925	29,863,098	1,178,466	617,965,557
Capital assets - Net	<u>\$ 807,195,487</u>			<u>\$ 864,200,318</u>

**Note 7 – Capital Assets (Continued)**

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

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets:				
Land	\$ 13,392,390	\$ -	\$ -	\$ 13,392,390
Construction in progress	33,637,683	47,988,384	23,363,912	58,262,155
Total nondepreciable property	47,030,073	47,988,384	23,363,912	71,654,545
Land improvements	79,890,474	9,200,369	-	89,090,843
Buildings	1,032,209,851	10,333,831	5,591,432	1,036,952,250
Buildings under capitalized lease	20,796,391	3,517,111	-	24,313,502
Equipment, software, and other	77,790,198	6,701,707	5,857,841	78,634,064
Library holdings	94,453,657	1,377,551	-	95,831,208
Total depreciable property	1,305,140,571	31,130,569	11,449,273	1,324,821,867
Total capital assets	1,352,170,644	79,118,953	34,813,185	1,396,476,412
Less accumulated depreciation:				
Land improvements	46,277,724	3,039,737	-	49,317,461
Buildings	370,485,395	18,916,759	4,596,550	384,805,604
Buildings under capitalized lease	4,455,630	599,835	-	5,055,465
Equipment, software, and other	63,516,881	4,920,746	5,234,063	63,203,564
Library holdings	85,187,659	1,711,172	-	86,898,831
Total accumulated depreciation	569,923,289	29,188,249	9,830,613	589,280,925
Capital assets - Net	<u>\$ 782,247,355</u>			<u>\$ 807,195,487</u>

The estimated additional costs to be incurred for major construction projects in progress and scheduled to begin is approximately \$129.6 million as of June 30, 2020. Construction is already underway for new student housing expected to cost \$62.1 million and be ready for occupancy by January 2021. A \$99.0 million combined student center and dining facility is also planned for South Campus and is planned to open in Fall 2022. The College of Aviation's Education Center located at the W. K. Kellogg Airport in Battle Creek is expanding with a 67,000 square-foot addition/renovation at an estimated cost of \$22.8 million and will be completed by February 2021. It will be funded with \$15.0 million from the State of Michigan with the remainder coming from gifts and other available funds.

**Note 8 – Long Term Obligations**

Long-term obligation activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue and Refunding Bonds, Series 2019A, with interest at 5.00%, maturing November 15, 2049	\$ -	\$ 76,965,000	\$ -	\$ 76,965,000	\$ 3,605,000
General Revenue Bonds, Series 2019B, with interest ranging from 2.29% to 3.77%, maturing November 15, 2049	-	15,930,000	-	15,930,000	-
General Revenue and Refunding Bonds, Series 2015A, with interest ranging from 3.00% to 5.00%, maturing November 15, 2045	103,680,000	-	4,910,000	98,770,000	5,580,000
General Revenue Refunding Bonds, Series 2014, with interest ranging from 3.00% to 5.00%, maturing November 15, 2035	27,265,000	-	1,080,000	26,185,000	1,125,000
General Revenue and Refunding Bonds, Series 2013, with interest ranging from 5.00% to 5.25%, maturing November 15, 2043	75,280,000	-	4,465,000	70,815,000	4,690,000
General Revenue and Refunding Bonds, Series 2011, with interest ranging from 4.00% to 5.25%, maturing November 15, 2040	50,295,000	-	2,820,000	47,475,000	2,960,000
General Revenue Refunding Bonds, Series 2009, with interest ranging from 4.25% to 5.25%, maturing November 15, 2022.	17,330,000	-	17,330,000	-	-
General Revenue Bonds, Series 2002B, with interest ranging from 5.25% to 5.42%, maturing November 15, 2032	12,525,000	-	630,000	11,895,000	665,000
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59% and monthly payments ranging from \$100,669 to \$125,169 for 15 years with two five-year renewal options and a buy-out purchase option	12,206,656	-	678,550	11,528,106	734,509
Total bonds, notes, and leases payable	298,581,656	92,895,000	31,913,550	359,563,106	19,359,509
Other Long-term Obligations					
Annuities payable	521,679	168,472	104,533	585,618	-
Charitable remainder trusts payable	2,964,097	253,802	421,063	2,796,836	-
Unamortized bond premiums	21,733,400	15,467,316	3,216,083	33,984,633	2,350,284
Accrued compensated absences	10,889,822	-	143,777	10,746,045	-
Voluntary retirement incentive program liability	-	10,399,805	-	10,399,805	5,199,903
CARES Act deferred employer payroll taxes	-	3,215,028	-	3,215,028	-
Total long-term obligations	<u>\$334,690,654</u>	<u>\$122,399,423</u>	<u>\$ 35,799,006</u>	<u>\$421,291,071</u>	<u>\$ 26,909,696</u>

**Note 8 – Long Term Obligations (Continued)**

Long-term obligation activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue and Refunding Bonds, Series 2015A, with interest ranging from 3.00% to 5.00%, maturing November 15, 2045	\$108,865,000	\$ -	\$ 5,185,000	\$103,680,000	\$ 4,910,000
General Revenue Refunding Bonds, Series 2014, with interest ranging from 3.00% to 5.00%, maturing November 15, 2035	28,295,000	-	1,030,000	27,265,000	1,080,000
General Revenue and Refunding Bonds, Series 2013, with interest ranging from 5.00% to 5.25%, maturing November 15, 2043	79,535,000	-	4,255,000	75,280,000	4,465,000
General Revenue and Refunding Bonds, Series 2011, with interest ranging from 4.00% to 5.25%, maturing November 15, 2040	52,970,000	-	2,675,000	50,295,000	2,820,000
General Revenue Refunding Bonds, Series 2009, with interest ranging from 4.25% to 5.25%, maturing November 15, 2022	21,155,000	-	3,825,000	17,330,000	4,015,000
General Revenue Bonds, Series 2002B, with interest ranging from 5.25% to 5.42%, maturing November 15, 2032	13,125,000	-	600,000	12,525,000	630,000
Direct Placements					
2013 Lease Rental Revenue Bonds, with interest at one-month LIBOR plus 115 basis points, an effective rate of 3.22% at June 30, 2018, paid in full October 2018	64,280,000	-	64,280,000	-	-
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59% and monthly payments ranging from \$100,669 to \$125,169 for 15 years with two five-year renewal options and a buy-out purchase option	9,289,380	3,517,111	599,835	12,206,656	678,550
Total bonds, notes, and leases payable	377,514,380	3,517,111	82,449,835	298,581,656	18,598,550
Other Long-term Obligations					
Annuities payable	564,431	74,725	117,477	521,679	-
Charitable remainder trusts payable	2,888,826	753,937	678,666	2,964,097	-
Unamortized bond premiums	23,525,528	-	1,792,128	21,733,400	1,792,129
Accrued compensated absences	12,457,977	-	1,568,155	10,889,822	-
Total long-term obligations	<u>\$416,951,142</u>	<u>\$ 4,345,773</u>	<u>\$ 86,606,261</u>	<u>\$334,690,654</u>	<u>\$ 20,390,679</u>

**Note 8 – Long Term Obligations (Continued)**

The bonds and notes payable are generally callable by the University. The principal and interest amounts are payable as follows:

	Bonds and Notes Payable			Obligations Under Capital
	Principal	Interest	Total	
2021	\$ 18,625,000	\$ 16,740,894	\$ 35,365,894	\$ 1,238,351
2022	18,215,000	15,829,439	34,044,439	1,263,118
2023	19,135,000	14,904,613	34,039,613	1,288,380
2024	13,360,000	14,105,940	27,465,940	1,314,148
2025	13,485,000	13,442,603	26,927,603	1,340,431
2026-2030	78,435,000	56,196,466	134,631,466	7,115,168
2031-2035	65,315,000	37,117,639	102,432,639	1,126,524
2036-2040	52,330,000	23,617,687	75,947,687	-
2041-2045	44,555,000	10,870,445	55,425,445	-
2046	24,580,000	2,898,935	27,478,935	-
Total	<u>\$ 348,035,000</u>	<u>\$ 205,724,661</u>	<u>\$ 553,759,661</u>	14,686,120
Less amount representing interest				<u>(3,158,014)</u>
Present value of net minimum lease payments				<u>\$ 11,528,106</u>

Interest expense for the University on all indebtedness was \$13,759,394 and \$13,262,650 for the years ended June 30, 2020 and 2019, respectively.

Bond Defeasance

In November 2019, the University issued \$76,965,000 of General Revenue and Refunding Bonds, Series 2019A with an interest rate of 5.00 percent, a portion of which was used to advance refund \$13,315,000 outstanding General Revenue Bonds, Series 2009 with an average interest rate of 4.92 percent. \$13,366,000 of the proceeds were deposited into an escrow account with the trustee and was used to pay principal and interest on the Series 2009 bonds when the bonds were called for redemption in May 2020. The advance refunding resulted in an economic gain of \$847,000 due to the total debt service payments decreasing by \$837,000. The remaining proceeds were used to pay issuance costs and to finance new projects.

**Note 9 – Insurance**

The University participates in the Michigan Universities Self-Insurance Corporation (“M.U.S.I.C.”), which provides indemnity to members against comprehensive general liability, errors and omissions, and property losses commonly covered by insurance. M.U.S.I.C. 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, M.U.S.I.C. 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 payments made to M.U.S.I.C. and premiums to excess carriers reflect the claims experience of each university.

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 M.U.S.I.C. 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 - Beginning of Year	Claims Incurred, Including Changes in Estimates	Claim Payments	Liability - End of Year
Hospital/Medical claims	\$ 2,947,059	\$ 36,947,461	\$ (36,947,520)	\$ 2,947,000
Workers' compensation claims	2,078,381	1,072,897	(1,342,897)	1,808,381
Long-term disability claims	597,431	1,148,987	(1,317,152)	429,266
General liability claims	792,941	490,920	(253,842)	1,030,019
	<u>\$ 6,415,812</u>	<u>\$ 39,660,265</u>	<u>\$ (39,861,411)</u>	<u>\$ 6,214,666</u>

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

	Liability - Beginning of Year	Claims Incurred, Including Changes in Estimates	Claim Payments	Liability - End of Year
Hospital/Medical claims	\$ 2,823,000	\$ 43,351,475	\$ (43,227,416)	\$ 2,947,059
Workers' compensation claims	2,118,380	883,907	(923,906)	2,078,381
Long-term disability claims	974,099	1,439,134	(1,815,802)	597,431
General liability claims	675,876	117,065	-	792,941
	<u>\$ 6,591,355</u>	<u>\$ 45,791,581</u>	<u>\$ (45,967,124)</u>	<u>\$ 6,415,812</u>

**Note 10 – Retirement Plans****Defined Contribution Plan**

The University offers employees eligible for the WMU retirement plan the opportunity to participate in the TIAA-CREF plan. Funding for the plan consists of an employer contribution of 11 percent of covered compensation for employees hired before January 1, 2013. For participating employees hired on or after January 1, 2013, the University contributes 9 percent of covered compensation. The University contribution increases to 10 percent if the employee contributes at least 1 percent but less than 2 percent, and to 11 percent if the employee contributes 2 percent or more. The University has no liability beyond its contribution. Benefits vest immediately for eligible salaried employees and vest over a five-year period for eligible hourly nonexempt participants. Contributions for the years ended June 30, 2020, 2019, and 2018 were approximately \$22.9 million, \$22.8 million, and \$21.9 million, respectively.

Other Postemployment Benefit Plan

Plan Description - The University provides other postemployment benefits (OPEB) to retired employees, their spouses, and dependent children. Benefits are provided to all retired faculty, academic, and support staff that retired at the age of 55 or older and had provided 10 years or more of service to the University for employees hired on or before September 1, 2010. Employees who are professional and support staff hired after September 1, 2010 pay 100 percent of the premium upon retirement and must be at the age of 60 or older and have provided 15 or more years of service to the University. Other employee groups' agreements vary based on contracts.

This is a single-employer defined benefit plan administered by the University. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions (or by the employer if not funded through the plan).

Benefits Provided - The University OPEB plan provides retiree life insurance, health, and dental care benefits, including prescription drug coverage to retired employees, their spouses, and dependent children. Benefits are provided through the University's self-insurance program and the full cost of benefits is covered by the plan.

Employees Covered by Benefit Terms - As of January 1, 2019, the plan had 1,491 active retiree medical participants and 965 retired retiree medical participants, and the plan had 2,395 active life insurance participants and 867 retired life insurance participants. As of January 1, 2017, the plan had 1,769 active retiree medical participants and 954 retired retiree medical participants, and the plan had 2,373 active life insurance participants and 986 retired life insurance participants.

**Note 10 – Retirement Plans (Continued)**

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 years ended June 30, 2020 and 2019, the University made payments for postemployment health benefit premiums of \$5,699,240 and \$5,223,162, respectively. Retirees or their surviving spouses are required to make annual contributions of between \$1,566 to \$19,381, depending on their age and if their spouses or dependents are covered.

Total OPEB Liability - The June 30, 2020 total OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation performed as of January 1, 2019, which used update procedures to roll forward the estimated liability to June 30, 2019, the measurement date. The June 30, 2019 total OPEB liability has a measurement date of June 30, 2018, based on an actuarial valuation performed as of January 1, 2017, which used update procedures to roll forward the liability to June 30, 2018.

Changes in the total OPEB liability during the measurement year were as follows:

	Increase (Decrease) Total OPEB Liability	
	2020	2019
Balance as of July 1	\$ 186,443,835	\$ 188,534,086
Changes for the fiscal year:		
Service cost	4,577,061	4,774,226
Interest on the total OPEB liability	7,283,275	6,827,765
Differences between expected and actual experience	3,329,915	-
Changes of assumptions	(18,120,506)	(8,469,080)
Benefit payments	(5,699,240)	(5,223,162)
Net changes	(8,629,495)	(2,090,251)
Balance as of June 30	<u>\$ 177,814,340</u>	<u>\$ 186,443,835</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87 percent to 3.50 percent as of June 30, 2019 and a change in the discount rate from 3.58 percent to 3.87 percent as of June 30, 2018. As of June 30, 2019, the mortality basis improved by using the PUB2010 general employees classification headcount-weighted mortality table projected using scale MP-2018 from the PR-2014 aggregate mortality table projected using scale MP-2016, and the healthcare cost trend rate decreased from a range of 4.50 percent to 9.77 percent to a range of 4.50 percent to 6.60 percent. There was also an updated experience study as of June 30, 2019.

**Note 10 – Retirement Plans (Continued)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the years ended June 30, 2020 and 2019, the University recognized negative OPEB expense of \$9,561,426 and negative OPEB expense of \$7,842,419, respectively.

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:

	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	\$ 2,884,739	\$ (21,844,365)	\$ -	\$ (26,645,324)
Changes of assumptions	-	(83,447,413)	-	(82,392,886)
Total amortized deferrals	2,884,739	(105,291,778)	-	(109,038,210)
University contributions subsequent to the measurement date	4,338,724	-	5,699,240	-
Total	<u>\$ 7,223,463</u>	<u>\$ (105,291,778)</u>	<u>\$ 5,699,240</u>	<u>\$ (109,038,210)</u>

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

Year Ending June 30	Amount
2021	\$ (21,421,762)
2022	(21,421,762)
2023	(21,421,762)
2024	(21,421,762)
2025	(13,176,556)
Thereafter	(3,543,435)
Total	<u>\$ (102,407,039)</u>

Actuarial Assumptions - The total OPEB liability as of June 30, 2019 is based on the results of an actuarial valuation as of January 1, 2019 and rolled forward. The total OPEB liability as of June 30, 2018 is based on the results of an actuarial valuation as of January 1, 2017 and rolled forward.

**Note 10 – Retirement Plans (Continued)**

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

Actuarial cost method	Entry age normal cost actuarial cost method
Discount rate	3.50%
20-year municipal bond rate	3.50% S&P Municipal Bond 20 Year High Grade Index
Salary increases	3.00%
General inflation	2.50%
Healthcare participation rate	60.00%
Healthcare Cost Trend Rate	4.50%-6.60%
Mortality basis	PUB2010 General Employees Classification Headcount-Weighted Mortality Table projected using Scale MP-2018

The total OPEB liability was determined using the following actuarial assumptions as of June 30, 2018:

Actuarial cost method	Entry age normal cost actuarial cost method
Discount rate	3.87%
20-year municipal bond rate	3.87% S&P Municipal Bond 20 Year High Grade Index
Salary increases	3.00%
General inflation	2.50%
Healthcare participation rate	60.00%
Healthcare Cost Trend Rate	4.50%-9.77%
Mortality basis	RP-2014 Aggregate Mortality Table projected using Scale MP-2016

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2016 through December 31, 2018 for medical and January 1, 2017 through December 31, 2018 for dental and vision. The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2016 for medical and January 1, 2015 through December 31, 2016 for dental and vision.

Discount Rate - The discount rate used to measure the total OPEB liability was 3.50 percent and 3.87 percent as of June 30, 2019 and 2018, respectively. The discount rate is based on the S&P Municipal Bond 20-Year High Grade Index.

**Note 10 – Retirement Plans (Continued)**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the University, calculated using the discount rate, as well as what the University's total 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		
1.00 percent decrease (2.50 percent)	Current Discount Rate (3.50 percent)	1.00 percent increase (4.50 percent)
\$ 207,072,737	\$ 177,814,340	\$ 154,174,635

2019		
1.00 percent decrease (2.87 percent)	Current Discount Rate (3.87 percent)	1.00 percent increase (4.87 percent)
\$ 216,828,033	\$ 186,443,835	\$ 161,912,926

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the University, calculated using the healthcare cost trend rate, as well as what the University's total 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		
1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
\$ 151,642,319	\$ 177,814,340	\$ 211,093,754

2019		
1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
\$ 157,283,960	\$ 186,443,835	\$ 223,779,044



Note 11 – 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 hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPSERS. 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 System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided - Benefit provisions of the defined benefit (DB) 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 (DC) plan that provides a 50.00 percent employer match (up to 3.00 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 100.00 percent of the participant's final average compensation, with an increase of 2.00 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 11 – 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 3.00 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.

MPERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPERS 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 80.00 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 10.00 percent, or 20.00 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 MPERS 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 3.00 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3.00 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 2.00 percent employee contribution into their 457 account as of their transition date, earning them a 2.00 percent employer match into a 401(k) account. Members who selected this option stop paying the 3.00 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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.

**Note 11 – Michigan Public School Employees' Retirement System (Continued)**

The rates are as follows:

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

Depending on the plan selected, member pension contributions range from 0.00 percent up to 7.00 percent of gross wages. For certain plan members, a 4.00 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3.00 percent employer match is provided to the defined contribution pension plan.

The University's required and actual pension contributions to the plan for the years ended June 30, 2020 and 2019 were \$11,148,768 and \$11,163,548, respectively, which include the University's contributions required for those members with a defined contribution benefit.

The University's required and actual OPEB contributions to the plan for the years ended June 30, 2020 and 2019 were \$2,893,388 and \$2,893,195, respectively, which 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 \$153,069,975 and \$145,574,677, 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 22.86 percent, 22.78 percent, and 22.58 percent, respectively, of the universities reporting unit.

**Note 11 – Michigan Public School Employees' Retirement System (Continued)**

Net OPEB Liability - At June 30, 2020 and 2019, the University reported a liability of \$20,928,583 and \$27,048,712, 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 and 2018. 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 22.80 percent, 22.80 percent, and 22.56 percent, respectively, of the universities reporting unit.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the years ended June 30, 2020 and 2019, the University recognized pension expense of \$17,996,229 and \$28,955,799, 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	\$ -	\$ -	\$ -	\$ (112,905)
Changes of assumptions	-	-	1,167,654	-
Net difference between projected and actual earnings on pension plan assets	-	(2,770,275)	-	(4,815,440)
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-	66,024	-
Total amortized deferrals	-	(2,770,275)	1,233,678	(4,928,345)
University contributions subsequent to the measurement date	8,727,415	-	8,633,601	-
Total	<u>\$ 8,727,415</u>	<u>\$ (2,770,275)</u>	<u>\$ 9,867,279</u>	<u>\$ (4,928,345)</u>

**Note 11 – Michigan Public School Employees' Retirement System (Continued)**

The \$207,900 and \$219,660 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 state appropriations revenue for the years ended June 30, 2021 and 2020, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2021	\$ (1,375,666)
2022	(1,489,173)
2023	(370,027)
2024	464,591
Total	<u>\$ (2,770,275)</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 years ended June 30, 2020 and 2019, the University recognized negative OPEB expense of \$4,166,280 and negative OPEB expense of \$1,008,293, respectively.

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:

	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	\$ -	\$ (1,292,501)	\$ -	\$ (2,128,137)
Changes of assumptions	519,563	-	1,155,461	-
Net difference between projected and actual earnings on OPEB plan assets	-	(644,836)	-	(1,541,124)
Changes in proportion and differences between University contributions and proportionate share of contributions	<u>748</u>	<u>(51)</u>	<u>90,841</u>	<u>(346)</u>
Total amortized deferrals	520,311	(1,937,388)	1,246,302	(3,669,607)
University contributions subsequent to the measurement date	<u>2,191,803</u>	<u>-</u>	<u>2,141,406</u>	<u>-</u>
Total	<u>\$ 2,712,114</u>	<u>\$ (1,937,388)</u>	<u>\$ 3,387,708</u>	<u>\$ (3,669,607)</u>

**Note 11 – Michigan Public School Employees’ Retirement System (Continued)**

There were no amounts reported as deferred inflows of resources resulting from the OPEB portion of state aid payments received pursuant to Section 236(4) of the State School Aid Act (PA 94 of 1979) that will be recognized as state appropriations revenue for the years ended June 30, 2021 or 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be 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 OPEB expense):

Year Ending June 30	Amount
2021	\$ (1,112,028)
2022	(339,787)
2023	(76,616)
2024	111,354
Total	<u>\$ (1,417,077)</u>

Actuarial Assumptions - The total pension liability and total OPEB liability as of September 30, 2019 and 2018 are based on the results of an actuarial valuation as of September 30, 2018 and 2017, respectively, and rolled forward.

The total pension liability and total OPEB liability were determined using the following actuarial assumptions as of September 30, 2018:

Actuarial cost method		Entry age normal cost actuarial cost 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 3.5% Year 12
Mortality basis	Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% 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 11 – Michigan Public School Employees' Retirement System (Continued)**

The total pension liability and total OPEB liability were determined using the following actuarial assumptions as of September 30, 2017:

Actuarial cost method		Entry age normal cost actuarial cost 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:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% 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

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

Significant assumption changes since the prior measurement date of September 30, 2018 for pension and OPEB include a reduction in both discount rates, continued impact of the updated experience study which resulted in lower than projected per-person health benefit costs for OPEB, and favorable investment experiences 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 6.80 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 percent 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.

**Note 11 – Michigan Public School Employees' Retirement System (Continued)**

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:

Investment Category	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%
Alternative Investment 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	<u>100.0%</u>		<u>100.0%</u>	

**Note 11 – 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		
1.00 percent decrease (5.80 percent)	Current Discount Rate (6.80 percent)	1.00 percent increase (7.80 percent)
\$ 180,230,715	\$ 153,069,975	\$ 129,930,463

2019		
1.00 percent decrease (6.05 percent)	Current Discount Rate (7.05 percent)	1.00 percent increase (8.05 percent)
\$ 172,095,186	\$ 145,574,677	\$ 122,950,755

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		
1.00 percent decrease (5.95 percent)	Current Discount Rate (6.95 percent)	1.00 percent increase (7.95 percent)
\$ 26,299,455	\$ 20,928,583	\$ 16,356,582

2019		
1.00 percent decrease (6.15 percent)	Current Discount Rate (7.15 percent)	1.00 percent increase (8.15 percent)
\$ 32,539,944	\$ 27,048,712	\$ 22,359,863

**Note 11 – Michigan Public School Employees' Retirement System (Continued)****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			
Current Healthcare			
1.00 percent decrease	Cost Trend Rate	1.00 percent increase	
\$ 16,048,305	\$ 20,928,583	\$ 26,520,731	
2019			
Current Healthcare			
1.00 percent decrease	Cost Trend Rate	1.00 percent increase	
\$ 22,015,779	\$ 27,048,712	\$ 32,807,079	

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 \$727,485 and \$126,122 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 \$873,707 and \$165,140 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 12 – Commitments and Contingencies

In the normal course of its activities, the University is a party in various legal and regulatory actions. The University believes that the outcome of these actions will not have a material effect on the financial statements.

Note 13 – Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact of this standard, specifically related to holding assets for other organizations. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

**Note 13 – Upcoming Accounting Pronouncements (Continued)**

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the University's financial statements as a result of the leases for real property and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2022.

In March 2020, the Governmental Accounting Standards Board issued GASB 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 fiscal year ending June 30, 2022. All other requirements of the statement are effective for the University's financial statements for the fiscal year ending June 30, 2021. Lease modification requirements are effective one year later.

Required Supplemental Information

**Schedule of Pension Funding Progress**

Michigan Public School Employee's Retirement System

(amounts were determined as of September 30 of each fiscal year):

	2019	2018	2017	2016	2015	2014
University's proportion of the universities collective MPERS net pension liability:						
As a percentage	22.86%	22.78%	22.58%	22.68%	21.51%	21.67%
Amount	\$153,069,975	\$145,574,677	\$129,887,690	\$127,039,098	\$118,006,895	\$81,280,501
University's covered payroll	\$ 48,523,000	\$ 47,571,816	\$ 48,271,000	\$ 46,639,000	\$ 18,109,793	\$19,352,399
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered payroll	315.46%	306.01%	269.08%	272.39%	651.62%	420.00%
University-only plan fiduciary net position as a percentage of the total pension liability	44.24%	45.87%	47.42%	46.77%	47.45%	63.00%

Schedule of Pension Contributions

Michigan Public School Employee's Retirement System

(amounts were determined as of June 30 of each fiscal year):

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 11,131,258	\$ 11,146,090	\$ 11,669,886	\$ 8,818,750	\$ 8,480,013	\$ 7,007,529
Contributions in relation to the actuarially determined contractually required contribution	\$ 11,131,258	\$ 11,146,090	\$ 11,669,886	\$ 8,818,750	\$ 8,480,013	\$ 7,548,071
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540,542)
Covered payroll	\$ 49,250,845	\$ 48,285,204	\$ 47,746,750	\$ 47,863,000	\$ 17,156,507	\$19,002,237
Contributions as a percentage of covered payroll	22.60%	23.08%	24.44%	18.42%	49.43%	39.72%

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

See accompanying notes to required supplemental information.

**Schedule of OPEB Funding Progress**

Michigan Public School Employee's Retirement System

(amounts were determined as of September 30 of each fiscal year):

	2019	2018	2017
University's proportion of the universities collective MPERS net OPEB liability:			
As a percentage	22.80%	22.80%	22.56%
Amount	\$20,928,583	\$27,048,712	\$32,104,204
University's covered payroll	\$48,523,000	\$47,571,816	\$48,271,000
University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered payroll	43.13%	56.86%	66.51%
University-only plan fiduciary net position as a percentage of the total OPEB liability	61.07%	51.90%	44.11%

Schedule of OPEB Contributions

Michigan Public School Employee's Retirement System

(amounts were determined as of June 30 of each fiscal year):

	2020	2019	2018
Statutorily required OPEB contributions	\$ 2,888,952	\$ 2,888,696	\$ 3,110,164
OPEB contributions in relation to the actuarially determined contractually required contribution	\$ 2,888,952	\$ 2,888,696	\$ 3,110,164
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll (OPEB)	\$49,250,845	\$48,285,204	\$47,746,750
OPEB contributions as a percentage of covered payroll	5.87%	5.98%	6.51%

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

See accompanying notes to required supplemental information.

**Schedule of Changes in the Total OPEB Liability and Related Ratios**

Western Michigan University OPEB Plan

(amounts were determined as of June 30 of each fiscal year):

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 4,577,061	\$ 4,774,226	\$ 11,313,559
Interest cost	7,283,275	6,827,765	9,128,719
Changes of benefit terms	-	-	-
Differences between expected and actual experiences	3,329,915	-	(36,247,242)
Changes of assumptions	(18,120,506)	(8,469,080)	(102,088,976)
Benefit payments	<u>(5,699,240)</u>	<u>(5,223,162)</u>	<u>(5,128,658)</u>
Net change in total OPEB liability	(8,629,495)	(2,090,251)	(123,022,598)
Total OPEB liability (beginning)	<u>186,443,835</u>	<u>188,534,086</u>	<u>311,556,684</u>
Total OPEB liability (ending)	\$ 177,814,340	\$ 186,443,835	\$ 188,534,086
 Covered-employee payroll	 \$ 176,159,000	 \$ 157,594,000	 \$ 157,594,000
Total OPEB liability as a percentage of payroll	100.94%	118.31%	119.63%

See accompanying notes to required supplemental information.



Pension Information

RSI covered-payroll - The employer's 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.

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

Changes in Assumptions - 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 from 7.05 percent to 6.80 percent.
- 2018 The discount rate used in the September 30, 2017 actuarial valuation decreased from 7.50 percent to 7.05 percent. 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 from 8.00 percent to 7.50 percent.

OPEB Information

RSI covered-payroll - The employer's 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.

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



OPEB Information (Continued)

Changes in Assumptions -

There were no significant changes of assumptions for MPSERS 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 from 7.15 percent to 6.95 percent.
- 2018 The discount rate used in the September 30, 2017 actuarial valuation decreased from 7.50 percent to 7.15 percent. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.

There were no significant changes of assumptions for the single-employer plan for each of the reported plan years ended June 30, except for the following:

- 2020 The discount rate used in the June 30, 2019 actuarial valuation decreased from 3.87 percent to 3.50 percent. The mortality basis changed to the PUB2010 general employees classification headcount-weighted mortality table projected using scale MP-2018 from the RP-2014 aggregate mortality table projected using scale MP-2016.
- 2019 The discount rate used in the June 30, 2018 actuarial valuation increased from 3.58 percent to 3.87.
- 2018 The discount rate used in the June 30, 2017 actuarial valuation decreased from 2.85 percent to 3.58 percent.

Western Michigan University

Federal Awards Supplemental Information
June 30, 2020

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Trustees
Western Michigan University

We have audited the financial statements of Western Michigan University (the "University"), a component of the State of Michigan, and its discretely presented component units 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. We issued our report thereon dated September 24, 2020, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to September 24, 2020.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

May 18, 2021

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 Trustees
Western 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 Western Michigan University, a component unit of the State of Michigan, and its aggregate discretely presented component units (the "University") 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 September 24, 2020. The financial statements of the discretely presented component units 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 Trustees
Western 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

September 24, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required
by the Uniform Guidance

Independent Auditor's Report

To the Board of Trustees
Western Michigan University

Report on Compliance for Each Major Federal Program

We have audited Western Michigan University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2020. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

To the Board of Trustees
Western Michigan University

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2020-001 and 2020-002 that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The University's responses were not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moreau, PLLC

May 18, 2021

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Agency	Direct/ Pass-through	CFDA	Award Number/ Pass-through Entity Identifying Number	Grantor Name	Total Expenditures	Subaward Payments
Student Financial Assistance Cluster:						
U.S. Department of Education	Direct	84.007	P007A172105	U.S. Department of Education	\$ 980,385	\$ -
U.S. Department of Education	Direct	84.033	P033A172105	U.S. Department of Education	809,799	-
U.S. Department of Education	Direct	84.038	P038A062105	U.S. Department of Education	6,840,957	-
U.S. Department of Education	Direct	84.063	P063P170246	U.S. Department of Education	24,090,113	-
U.S. Department of Education	Direct	84.268	FED DIRECT LOAN PROG	U.S. Department of Education	123,501,908	-
Student Financial Assistance Cluster Total					156,223,162	-
Research and Development Cluster:						
U.S. Department of Agriculture	Pass-through	10.683	0406.17.057768	National Fish and Wildlife Foundation	15,850	13,599
U.S. Department of Agriculture Total					15,850	13,599
U.S. Department of Defense	Direct	12.300	FA8750-19-2-0007	U.S. Department of Defense	79,116	-
U.S. Department of Defense	Direct	12.800	FA9550-18-1-0442	U.S. Department of Defense	130,609	-
U.S. Department of Defense	Pass-through	12.UN	FA8650-18-P-5070	Texas Biochemicals Inc	33,642	-
U.S. Department of Defense Total					243,367	-
U.S. Department of the Interior	Direct	15.808	G19AC00315	U.S. Department of the Interior	30,043	-
U.S. Department of the Interior	Direct	15.808	G18AC00262	U.S. Department of the Interior	36,060	-
U.S. Department of the Interior	Direct	15.810	G19AC00308	U.S. Department of the Interior	15,818	-
U.S. Department of the Interior	Direct	15.810	G18AC00296	U.S. Department of the Interior	3,869	-
U.S. Department of the Interior	Direct	15.814	G19AP00062	U.S. Department of the Interior	72,494	-
U.S. Department of the Interior	Direct	15.814	G18AP00080	U.S. Department of the Interior	5,012	-
U.S. Department of the Interior	Pass-through	15.657	0406.17.057768	National Fish and Wildlife Foundation	44,558	38,230
U.S. Department of the Interior	Pass-through	15.663	0406.17.057768	National Fish and Wildlife Foundation	5,374	6,537
U.S. Department of the Interior Total					213,228	44,767
U.S. Department of Justice	Pass-through	16.582	21983	City of Grand Rapids, Michigan	30,384	-
U.S. Department of Justice Total					30,384	-
U.S. Department of State	Pass-through	19.900	SKZ10017GR218	American Councils for International Education	16,579	-
U.S. Department of State Total					16,579	-
U.S. Department of Transportation	Direct	20.109	16-C-TTHP-WMU-001	U.S. Department of Transportation	1,406	-
U.S. Department of Transportation	Direct	20.701	DTRT13-G-UTC60	U.S. Department of Transportation	200,037	88,374
U.S. Department of Transportation	Pass-through	20.109	021466A	Iowa State University	52,850	-
U.S. Department of Transportation	Pass-through	20.505	2019-0313 Z1	Michigan Department of Transportation	23,772	-
U.S. Department of Transportation	Pass-through	20.505	2016-0069 Z9	Michigan Department of Transportation	69,344	-
U.S. Department of Transportation	Pass-through	20.505	2019-0313 Z3	Michigan Department of Transportation	25,206	-
U.S. Department of Transportation	Pass-through	20.505	2016-0069 Z6	Michigan Department of Transportation	153,908	-
U.S. Department of Transportation Total					526,523	88,374
National Aeronautics and Space Administration	Direct	43.001	80NSSC20K0498	National Aeronautics and Space Administration	4,018	-
National Aeronautics and Space Administration	Direct	43.001	80NSSC18K1681	National Aeronautics and Space Administration	27,444	-
National Aeronautics and Space Administration	Direct	43.001	80NSSC18K0763	National Aeronautics and Space Administration	116,041	-
National Aeronautics and Space Administration	Direct	43.001	80NSSC20K0767	National Aeronautics and Space Administration	6,062	-
National Aeronautics and Space Administration	Direct	43.001	NNX17AD41G	National Aeronautics and Space Administration	75,366	-
National Aeronautics and Space Administration	Direct	43.012	80NSSC19K1135	National Aeronautics and Space Administration	50,478	-
National Aeronautics and Space Administration	Pass-through	43.001	S374908	California Institute of Technology	51,743	-
National Aeronautics and Space Administration	Pass-through	43.008	P0125478	Delaware State University	3,544	-
National Aeronautics and Space Administration	Pass-through	43.008	P0127382	Delaware State University	8,187	-
National Aeronautics and Space Administration Total					342,883	-
National Science Foundation	Direct	47.041	CMMI-1745378	National Science Foundation	52,927	-
National Science Foundation	Direct	47.041	1917144	National Science Foundation	22,379	-
National Science Foundation	Direct	47.041	1914957	National Science Foundation	26,422	-
National Science Foundation	Direct	47.041	1935382	National Science Foundation	34,155	-
National Science Foundation	Direct	47.041	CBET-1723550	National Science Foundation	77,843	-
National Science Foundation	Direct	47.041	IIP-1701157	National Science Foundation	63,219	-
National Science Foundation	Direct	47.041	CMMI-1537379	National Science Foundation	31,640	15,254
National Science Foundation	Direct	47.049	1707467	National Science Foundation	46,186	-
National Science Foundation	Direct	47.049	PHY1654379	National Science Foundation	104,269	-
National Science Foundation	Direct	47.049	CHE-1508626	National Science Foundation	31,790	-
National Science Foundation	Direct	47.049	PHY1712832	National Science Foundation	106,929	-
National Science Foundation	Direct	47.049	1855680	National Science Foundation	200	-
National Science Foundation	Direct	47.049	CHE-1808554	National Science Foundation	88,589	-
National Science Foundation	Direct	47.050	1701007	National Science Foundation	101,778	-
National Science Foundation	Direct	47.050	1936518	National Science Foundation	17,285	-
National Science Foundation	Direct	47.050	EAR-1828880	National Science Foundation	78,996	-
National Science Foundation	Direct	47.070	CNS-1821691	National Science Foundation	32,405	-
National Science Foundation	Direct	47.070	CNS-1421643	National Science Foundation	2,203	-
National Science Foundation	Direct	47.074	1550748	National Science Foundation	1,723	-
National Science Foundation	Direct	47.074	1652312	National Science Foundation	120,610	-
National Science Foundation	Direct	47.074	DEB-1754627	National Science Foundation	197,025	-
National Science Foundation	Direct	47.075	BCS-1728743	National Science Foundation	78,054	19,047
National Science Foundation	Direct	47.075	1560730	National Science Foundation	37,417	-
National Science Foundation	Direct	47.076	DGE-1522883	National Science Foundation	942	-
National Science Foundation	Direct	47.076	1544236	National Science Foundation	25,961	-
National Science Foundation	Direct	47.076	1561155	National Science Foundation	48,420	-
National Science Foundation	Direct	47.076	1600992	National Science Foundation	390,883	-
National Science Foundation	Direct	47.076	1712065	National Science Foundation	107,141	-
National Science Foundation	Direct	47.076	1726315	National Science Foundation	143,697	-
National Science Foundation	Direct	47.076	1726328	National Science Foundation	128,574	-
National Science Foundation	Direct	47.076	1841783	National Science Foundation	482,537	63,094
National Science Foundation	Direct	47.076	1914880	National Science Foundation	7,562	-
National Science Foundation	Direct	47.076	1935944	National Science Foundation	2,543	-
National Science Foundation	Direct	47.076	DRL 1720613	National Science Foundation	190,056	-
National Science Foundation	Direct	47.076	DUE-1323011	National Science Foundation	59,723	-
National Science Foundation	Direct	47.076	HRD-1309055	National Science Foundation	124,586	10,253
National Science Foundation	Direct	47.076	DUE-1525393	National Science Foundation	70,473	29,698
National Science Foundation	Pass-through	47.041	4101-83481	Purdue University	59,208	-
National Science Foundation	Pass-through	47.070	00061541-01	Missouri University of Science and Technology (MST)	14,408	-
National Science Foundation	Pass-through	47.076	3004280410	University of Michigan	57,833	-
National Science Foundation	Pass-through	47.076	RC109684WMU	Michigan State University	9,479	-
National Science Foundation	Pass-through	47.076	67475707	University of California, San Diego	2,707	-
National Science Foundation	Pass-through	47.076	011699-002	University of Cincinnati	19,122	-
National Science Foundation	Pass-through	47.076	10025	Calvin College	(6,896)	-
National Science Foundation	Pass-through	47.076	1554430	University of Colorado, Boulder	8,707	-
National Science Foundation	Pass-through	47.076	F63028	Central Michigan University	67	-
National Science Foundation	Pass-through	47.076	3004280410	University of Michigan	13,545	-
National Science Foundation Total					3,315,322	137,346

See notes to schedule of expenditures
of federal awards.

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2020

Federal Agency	Direct/ Pass-through	CFDA (Note 5)	Award Number	Grantor Name	Total Expenditures	Subaward Payments
Research and Development Cluster						
(continued):						
U.S. Department of Energy	Direct	81 UN	+8F-30214	U.S. Department of Energy	\$ 45,641	\$ -
U.S. Department of Energy	Direct	81 UN	7F-30203	U.S. Department of Energy	2,500	-
U.S. Department of Energy	Pass-through	81 UN	387497	Los Alamos National Laboratory, LLC	2,581	-
U.S. Department of Energy	Pass-through	81.086	G-02417-01	Colorado State University	76,200	-
U.S. Department of Energy	Pass-through	81.089	PO#U5001-0000768933 L1-1	Battelle Memorial Institute	12,465	-
U.S. Department of Energy	Pass-through	81.089	US001-0000780168, 1-1	Battelle Memorial Institute	284	-
U.S. Department of Energy Total					139,671	-
U.S. Department of Education	Direct	84.116	P116F140353	U.S. Department of Education	155,670	-
U.S. Department of Education	Direct	84.363	U363A130108	U.S. Department of Education	220,108	-
U.S. Department of Education	Pass-through	84.031	17-108-1	Indiana State University	50,665	-
U.S. Department of Education	Pass-through	84.116	14-180	Indiana State University	19,694	-
U.S. Department of Education	Pass-through	84.305	R305D170024	Northwestern University	62,791	-
U.S. Department of Education	Pass-through	84.305	R305D180002	Northwestern University	89,996	-
U.S. Department of Education Total					598,924	-
U.S. Department of Health and Human Services	Direct	93 UN	#18IPA1812454	U.S. Department of Health and Human Services	50,461	-
U.S. Department of Health and Human Services	Direct	93.173	1R21DC017589-01	U.S. Department of Health and Human Services	110,257	-
U.S. Department of Health and Human Services	Direct	93.173	1R21DC017560-01	U.S. Department of Health and Human Services	118,111	-
U.S. Department of Health and Human Services	Direct	93.279	1R01DA042036-02	U.S. Department of Health and Human Services	473,025	82,626
U.S. Department of Health and Human Services	Direct	93.279	1R01DA045733-01A1	U.S. Department of Health and Human Services	83,855	-
U.S. Department of Health and Human Services	Direct	93.433	90FO127-01-00	U.S. Department of Health and Human Services	87,870	52,337
U.S. Department of Health and Human Services	Direct	93.859	1R15GM120820-01A1	U.S. Department of Health and Human Services	108,444	-
U.S. Department of Health and Human Services	Direct	93.859	7R01GM057483-18	U.S. Department of Health and Human Services	83,328	-
U.S. Department of Health and Human Services	Direct	93.865	1R15HD097585-01A1	U.S. Department of Health and Human Services	30,475	-
U.S. Department of Health and Human Services	Direct	93.867	2R15EY024149-02A1	U.S. Department of Health and Human Services	77,892	-
U.S. Department of Health and Human Services	Direct	93.867	1R15EY027970-01A1	U.S. Department of Health and Human Services	142,440	-
U.S. Department of Health and Human Services	Pass-through	93.853	PO 3005714662	University of Michigan	21,530	-
U.S. Department of Health and Human Services Total					1,387,688	134,963
U.S. Agency for International Development	Pass-through	98.001	2000010564	The National Academy of Sciences	21,201	-
U.S. Agency for International Development	Pass-through	98.001	2000007141	The National Academy of Sciences	19,249	-
U.S. Agency for International Development Total					40,450	-
Research and Development Cluster Total					6,870,869	419,049
TRIO Cluster:						
U.S. Department of Education	Direct	84.042	P042A150408	U.S. Department of Education	269,390	-
U.S. Department of Education	Direct	84.042	P042A151231	U.S. Department of Education	259,645	-
U.S. Department of Education	Direct	84.047	P047A171213	U.S. Department of Education	280,243	-
U.S. Department of Education	Direct	84.047	P047A171464	U.S. Department of Education	266,963	-
TRIO Cluster: Total					1,076,241	-
Economic Development Cluster:						
U.S. Department of Commerce	Direct	11.300	06-01-06040	U.S. Department of Commerce	1,055,530	-
Economic Development Cluster Total					1,055,530	-
Other Federal Awards:						
U.S. Department of Agriculture	Pass-through	10.557	E20204087-00	Michigan Department of Health and Human Services	3,033	-
U.S. Department of Agriculture	Pass-through	10.557	E20204085- 00	Michigan Department of Health and Human Services	30,498	-
U.S. Department of Agriculture	Pass-through	10.557	19-10988	State of California Department of Public Health	6,522	-
U.S. Department of Agriculture	Pass-through	10.558	6889	Michigan Department of Education	2,196	-
U.S. Department of Agriculture Total					42,249	-
National Aeronautics and Space Administration	Direct	43.001	NNX16AP44H	National Aeronautics and Space Administration	11,451	-
National Aeronautics and Space Administration	Direct	43.012	NNX16AM96H	National Aeronautics and Space Administration	58,989	-
National Aeronautics and Space Administration	Pass-through	43.008	SUBK00011215	University of Michigan	8,500	-
National Aeronautics and Space Administration	Pass-through	43.008	SUBK00011215	University of Michigan	2,000	-
National Aeronautics and Space Administration	Pass-through	43.008	SUBK00011215	University of Michigan	4,193	-
National Aeronautics and Space Administration Total					85,133	-
National Endowment for the Arts and the Humanities	Direct	45.130	ZH-252947-17	National Endowment for the Arts and the Humanities	29,660	-
National Endowment for the Arts and the Humanities	Pass-through	45.025	00024713	Arts Midwest	1,600	-
National Endowment for the Arts and the Humanities	Pass-through	45.310	10458	Michigan Department of Education	22,422	-
National Endowment for the Arts and the Humanities Total					53,682	-
Small Business Administration	Pass-through	59.037	SBAHQ1980059	Grand Valley State University	177,453	-
Small Business Administration	Pass-through	59.037	MISBDC-2020-09	Grand Valley State University	91,848	-
Small Business Administration Total					269,301	-
U.S. Department of Education	Direct	84.016	000000000P016A160054 - 18	U.S. Department of Education	17,471	12,938
U.S. Department of Education	Direct	84.129	H129P190001	U.S. Department of Education	78,745	-
U.S. Department of Education	Direct	84.129	H129P190007	U.S. Department of Education	56,712	-
U.S. Department of Education	Direct	84.129	H129P140002-18	U.S. Department of Education	24,409	-
U.S. Department of Education	Direct	84.129	H129B140075	U.S. Department of Education	103,936	-
U.S. Department of Education	Direct	84.129	H129P140005 - 18	U.S. Department of Education	11,888	-
U.S. Department of Education	Direct	84.149	S149A170017	U.S. Department of Education	489,964	-
U.S. Department of Education	Direct	84.325	H325K140204 - 17	U.S. Department of Education	155,180	-
U.S. Department of Education	Direct	84.325	H325K170155-18	U.S. Department of Education	152,720	-
U.S. Department of Education	Direct	84.335	P335A170135-18A	U.S. Department of Education	95,892	38,366
U.S. Department of Education	Direct	84.365	T365Z170217-18	U.S. Department of Education	417,016	-
U.S. Department of Education	Direct	84.423	U423A170077	U.S. Department of Education	4,915,587	87,047
U.S. Department of Education	Direct	84.425F	COVID-19 P425F202164	U.S. Department of Education	956,122	-
U.S. Department of Education	Direct	84.425E	COVID-19 P425F202164	U.S. Department of Education	2,058,000	-
U.S. Department of Education	Pass-through	84.326	14108006	University of Central Florida	149,478	-
U.S. Department of Education	Pass-through	84.334	10213	Michigan Department of Talent and Economic Development	6,591	-
U.S. Department of Education	Pass-through	84.367	94-MI06-SEED2019-C3WPAI	National Writing Project Corporation	11,135	-
U.S. Department of Education Total					9,700,846	138,351
U.S. Department of Health and Human Services	Direct	93.178	D19HP30866-01-00	U.S. Department of Health and Human Services	468,471	-
U.S. Department of Health and Human Services	Direct	93.652	90CO1098-05-06	U.S. Department of Health and Human Services	26,518	-
U.S. Department of Health and Human Services	Direct	93.732	T98HP33434-01-00	U.S. Department of Health and Human Services	290,374	-
U.S. Department of Health and Human Services	Direct	93.732	M01HP31394-01-00	U.S. Department of Health and Human Services	442,615	-
U.S. Department of Health and Human Services	Pass-through	93.107	WSU18077	Wayne State University	41,702	-
U.S. Department of Health and Human Services	Pass-through	93.107	WSU19112	Wayne State University	117,478	-
U.S. Department of Health and Human Services	Pass-through	93.107	WSU19033	Wayne State University	27,836	-
U.S. Department of Health and Human Services	Pass-through	93.110	WSU17104	Wayne State University	271	-
U.S. Department of Health and Human Services	Pass-through	93.110	WSU19100	Wayne State University	13,140	-
U.S. Department of Health and Human Services	Pass-through	93.110	WSU19035	Wayne State University	4,285	-
U.S. Department of Health and Human Services	Pass-through	93.110	WSU19040, INDEX #340317	Wayne State University	315	-
U.S. Department of Health and Human Services	Pass-through	93.110	WSU19095	Wayne State University	21,965	-
U.S. Department of Health and Human Services	Pass-through	93.136	E20203596-00	Michigan Department of Health and Human Services	34,293	-
U.S. Department of Health and Human Services	Pass-through	93.243	1H792M082137-01	Gun Lake Tribe	13,661	-

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2020

<u>Federal Agency</u>	<u>Direct/ Pass-through</u>	<u>CFDA (Note 5)</u>	<u>Award Number</u>	<u>Grantor Name</u>	<u>Total Expenditures</u>	<u>Subaward Payments</u>
Other Federal Awards (continued):						
U.S. Department of Health and Human Services	Pass-through	93.926	2019-1396	Kalamazoo County Health and Community Services	\$ 28,499	\$ -
U.S. Department of Health and Human Services	Pass-through	93.994	20200036-00	Michigan Department of Health and Human Services	8,891	-
U.S. Department of Health and Human Services Total					1,540,314	-
TOTAL OTHER FEDERAL AWARDS					11,691,525	138,351
TOTAL FEDERAL EXPENDITURES					\$ 176,917,327	\$ 557,400

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Western Michigan University (the "University") under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The University has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - Adjustments and Transfers

During the year ended June 30, 2020, transfers of grant overpayments were as follows:

As allowable and in accordance with federal regulations issued by the U.S. Department of Education, Western Michigan University carried forward \$101,265 of Federal Work-Study (84.033) funds from the year ended June 30, 2020 to the year ending June 30, 2021 and carried forward and expended \$31,454 from the year ended June 30, 2019 to the year ended June 30, 2020. The University transferred \$153,687 of Federal Work-Study funds to Supplemental Education Opportunity Grant (84.007) for the year ended June 30, 2020.

Note 4 - Loans Balances

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards. These expenditures were paid from funds available from the repayment of prior loans. There were no loans advanced to students during the current year, and the balance outstanding at June 30, 2020 was \$5,409,587.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? ☒ Yes ☐ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
84.007, 84.033, 84.038, 84.063, 84.268	Student Financial Assistance Cluster	Unmodified
Various	Research and Development Cluster	Unmodified
11.300	Economic Development Cluster	Unmodified
84.425	Education Stabilization Fund	Unmodified

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II - Financial Statement Audit Findings

None

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2020

Section III - Federal Program Audit Findings

Reference Number	Finding
2020-001	<p>CFDA Number, Federal Agency, and Program Name - 84.425F, U.S. Department of Education, COVID-19 Education Stabilization Fund Higher Education Emergency Relief Fund</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - Allowable expenditures must be to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus (CARES Act Section 18004(c)).</p> <p>Condition - Housing and dining refunds were disbursed to 20 students who were determined not to be eligible to receive a refund based on the University's established refund policy, resulting in unallowable costs.</p> <p>Questioned Costs - \$16,840</p> <p>Identification of How Questioned Costs Were Computed - Questioned costs were determined by accumulating all housing and dining refunds received by the 20 students who were determined to not be eligible.</p> <p>Context - During our initial testing, we noted 1 of 11 students was determined to have received the refund in error based on the University's policy and in accordance with the CARES Act. Based upon further review of refunds to students, an additional 19 students were determined to be ineligible for the refund. Approximately 3,900 students received housing and dining refunds.</p> <p>Cause and Effect - The students received the housing and dining refunds in error, which resulted in unallowable costs, as the students were ineligible based on the University's established refund policy.</p> <p>Recommendation - A review process should be implemented to ensure students are eligible for a housing and dining refund before awards are processed.</p> <p>Views of Responsible Officials and Corrective Action Plan - Management agrees with the finding. Although it is unlikely that this process would be utilized moving forward, internal controls will be implemented to ensure that future refunds of this nature are disbursed according to the guidelines set forth. Moving forward, housing will continue to generate the batch list of students that will receive the credit. As an added step, student affairs business operations will verify the list against documentation collected by residence life that indicates the student's eligibility to receive the refund. If a student appears on the batch list for the refund, but does not appear to meet the eligibility requirements, the credit will be further discussed with housing, and the student will be eliminated from the batch list if determined necessary. This additional verification process should serve to eliminate future issues.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2020

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding	Questioned Costs
2020-002	<p>CFDA Number, Federal Agency, and Program Name - 84.268, U.S. Department of Education, Student Financial Assistance Cluster - Federal Direct Student Loans</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - The University is required to perform monthly reconciliations of federal funding between the Department of Education's records and the University's records. The University is also required to have a formal review process in place to ensure the reconciliations are accurate and performed timely in accordance with 34 CFR 685.102(b), 685.301, and 303.</p> <p>Condition - During our review of internal controls and testing procedures, it was noted that the monthly reconciliations were performed for certain months but not all months during the fiscal year, and there is no formal review process.</p> <p>Questioned Costs - None</p> <p>Context - Two of the three reconciliations selected for testing were not supported or reviewed due to reconciliations not being performed each month.</p> <p>Cause and Effect - The lack of performing and reviewing monthly reconciliations could lead to differences between the Department of Education and the University that could go unidentified for a period of time.</p> <p>Recommendation - We recommend that policies be put in place to ensure reconciliations are performed and reviewed on a monthly basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management agrees with the finding. Student financial aid will ensure monthly direct loan reconciliation is completed by instituting a series of checks and balances that includes the associate director of direct loans and the senior associate director. We will implement the following checks and balances that include completion date accountability, overhaul of written policies and procedures, and documented completion of monthly reconciliation. Monthly federal direct loan reconciliation with business and finance, financial aid, G5, and COD reviews for accuracy of expenditures and returns. Corrective action plans will start immediately with the full anticipation of a 12-month or full federal direct loan aid cycle to ensure full compliance.</p>	None



Western Michigan University

May 6, 2021

Corrective Action Plan

Finding Number: 2020-001

Condition: Housing and dining refunds were disbursed to twenty students who were determined not to be eligible to receive a refund based on the University's established refund policy, resulting in unallowable costs.

Planned Corrective Action: Although it is unlikely that this process would be utilized moving forward, internal controls will be implemented to ensure that future refunds of this nature are disbursed according to the guidelines set forth. Moving forward, housing will continue to generate the batch list of students that will receive the credit. As an added step, Student Affairs Business Operations will verify the list against documentation collected by Residence Life that indicates the student's eligibility to receive the refund. If a student appears on the batch list for the refund, but does not appear to meet the eligibility requirements, the credit will be further discussed with housing and the student will be eliminated from the batch list if determined necessary. This additional verification process should serve to eliminate future issues.

Contact person responsible for corrective action: Nicole Kalmbach

Anticipated Completion Date: 5/6/21



Western Michigan University

May 6, 2021

Corrective Action Plan

Finding Number: 2020-002

Condition: During our review of internal controls and testing procedures, it was noted that the monthly reconciliations were performed for certain months but not all months during the fiscal year and there is no formal review process.

Planned Corrective Action: Student Financial Aid will ensure monthly Direct Loan reconciliation is completed by instituting a series of checks and balances that includes the Associate Director of Direct Loans and the Senior Associate Director. We will implement the following checks and balances that include completion date accountability, overhaul of written policies and procedures, and documented completion of monthly reconciliation. Monthly Federal Direct Loan reconciliation with Business and Finance, Financial Aid, G5 and COD reviews for accuracy of expenditures and returns. Corrective action plans will start immediately with the full anticipation of a 12 month or full Federal Direct loan aid cycle to ensure full compliance.

Contact person responsible for corrective action: Jodie Laraway/Steven Foster

Anticipated Completion Date: 6/30/2022