

A photograph of a university campus. In the foreground, a group of five students are standing and talking on a paved walkway. A young woman in a green tank top and jeans is walking towards the left. In the background, there is a large, modern university building with a mix of brick and light-colored panels, and a glass-enclosed staircase. The scene is bright and sunny, with green bushes and flowers in the foreground.

# GRAND VALLEY STATE UNIVERSITY ANNUAL FINANCIAL REPORT 2020

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# Grand Valley State University

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**Financial Report  
with Additional Information  
June 30, 2020**



<b>Report Letter</b>	1-2
<b>Administrative Officers</b>	3
<b>Management's Discussion and Analysis - Unaudited</b>	4-15
<b>Financial Statements</b>	
Statement of Net Position	16
Statement of Revenue, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18-19
Statement of Fiduciary Net Position - Employee Benefit Plans	20
Statement of Changes in Fiduciary Net Position - Employee Benefit Plans	20
Notes to Financial Statements	21-65
<b>Required Supplemental Information</b>	66
Professional Support Staff Employees' Retirement Plan:	
Schedule of Changes in the Plan's Net Pension Liability and Related Ratios	67
Schedule of Investment Returns	68
Schedule of Employer Contributions	68
Maintenance, Grounds, Service Employee's Retirement Plan:	
Schedule of Changes in the Plan's Net Pension Liability and Related Ratios	70
Schedule of Investment Returns	71
Schedule of Employer Contributions	71
Other Postemployment Benefits	
Schedule of Changes in the Plan's OPEB Liability and Related Ratios	73

## **Independent Auditor's Report**

To the Board of Trustees  
Grand Valley State University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Grand Valley State University (the "University"), a component unit of the State of Michigan, and its pension trust funds as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise Grand Valley State 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 financial statements of Grand Valley University Foundation, a blended component unit, were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Valley State University and its pension trust funds as of June 30, 2020 and 2019 and the respective changes in its financial position and, where applicable, cash flows 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 1 to the financial statements, the COVID-19 pandemic has impacted the operations of the University. Our opinion is not modified with respect to this matter.

To the Board of Trustees  
Grand Valley State University

## **Other Matter**

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the required supplemental information, as identified in the table of contents, 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 November 6, 2020 on our consideration of Grand Valley State 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 Grand Valley State University's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 6, 2020

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## **Management's Discussion and Analysis – Unaudited**

As management of Grand Valley State University, we offer readers of the university's annual report this narrative overview and analysis of the financial activities of the university for the fiscal year ended June 30, 2020.

### **Financial and Enrollment Highlights for the Year Ended June 30, 2020**

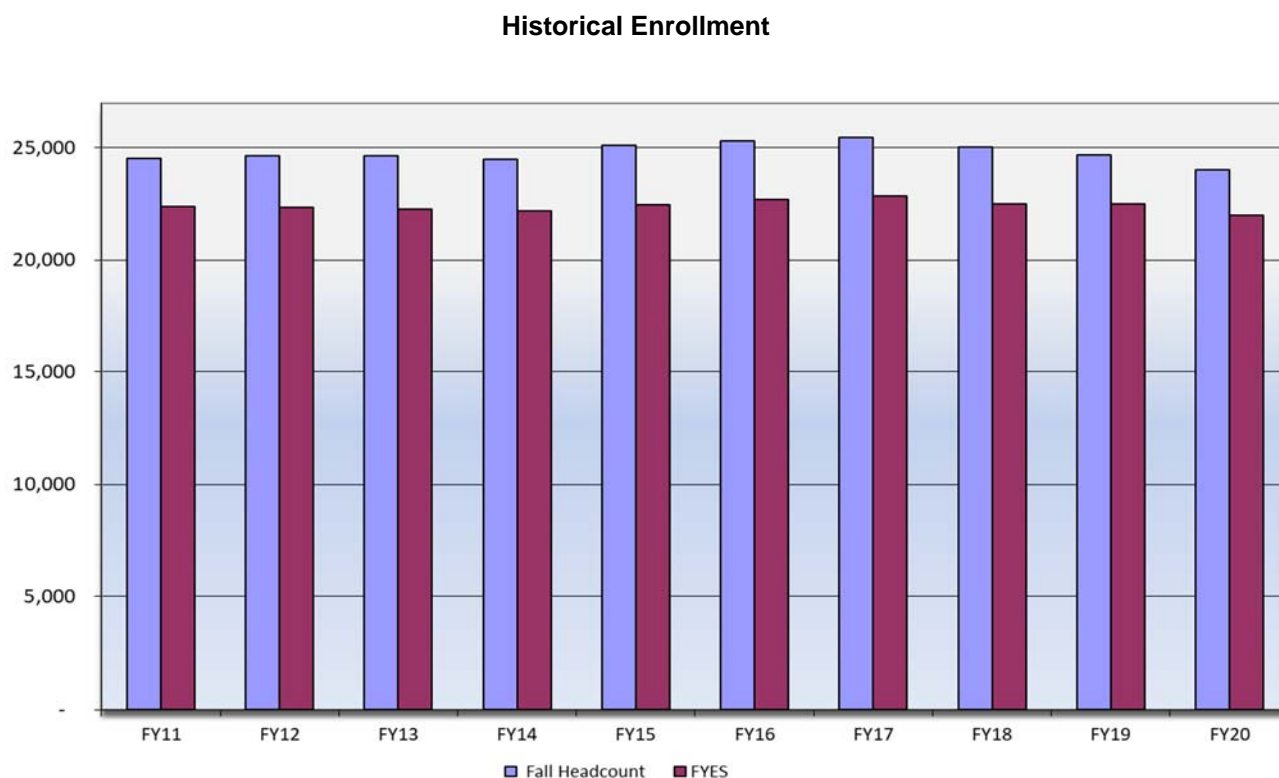
For the year ended June 30, 2020, the university was impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Due to the pandemic, emergency funding was made available under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Higher Education Emergency Relief Fund ("HEERF"), and Federal Emergency Management Agency ("FEMA"). Some of the financial highlights below refer to the impact of COVID-19. Additional COVID-19 impacts and measures taken are disclosed in Note 1 in the financial statements.

The financial statements, which follow this Management's Discussion and Analysis, include these significant financial highlights for the 2020 fiscal year as follows:

- Enrollment remained steady overall with FYES (fiscal year equated students) slightly decreasing from 22,511 to 21,992. Fall semester headcount dropped by 2.6 percent from 24,677 to 24,033.
- Operating revenue decreased by 3.9 percent or \$14.8 million.
  - An increase in tuition revenue of \$5.1 million was substantially offset by higher scholarship allowances of \$4.9 million.
  - Due to COVID-19, the university incurred decreases in various revenue sources including \$9.0 million for housing and dining refunds (replaced with HEERF funding), \$1.6 million in lost bookstore sales, \$2.1 million in canceled study abroad fees, and \$1.9 million in conference event cancellations.
- State appropriations decreased by 9.4 percent or \$6.8 million from 2019 to 2020. Initially, the State appropriation increased by \$1.2 million, however, due to COVID-19, the State of Michigan reduced its appropriation to the university by \$8.0 million. The reduction in the expected State appropriation was replaced with funding under the CARES Act in 2021.
- Government grants increased by 58.7 percent or \$16.9 million due to HEERF funding of \$18.3 million (\$9.2 million being distributed to students in the form of emergency financial aid grants, \$9.0 million used for housing and dining refunds, with the remaining amount used for technology server upgrades to support remote learning and working). This additional funding was offset by a \$1.8 million decline in Pell awards due to fewer eligible students.
- Investment income decreased by 53.3 percent or \$9.2 million from 2019 to 2020, mostly due to the decline in endowment returns from 4.4 percent to .3 percent.
- Construction continued on the Heath Campus on the Daniel and Pamella DeVos Center for Interprofessional Health and on the adjacent parking structure, which will be jointly owned with Spectrum Health Hospitals. Both projects are expected to be completed in 2021.
- Capital projects of \$9.6 million were deferred in 2020 due to COVID-19.
- Overall, net position increased by \$28.9 million, or 3.3 percent.

## Management's Discussion and Analysis – Unaudited (Continued)

The following chart depicts the historical enrollment activity over the last 10 years.



### Overview of the Financial Statements

The purpose of the annual report is to provide readers with financial information about the activities and financial condition of Grand Valley State University (the “university”). The report consists of three basic financial statements that provide information on the university as a whole: the Statement of Net Position, the Statement of Revenue, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements begin on page 16 and should be read in conjunction with the notes to the financial statements. The following summary and management’s discussion of the results are intended to provide the readers with an overview of the financial statements.

### The Statement of Net Position

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. Net position, assets and deferred outflows of resources offset by liabilities and deferred inflows of resources, is one way to measure the financial health of the university. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. Investments are stated at fair value, and capital assets are stated at historical cost less an allowance for depreciation. Net position from 2018 to 2020 increased by 10.7 percent, from \$813.3 million to \$900.9 million.



# Management's Discussion and Analysis – Unaudited (Continued)

A three-year summarized comparison of the university's statement of net position at June 30 follows:

	June 30		
	2020	2019	2018
	(in 000s)		
<b>Current Assets</b>			
Cash and short-term investments	\$ 176,166	\$ 144,352	\$ 89,998
Receivables	80,180	93,642	93,737
Inventory, prepaid expenses, and other	4,881	6,299	6,675
Total current assets	261,227	244,293	190,410
<b>Noncurrent Assets</b>			
Restricted cash and investments	1,301	17,930	-
Endowment cash and investments	131,718	133,217	128,978
Other long-term investments	134,376	150,688	147,081
Long-term receivables	9,440	14,566	30,594
Capital assets - Net of depreciation	793,955	768,631	752,937
Other	2,363	2,398	2,499
Total assets	1,334,380	1,331,722	1,252,499
<b>Deferred Outflows of Resources</b>			
Accumulated changes in the fair value of hedging derivative instruments	9,116	4,920	3,370
Refunding of bonds payable	9,159	10,009	10,923
Retirement-related deferrals	5,592	7,008	7,405
Total deferred outflows	23,867	21,937	21,698
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	89,768	101,184	96,242
Unearned revenue	15,334	17,387	14,960
Long-term liabilities - Current portion	15,334	15,116	15,976
Total current liabilities	120,436	133,688	127,178
<b>Noncurrent Liabilities</b>			
Noncurrent accrued expense	2,714	-	-
Unearned revenue - Net of current portion	3,865	4,592	4,501
Federal student loan payable	6,227	9,097	8,929
Long-term liabilities - Net of current portion	266,973	282,320	272,747
Derivative instruments	9,116	4,920	3,398
Net retirement liabilities	44,113	43,135	40,867
Total liabilities	453,444	477,752	457,620
<b>Deferred Inflows of Resources - Retirement related deferrals</b>	3,938	3,974	3,319
<b>Net Position</b>			
Net investment in capital assets	523,034	497,865	476,730
Restricted	143,448	162,283	161,038
Unrestricted	234,383	211,787	175,490
Total net position	<u><u>\$ 900,865</u></u>	<u><u>\$ 871,934</u></u>	<u><u>\$ 813,258</u></u>

## Management's Discussion and Analysis – Unaudited (Continued)

Cash and short-term investments include unrestricted funds, which are used for operating expenditures and are managed within the parameters of the university's investment policy.

Other long-term investments should be looked at in conjunction with cash and short-term investments. This combination of funds comprises the overall pool of cash and investments. There was an increase of \$15.5 million in cash and investments from 2019 to 2020 and a \$57.9 million increase of cash and investments from 2018 to 2019. Restricted cash and investments decreased by \$16.6 million from 2019 to 2020, and increased between 2018 to 2019 from unspent bond proceeds to fund a portion of the construction projects on the Health Campus. The statement of cash flows on page 18 explains the sources and uses of cash.

Current receivables, which include grants, State appropriations, capital appropriations, pledges, student notes, and various operating receivables that are expected to be collected within a year, decreased by \$13.5 million from 2019 to 2020 due to the State of Michigan reducing a portion of July and the full August appropriation for both the university (\$8.0 million) and for the Charter Schools (\$7.3 million). A collection of \$2.1 million in pledge receivables also contributed to the decrease in this category. Current receivables remained stable from 2018 to 2019, as increases in Charter Schools receivables offset decreases in pledge receivables.

Other current assets consist mainly of inventories and prepaid expenses. These assets may fluctuate based on timing of inventory purchases and payments of vendor service agreements, although balances remained consistent from 2018 to 2020.

Endowment investments decreased by \$1.5 million from 2019 to 2020 mainly due to the decline in investment income to .3%, which was not sufficient to cover the spending distribution for scholarships and academic programs. Investment performance was consistent with general financial market conditions. Endowment investments increased by \$4.2 million from 2018 to 2019, of which gifts and additions accounted for \$3.8 million as the spending distribution mostly offset investment income due to moderate returns from financial markets. The university (along with its investment advisory committee and outside consultants) continues to closely monitor endowment investment strategy and asset allocations.

Long-term receivables, which include pledges, student notes, and a third-party notes receivable decreased by \$5.1 million from 2019 to 2020 mainly due to an early collection of a long-term pledge of \$2.0 million and a return of excess balances related to the Perkins loan to the US Department of Education. Long-term receivables decreased by \$16.0 million from 2018 to 2019 mainly due to retirement of a note receivable from the unwinding of the New Markets Tax Credit program in October 2018. Long-term pledges are discounted to net present value for financial statement purposes.

Capital assets increased by \$25.3 million from 2019 to 2020. Construction continued on the Daniel and Pamella DeVos Center for Interprofessional Health and the adjacent parking structure on the Health Campus. In total, capital additions were \$55.8 million, offset by depreciation expense of \$30.2 million and property disposals of \$1.7 million. Capital projects of \$9.6 million were deferred in 2020 due to COVID-19.

Capital assets increased by \$15.7 million from 2018 to 2019. The expansion and renovation of the Jamie Hosford Football Center was completed, and construction continued on the Health Campus. In total, capital additions were \$45.3 million, offset by depreciation expense of \$28.2 million and property disposals of \$1.4 million.

Deferred outflows of resources are funds expended by the university that are applicable to a future accounting period. There are three categories that are explained more fully in the footnotes to the financial statements:

- 1) Accumulated changes in the fair value of hedging derivative instruments – see Note 5, page 46
- 2) Refunding of bonds payable – see Note 4 on page 42 for Series 2014B and 2016A
- 3) Retirement-related deferrals – see Note 6 on page 49 for Defined Benefit Plans and 59 for Other Post-Employment Benefits (OPEB).

## **Management's Discussion and Analysis – Unaudited (Continued)**

Accounts payable and accrued liabilities decreased from 2018 to 2020 by \$6.5 million mainly due to the State of Michigan reducing a portion of July and the full August appropriation for the Charter Schools of \$7.3 million. The remaining difference was due to the timing of payroll and payables for construction projects.

Unearned revenue includes receipts from tuition, grants, and contracts that pertain to the upcoming fiscal year. From 2019 to 2020, unearned income decreased by \$2.0 million mainly due to spending State of Michigan advances for grant funded programs. From 2018 to 2019, unearned income increased by \$2.4 million mainly due to State of Michigan advances to support grant funded programs.

Current maturities in long-term debt remained consistent from 2018 to 2020, reflecting the scheduled principal payments.

Noncurrent liabilities include unearned revenue, federal student loans payable, derivative instruments, net retirement liabilities, which pertain to both pension and other postemployment benefit ("OPEB") plans, and the long-term portion of bonds payable. Federal student loans payable decreased by \$4.0 million from 2018 to 2020 as a result of principal payments to the US Department of Education in the phased elimination of the Perkins Loan program. In 2020, noncurrent liabilities also include deferred payments of \$2.7 million of the employer portion of the social security tax as allowed by the CARES Act.

The net change in long-term debt (net of current portion) from 2019 to 2020 was a decrease of \$15.1 million, which directly related to the scheduled principal payments; no new debt was issued in 2020. From 2018 to 2019, after scheduled principal payments were made, there was an increase of \$9.6 million in long-term debt (net of current portion). General revenue bonds of \$41.0 million were issued at a premium in November 2018 to finance the construction projects on the Health Campus. In addition, the 38 Front loan payable was retired with the unwinding of the New Markets Tax Credit program in October 2018. The university maintains an A1 bond credit rating from Moody's Investors Service with a stable outlook and an A+ rating with a stable outlook from Standard & Poors.

The net retirement liabilities (including related deferred inflows) increased by \$2.7 million from 2019 to 2020 and increased by \$1.2 million from 2018 to 2019. The increase is due to changes in assumptions, particularly impacted by updated mortality tables and lowering the discount rate. In addition to the detailed information provided in Note 6 concerning these benefits, there is also a comprehensive analysis provided in the required supplemental information beginning on page 66.

The total net position of the university increased by \$87.6 million from 2018 to 2020. The increase reflects investments in infrastructure as well as generous support from donors to endowments and the Laker Effect comprehensive campaign. Further detail regarding the designation by the university of unrestricted net position for certain purposes is summarized in Note 1 to the financial statements.

# Management's Discussion and Analysis – Unaudited (Continued)

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

The Statement of Revenue, Expenses, and Changes in Net Position presents the operating results of the university, as well as the nonoperating revenue and expenses. Annual State appropriations, while budgeted for operations, are considered nonoperating revenue according to accounting principles generally accepted in the United States of America.

	Year Ended June 30		
	2020	2019	2018
	(in 000s)		
<b>Operating Revenue</b>			
Student tuition and fees	\$ 340,118	\$ 335,060	\$ 324,114
Less scholarship allowance	(68,713)	(63,797)	(56,887)
Auxiliary	61,678	74,171	73,036
Less scholarship allowance	(10,150)	(11,393)	(10,367)
Grants and contracts	24,495	23,450	22,898
Other	18,876	23,643	22,278
Total operating revenue	366,304	381,134	375,072
<b>Operating Expenses</b>	464,359	461,730	461,097
<b>Net Operating Loss</b>	(98,055)	(80,596)	(86,025)
<b>Nonoperating Revenue (Expense)</b>			
State appropriations	65,284	72,087	70,133
Government grants	45,566	28,703	30,690
Gifts (including endowment and capital)	17,003	24,185	26,023
Capital appropriations, grants, and other	2,222	6,815	1,015
Investment income - Net of fees	8,069	17,289	13,950
Other loss and expense	(11,158)	(9,807)	(9,514)
Net nonoperating revenue	126,986	139,272	132,297
<b>Net Increase in Net Position</b>	28,931	58,676	46,272
<b>Net Position</b> - Beginning of year	871,934	813,258	776,225
<b>Adjustment for Change in Accounting Principle</b>	-	-	(9,239)
<b>Net Position</b> - End of year	<u><u>\$ 900,865</u></u>	<u><u>\$ 871,934</u></u>	<u><u>\$ 813,258</u></u>

Revenue generated by tuition and fees increased by 1.5 percent from 2019 to 2020 and by 3.4 percent from 2018 to 2019. The tuition rate increases of 3.0 percent in 2020 and 3.8 percent in 2019 were offset by a slight drop in enrollment in each year.

Scholarship allowances as a percentage of tuition and fees increased to 20.2 percent in 2020, compared to 19.0 percent in 2019, and 17.6 percent in 2018. The university continues to provide significant levels of scholarship support to mitigate the financial impact of tuition rate increases. The method to calculate scholarship allowance is described in Note 1.

## Management's Discussion and Analysis – Unaudited (Continued)

Auxiliary revenue consists of housing, dining, parking, bookstores, vending, golf course, health center, and conference fees from external customers. From 2019 to 2020, auxiliary revenue decreased by 16.8 percent, or \$12.5 million. Due to COVID-19, the university incurred decreases in various revenue sources including \$9.0 million for housing and dining refunds (replaced with HEERF funding), \$1.6 million in lost bookstore sales, and \$1.9 million in conference events cancellations. From 2018 to 2019, auxiliary revenue increased by 1.6 percent, which represented a slight increase in housing and dining revenue.

Grants and contracts revenue remained steady from 2018 to 2020, with new awards mostly offsetting those expiring.

In total, operating expenses remained steady from 2018 to 2020, although individual lines have significant variances between years, mainly related to COVID-19. Further analysis of operating expenses by program function begins on page 12. Salaries, wages, and benefits comprise the largest operating expense, while instruction is the largest functional category.

State appropriations decreased by 9.4 percent or \$6.8 million from 2019 to 2020. Initially state funding increased by \$1.2 million, however, due to COVID-19, the State of Michigan reduced its appropriation to the university by \$8.0 million. The reduction in the expected State appropriation was replaced with funding under the CARES Act in 2021. State appropriations increased by 2.8 percent or \$1.9 million from 2018 to 2019. The performance funding that the university receives as a percentage of its base funding was among the highest as compared to other Michigan universities in 2020, 2019, and 2018. Performance funding is based on State metrics.

Nonoperating government grants increased by 58.7 percent or \$16.9 million due to HEERF funding of \$18.3 million (\$9.2 million being distributed directly to students in the form of emergency financial aid grants, \$9.0 million used for housing and dining refunds, with the remaining amount used for technology server upgrades to support remote learning and working). This additional funding was offset by \$1.8 million decline in Pell awards due to fewer eligible students. From 2018 to 2019, nonoperating governmental grants decreased by \$2.0 million mainly due to a timing difference in Pell awards in 2018.

Gifts, including capital and endowment gifts, declined by \$7.2 million from 2019 to 2020 and decreased \$1.8 million from 2018 to 2019. This was largely due to:

- The winding down of Laker Effect comprehensive campaign. The campaign encompassed the Raleigh J. Finkelstein Hall, the Daniel and Pamella DeVos Center for Interprofessional Health, the Innovation Design Center for Engineering, as well as endowed scholarships and student success programs.
- In May 2019, the university received an initial \$3.1 million for the WK Kellogg Battle Creek Public School Partnership that extended through 2020.

Capital appropriations, grants, and other include awards and other capital income received for special purpose capital projects. In 2020, the university accrued State funding of \$1.5 million towards the Health Campus. In 2019, approximately \$6.0 million of income from the New Markets Tax Credit program was recognized.

Net investment income consists of realized income (interest, dividends, and realized gains on the sale of investments), unrealized gains/losses, and investment expenses (primarily bank fees).

- Endowment investments generated an investment return of 0.3, 4.4, and 8.6 percent, for 2020, 2019 and 2018, respectively.
- Operating investments generated an investment return of 2.8, 4.1, and 0.8 percent, for 2020, 2019 and 2018, respectively.

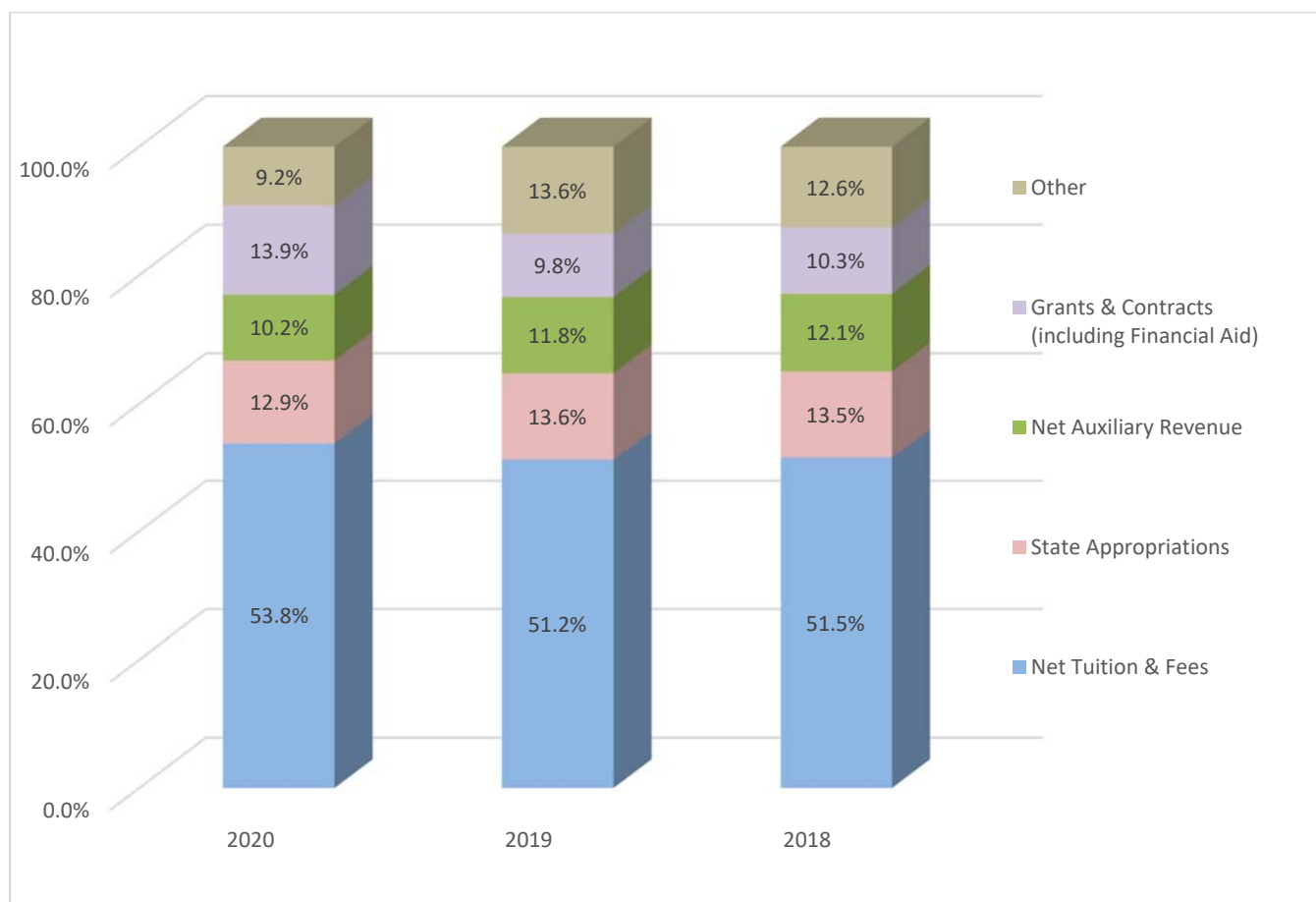
Other nonoperating expense, which includes interest expense, changes in the fair value of derivative instruments, and gains or losses from disposal of assets has remained consistent between 2018 and 2020 when taking in consideration of the \$1.1 million gain on sale of property in 2019.



## Management's Discussion and Analysis – Unaudited (Continued)

Revenue for the university consists of four main categories: tuition, State appropriation, auxiliary activities, and grants. The following table shows the breakdown of total revenue, net of scholarship allowances, for the university:

**Total Revenue**



Tuition and fees (net) make the largest contribution to the total revenue of the university. State appropriation is a distant second and is designated to cover financial aid, debt service, utilities, and capital repairs. Grants and contracts include both financial aid grants and grants for restricted purposes such as research and public service. Auxiliary activities are considered self-supporting enterprises. Other revenue includes investment income, gifts, additions to endowment, and capital grants and appropriations.

# Management's Discussion and Analysis – Unaudited (Continued)

## Operating Expenses by Functional Classification

Functional classifications are the traditional categories that universities have used. They represent the types of programs and services that the university provides.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in 000s)		
Instruction	\$ 173,901	\$ 175,604	\$ 170,635
Research	6,867	7,199	6,912
Public service	30,873	27,745	26,396
Academic support	48,351	47,147	47,589
Student services	31,076	31,741	31,371
Institutional support	40,870	40,620	39,808
Operation and maintenance of facilities	37,027	45,122	50,527
Depreciation	30,243	28,255	27,635
Scholarships and related expenses	23,241	13,246	16,390
Auxiliary activities	41,792	44,825	43,568
Other expenditures	118	226	266
Total	<u>\$ 464,359</u>	<u>\$ 461,730</u>	<u>\$ 461,097</u>

Instructional expenses decreased by 1.0 percent from 2019 to 2020 after an increase of 2.9 percent from 2018 to 2019. The decrease reflects travel reductions due to cancellation of international study abroad trips as a result of COVID-19. A new imperative, Reach Higher Together, kicked off in Fall 2019 in part to promote an accelerated bachelor's degree for adults and life-time learning opportunities through classes offering badges and certificates. In 2019, instruction grew with new majors added in fields of biomedical engineering and cybersecurity at both a bachelors' and masters' level, and a doctorate in occupational therapy.

Research expenses include the continuing activities at the Annis Water Resources Institute, Johnson Center for Philanthropy and the Center for Scholarly and Creative Excellence (CSCE). Expenses decreased by 4.6 percent from 2019 to 2020 after an increase of 4.1 percent from 2018 to 2019. The decrease reflects fewer outlays for participant support and travel due to expiring grants. In 2019, the increase was largely due to receipt of a National Institutes of Health award to the Kirkhof College of Nursing.

Public service expenses include WGVU public broadcasting, the Michigan Small Business Development Center (SBDC), and the Charter School Office administration. Expenses increased by 11.3 percent from 2019 to 2020 due to higher SBDC spending to assist small businesses navigate the impact of COVID-19, and the ramp-up of the Kellogg Foundation Battle Creek Public School Partnership activity. Expenses increased by 5.1 percent from 2018 to 2019 due to a ramp-up of several new initiatives, including those housed in the Padnos College of Engineering and Computing, Dorothy A Johnson Center for Philanthropy, and the Regional Math and Science Center.

Academic support expenses include continuing education, information technology, student advising, the libraries, academic resources, and administration expenses for the academic deans. Expenses increased by 2.6 percent from 2019 to 2020 after a decrease of 1.0 percent from 2018 to 2019. In addition to salary increases, additional outlays for computer software and on-line support were required due to COVID-19.

Student services expenses represent student life programming, admissions, records, registration, financial aid, and intercollegiate athletics. Expenses decreased by 2.1 percent from 2019 to 2020 after a 1.2 percent increase from 2018 to 2019. The decrease resulted from lower outlays for supplies and services as students remained off campus during the spring and summer due to COVID-19.

## Management's Discussion and Analysis – Unaudited (Continued)

Institutional support expenses include administration for the business operations, human resources, executive offices, marketing and communications, public safety, development, and alumni relations. Expenses remained steady between 2018 and 2020, reflecting minor general business operating increases.

Operation and maintenance of facilities decreased by 17.9 percent from 2019 to 2020 and by 10.7 percent from 2018 to 2019. Due to COVID-19, various capital maintenance projects were deferred in 2020. In 2019, expenses returned to normal levels after previous one-time purchases to outfit new buildings.

Depreciation includes both academic and auxiliary buildings.

Scholarships and related expenses include work-study programs as well as the portion of financial aid that is not considered a scholarship allowance. To mitigate the impact of tuition increases on enrollment, the university has significantly increased need-based scholarships. To look at the overall picture for scholarships and financial aid, it is important to also consider the scholarship allowance that is recorded net of tuition revenue and auxiliary revenue to identify the total amount of scholarships awarded. From 2019 to 2020, total scholarships awarded increased by 15.5 percent, and 5.7 percent from 2018 to 2019. The increase in 2020 mainly resulted from \$9.2 million in HEERF funding along with additional university funded awards of \$4.5 million. The increase in 2019 mainly resulted from additional university funded awards of \$5.6 million.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in 000s)		
Scholarship allowance - Tuition	\$ 68,713	\$ 63,797	\$ 56,886
Scholarship allowance - Auxiliary	10,150	11,393	10,367
HEERF funded scholarship awards	9,167	-	-
Scholarship and fellowship expense	<u>14,073</u>	<u>13,246</u>	<u>16,390</u>
Total	<u><u>\$ 102,103</u></u>	<u><u>\$ 88,436</u></u>	<u><u>\$ 83,643</u></u>

Auxiliary activities include housing, dining, parking, bookstores, vending, golf course, health center, and conference services. Debt service, depreciation, and repairs related to housing are included in the other categories of expense. Auxiliary expenses decreased by 6.8 percent from 2019 to 2020 due to reductions in bookstore cost of goods sold and dining costs due to COVID-19. Auxiliary expenses increased by 2.9 percent from 2018 to 2019 due to general business operating increases and a return to full management staffing levels.

### Operating Expenses by Natural Classification

Operating expenses are summarized here by natural classification. Natural classifications show the type of expense regardless of program function.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in 000s)		
Salaries and benefits	\$ 300,602	\$ 294,328	\$ 286,140
Scholarships and awards	24,863	13,259	16,275
Utilities	6,863	8,079	7,578
Supplies and other	101,788	117,809	123,469
Depreciation	<u>30,243</u>	<u>28,255</u>	<u>27,635</u>
Total	<u><u>\$ 464,359</u></u>	<u><u>\$ 461,730</u></u>	<u><u>\$ 461,097</u></u>

## Management's Discussion and Analysis – Unaudited (Continued)

Salaries and benefit expenses, which represent 64.7 percent of total operating expenses in 2020 and 63.7 percent of total operating expenses in 2019, increased by 2.1 percent from 2019 to 2020 and by 2.9 percent from 2018 to 2019. The increases from 2018 to 2020 mainly reflected the annual salary and benefit program and salary market adjustments.

Scholarships and awards represent financial aid expense less scholarship allowances and work-study wages. In addition, this category includes awards for graduate assistants and corporate-sponsored programs. To obtain the overall financial aid picture, one must also consider the scholarship allowances.

Utilities decreased by 15.1 percent from 2019 to 2020 due to a combination of mild seasonal weather, lower electricity rates, and vacant buildings due to COVID-19. Utilities increased by 6.6 percent from 2018 to 2019 mostly due to a full year utility cycle at Raleigh J. Finkelstein Hall, as well as extremely cold winter temperatures in 2019.

Supplies and other expenses decreased by 13.6 percent from 2019 to 2020 as a result of disruption of normal business activities due to COVID-19. From 2018 to 2019, outlays decreased by 4.6 percent as there was a return to typical operating levels after the completion of large construction projects.

Depreciation continues to rise as a result of the recent significant capital additions. Depreciation includes both academic and auxiliary buildings.

### The Statement of Cash Flows

The Statement of Cash Flows provides information about the cash receipts and cash disbursements of the university during the year. This statement also helps users assess the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

	2020	2019	2018
		(in 000s)	
<b>Net Cash (Used in) Provided by</b>			
Operating activities	\$ (67,827)	\$ (42,075)	\$ (49,997)
Noncapital financing activities	126,664	113,223	109,102
Capital and related financing activities	(69,793)	(8,490)	(48,594)
Investing activities	29,889	3,429	7,551
<b>Net Increase in Cash and Cash Equivalents</b>	18,933	66,087	18,062
<b>Cash and Cash Equivalents - Beginning of year</b>	118,733	52,646	34,584
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 137,666</u></u>	<u><u>\$ 118,733</u></u>	<u><u>\$ 52,646</u></u>

The primary cash receipts from operating activities consist of tuition and housing revenue. Cash outlays include payment of wages, benefits, supplies, utilities, and scholarships. From 2019 to 2020, net cash receipts from operating activities decreased by \$25.7 million as a result of various COVID-19 explanations as discussed in previous sections. From 2018 to 2019, net cash receipts from operating activities increased by \$7.9 million mainly due to the increase in receipts from student tuition and grants, of which the university received advance funding for certain grant-funded initiatives.

## Management's Discussion and Analysis – Unaudited (Continued)

State appropriation is the primary source of noncapital financing. This source of revenue is categorized as nonoperating, and receipts increased by 2.0 percent or \$1.4 million from 2019 to 2020.

The primary increase in noncapital financing from 2019 to 2020 is due to HEERF funding of \$18.3 million. Other noncapital financing activity includes Pell grants, gifts, and non-exchange grants for other than capital purposes. Gift receipts increased during 2019 due to the first-year receipt of funding of the WK Kellogg Battle Creek Public School partnership.

Capital and related financing activities include debt proceeds to finance capital construction. In 2019, the university issued bonds at a significant premium to finance the 333 and 335 Michigan projects on the Health Campus, as well as pay off existing bonds. During 2018, Raleigh J. Finkelstein Hall was completed in downtown Grand Rapids. In 2018, construction started on a classroom building and parking structure on the Health Campus and continued throughout 2020. In addition, in 2019 the university's cash position was improved with an increase in capital pledge receipts of \$9.3 million as compared to 2018 receipts.

Investing activities reflect purchases, sales, and interest income earned on investments. In 2020, there was a change in investment strategy that resulted in liquidation of the existing operating investment portfolio. Investments identified in the cash flows statement include both restricted and unrestricted short- and long-term investments.

### **Economic Factors that Will Affect the Future**

The economic position of the university is closely tied to that of the State of Michigan. The State of Michigan has included a performance component to its funding allocations, which includes number of degree completions, level of graduation rates, and operational efficiencies. It is expected that the university will continue to remain near the bottom in state funding per student. The State of Michigan has approved the appropriation amount of \$73,490,700 for fiscal year 2020-2021.

With the number of high school graduates in Michigan shrinking, student enrollment will continue to remain a challenge. Enrollment is expected to remain steady for upcoming years based on the university's strategic plan for controlled growth and retention. The university welcomed President Mantella last year, who has set a bold agenda to connect the university with new educational opportunities in the fast-changing world of education, with renewed focus on learner outcomes, relevance, and the lifetime value of higher education. The university has again been named a top midwest university by *U.S. News & World Report*, achieving a ranking of third overall for Top Public Regional Universities and eighth for Most Innovative Schools in the Midwest.

The university will likely continue to be affected by COVID-19 circumstances, although the full impact is not known at the date of this report. The university will continue operations, modifying its operational posture through a health-informed, data supported process to meet its mission without jeopardizing the health and safety of students, faculty, and staff.



## Statement of Net Position

	June 30	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 136,364,909	\$ 103,643,540
Short-term investments (Note 2)	39,800,950	40,707,963
Accounts receivable - Net of allowance of \$675,811 and \$542,682 in 2020 and 2019, respectively	17,423,726	14,807,647
State appropriation receivable	55,260,229	69,092,636
Pledges receivable - Net	3,528,099	6,203,961
Inventories	1,595,008	1,918,211
Prepaid expenses and other	3,285,885	4,381,221
Student notes receivable - Current portion	3,967,963	3,537,989
Total current assets	261,226,769	244,293,168
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	1,301,130	15,089,092
Restricted investments (Note 2)	-	5,786,119
Endowment investments (Note 2)	131,718,258	130,271,348
Other long-term investments (Note 2)	134,375,585	150,687,940
Pledges receivable - Net	7,352,420	10,239,288
Student notes receivable - Net of allowance of \$154,854 and \$230,767 in 2020 and 2019, respectively	2,088,341	4,326,247
Capital assets - Net (Note 3)	793,955,287	768,631,288
Other assets	2,363,200	2,397,935
Total noncurrent assets	1,073,154,221	1,087,429,257
Total assets	1,334,380,990	1,331,722,425
<b>Deferred Outflows of Resources</b>		
Accumulated changes in the fair value of hedging derivative instruments (Note 5)	9,116,000	4,920,000
Refunding of bonds payable (Note 4)	9,159,376	10,008,922
Retirement benefit related deferrals (Note 6)	5,592,715	7,008,467
Total deferred outflows	23,868,091	21,937,389
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	89,767,521	101,183,455
Unearned revenue	15,333,593	17,387,374
Long-term liabilities - Current portion (Note 4)	15,334,447	15,116,161
Total current liabilities	120,435,561	133,686,990
Noncurrent liabilities:		
Unearned revenue - Net of current portion	3,865,395	4,591,763
Federal student loan payable	6,227,716	9,097,265
Long-term liabilities - Net of current portion (Note 4)	269,688,367	282,320,280
Derivative instruments (Note 5)	9,116,000	4,920,000
Other post-employment benefits (Note 6)	22,123,096	19,867,654
Net pension liability (Note 6)	21,990,159	23,267,413
Total noncurrent liabilities	333,010,733	344,064,375
Total liabilities	453,446,294	477,751,365
<b>Deferred Inflows of Resources</b> - Retirement benefit related deferrals (Note 6)	3,938,062	3,974,204
<b>Net Position</b>		
Net investment in capital assets	523,033,785	497,864,609
Restricted:		
Nonexpendable - Scholarships and academic support	77,967,867	74,685,448
Expendable:		
Scholarships and academic support	62,477,339	66,782,171
Capital projects	1,817,473	19,202,324
Loans	1,185,257	1,613,137
Unrestricted	234,383,004	211,786,556
Total net position	<b>\$ 900,864,725</b>	<b>\$ 871,934,245</b>

See Notes to Financial Statements

# Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2020	2019
<b>Operating Revenue</b>		
Student tuition and fees	\$ 340,117,727	\$ 335,060,440
Scholarship allowances	(68,712,717)	(63,796,358)
Net student tuition and fees	271,405,010	271,264,082
Government grants and contracts	22,552,164	20,433,303
Nongovernmental grants	1,941,824	3,016,181
Sales and services of educational activities	12,708,089	16,777,774
Auxiliary activities	61,678,056	74,170,454
Scholarship allowances	(10,149,745)	(11,392,940)
Net auxiliary activities	51,528,311	62,777,514
Other operating revenue	6,168,295	6,865,481
Total operating revenue	366,303,693	381,134,335
<b>Operating Expenses - Education and general</b>		
Instruction	173,901,142	175,604,391
Research	6,867,319	7,198,456
Public service	30,872,641	27,745,241
Academic support	48,351,296	47,146,958
Student services	31,076,210	31,741,106
Institutional support	40,869,958	40,620,442
Operation and maintenance - Plant	37,027,357	45,122,318
Depreciation expense	30,243,340	28,254,702
Scholarships and related expenses	23,240,399	13,245,683
Auxiliary activities	41,792,340	44,824,819
Loan administrative fees and collection costs	117,600	225,991
Total operating expenses	464,359,602	461,730,107
<b>Operating Loss</b>	(98,055,909)	(80,595,772)
<b>Nonoperating Revenue (Expense)</b>		
State appropriations	65,284,000	72,086,500
Government grants	45,566,437	28,702,634
Gifts	8,908,800	11,420,817
Investment income:		
Interest, dividends, and gains on investments - Net of investment expense of \$1,411,724 and \$1,567,392 in 2020 and 2019, respectively	8,068,486	17,317,138
Interest on capital asset - Related debt	(10,958,923)	(10,949,285)
(Loss) Gain on disposal of assets	(199,074)	1,114,368
Net nonoperating revenue	116,669,726	119,692,172
<b>Income - Before other revenues, expenses, gains, or losses</b>	18,613,817	39,096,400
<b>Other</b>		
Capital appropriations	1,480,278	-
Capital grants and gifts	5,634,162	10,018,076
Other capital income	742,415	6,617,960
Additions to permanent endowments	2,459,808	2,944,096
Total other	10,316,663	19,580,132
<b>Increase in Net Position</b>	28,930,480	58,676,532
<b>Net Position</b>		
Beginning of year	871,934,245	813,257,713
End of year	<b>\$ 900,864,725</b>	<b>\$ 871,934,245</b>

See Notes to Financial Statements

## Statement of Cash Flows

	Year Ended June 30	
	2020	2019
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 270,661,025	\$ 271,550,396
Grants and contracts	21,426,276	27,457,167
Payments to suppliers	(106,280,247)	(116,701,889)
Payments for utilities	(6,763,829)	(7,690,200)
Payments to employees	(219,505,422)	(219,029,880)
Payments for benefits	(74,701,782)	(72,139,304)
Payments for scholarships and fellow ships	(24,862,852)	(13,259,226)
Loans issued to students	(40,468,578)	(40,010,878)
Collection of loans from students	42,276,510	41,660,957
Auxiliary enterprise charges:		
Residence halls	36,289,394	44,534,691
Bookstore	8,262,929	9,883,241
Other	6,992,297	8,373,231
Sales and service of educational activities	12,775,756	16,828,345
Other receipts	6,071,259	6,467,880
Net cash used in operating activities	(67,827,264)	(42,075,469)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	73,146,338	71,730,774
Government grants	45,027,548	27,640,607
Gifts and grants for other than capital purposes	9,470,159	10,652,578
Private gifts for endow ment purposes	2,459,808	2,944,096
Charitable annuities payments - Net	(3,841)	(160,202)
(Return) Receipt of federal student Perkins loan principal	(2,869,549)	167,978
Federal direct loan receipts	153,930,483	162,045,220
Federal direct loan lending disbursements	(154,496,644)	(161,798,591)
Net cash provided by noncapital financing activities	126,664,302	113,222,460
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	-	46,068,057
Capital grants and gifts received	10,510,039	12,711,767
Other capital income	26,489	379,815
Proceeds from sale of capital assets	21,164	2,423,205
Purchases of capital assets and construction	(55,096,751)	(45,607,292)
Principal paid on capital debt	(13,260,000)	(13,295,000)
Interest paid on capital debt	(11,993,886)	(11,267,511)
Interest received from note receivable	-	97,165
Net cash used in capital and related financing activities	(69,792,945)	(8,489,794)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	230,571,084	24,960,465
Interest on investments	8,310,675	8,587,856
Purchase of investments	(208,992,445)	(30,119,265)
Net cash provided by investing activities	29,889,314	3,429,056
<b>Net Increase in Cash and Cash Equivalents</b>	18,933,407	66,086,253
<b>Cash and Cash Equivalents - Beginning of year</b>	118,732,632	52,646,379
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 137,666,039</b>	<b>\$ 118,732,632</b>

See Notes to Financial Statements

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2020	2019
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and cash equivalents (Note 2)	\$ 136,364,909	\$ 103,643,540
Restricted cash and cash equivalents (Note 2)	1,301,130	15,089,092
Total cash and cash equivalents	<b>\$ 137,666,039</b>	<b>\$ 118,732,632</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (98,055,909)	\$ (80,595,772)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	30,243,340	28,254,702
Changes in assets and liabilities:		
Receivables - Net	(179,208)	3,074,567
Inventories	323,203	(72,974)
Other assets	533,204	(13,847)
Accounts payable and accrued liabilities	(3,996,044)	1,462,999
Retirement related deferrals and noncurrent liabilities	5,072,696	3,320,331
Unearned revenue	(2,053,780)	2,502,475
Deposits held for others	285,234	(7,950)
Net cash used in operating activities	<b>\$ (67,827,264)</b>	<b>\$ (42,075,469)</b>

See Notes to Financial Statements

## Statement of Fiduciary Net Position Employee Benefit Plans

	June 30	
	2020	2019
<b>Assets</b>		
Money market funds	\$ 3,170,908	\$ 2,146,880
Time deposits	286,611	-
Domestic equities	27,099,079	28,790,177
International equities	12,057,247	10,539,789
Domestic bonds	16,817,145	16,801,104
International bonds	1,544,627	1,083,608
Alternative strategies	10,295,905	10,282,892
Total cash and cash equivalents and investments	71,271,522	69,644,450
Accrued income	140,750	147,652
<b>Net Position</b> - Held in trust for pension benefits	<b>\$ 71,412,272</b>	<b>\$ 69,792,102</b>

## Statement of Changes in Fiduciary Net Position Employee Benefit Plans

	Year Ended June 30	
	2020	2019
<b>Additions</b>		
Investment income:		
Interest and dividend income	\$ 2,002,344	\$ 2,090,345
Net appreciation in fair value of investments	627,812	1,936,727
Total investment income	2,630,156	4,027,072
Employer contributions	2,526,500	2,675,746
Other income	1,023,576	459,769
Total additions	6,180,232	7,162,587
<b>Deductions</b>		
Benefit payments	4,349,849	3,942,178
Administrative expense	210,213	248,786
Total deductions	4,560,062	4,190,964
<b>Net Increase</b>	1,620,170	2,971,623
<b>Net Position Held in Trust for Pension Benefits</b>		
Beginning of year	69,792,102	66,820,479
End of year	<b>\$ 71,412,272</b>	<b>\$ 69,792,102</b>

See Notes to Financial Statements



## Note 1 – Summary of Significant Accounting Policies

**Reporting Entity** - Grand Valley State University (the “university”) is an institution of higher education created by the Michigan Constitution of 1963 and is considered to be a component unit of the State of Michigan (the “State”). Its Board of Trustees is appointed by the Governor of the State. Accordingly, the university is included in the State’s financial statements as a discretely presented component unit. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various State agencies.

The university has four affiliated organizations that were evaluated in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus*, which the university adopted on July 1, 2011, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, which the university adopted on July 1, 2016. Each organization is described below, with additional information provided regarding the impact to the university’s financial statements and accompanying condensed financial statements.

Grand Valley University Foundation (“GVUF”) is a Michigan nonprofit corporation established to solicit, collect, receive, and administer funds to advance the mission and goals of the university. In accordance with the provisions of GASB Statement No. 61, GVUF is blended into the university’s financial statements because the university has operational responsibility for GVUF and GVUF provides services entirely for the benefit of the university. GVUF obtains an annual financial audit as required by the Michigan Department of Attorney General. The June 30, 2020 audited financial statements for GVUF are located at the university’s Business and Finance Office.

University Properties, Inc. (“UPI”) is a Michigan nonprofit corporation established for the purpose of holding, administering, and further improving real property held by the university. In accordance with the provisions of GASB Statement No. 61, UPI is blended into the university’s financial statements because the university has operational responsibility for UPI and services are provided entirely for the benefit of the university.

Grand Valley Research Corporation (“GVRC”) is a Michigan nonprofit corporation established for educational and scientific purposes to provide support solely to the university. In accordance with the provisions of GASB Statement No. 61, GVRC is considered to be a component unit of the university and the blending method is the appropriate method for inclusion in the university’s financial statements because a financial benefit and burden relationship exists with the university.

Lafayette-Hastings, LLC is a Michigan limited liability company that was formed in 2011 for the purpose of real estate management on behalf of the university. In accordance with the provisions of GASB Statement No. 61, Lafayette-Hastings LLC is blended into the university’s financial statements because the university has operational responsibility for Lafayette Hastings, LLC and services are provided entirely for the benefit of the university.

The Board of Trustees has fiduciary responsibility for employee benefit plans, which includes two defined benefit plans that are further described in Note 6 on page 50. As a result, the plans’ fiduciary net position and changes in plans’ fiduciary net position are shown as a fiduciary fund in the university’s financial statements.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 1 – Summary of Significant Accounting Policies (Continued)

Financial statements for each entity blended in the university's financial reporting follow:

## Condensed Statement of Net Position

	Grand Valley University Foundation		University Properties, Inc.		Grand Valley Research Corporation		Lafayette Hastings, LLC	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Assets</b>								
Current assets	\$ 326,627	\$ 250,753	\$ 156,272	\$ 173,339	\$ 63,906	\$ 62,657	\$ (798,349)	\$ (769,593)
Capital assets (net)	-	-	4,958	4,958	-	-	-	-
Other assets	2,565,173	2,283,874	-	-	708,395	792,258	-	-
Total assets	<u>\$ 2,891,800</u>	<u>\$ 2,534,627</u>	<u>\$ 161,230</u>	<u>\$ 178,297</u>	<u>\$ 772,301</u>	<u>\$ 854,915</u>	<u>\$ (798,349)</u>	<u>\$ (769,593)</u>
<b>Liabilities</b>								
Current liabilities	\$ 350	\$ 342	\$ -	\$ 1,400	\$ 16	\$ -	\$ 182,103	\$ 219,669
Noncurrent liabilities	-	-	-	-	140,441	120,177	-	-
Total liabilities	350	342	-	1,400	140,457	120,177	182,103	219,669
<b>Net Position</b>								
Net investment in capital assets	-	-	4,958	4,958	-	-	-	-
Restricted:								
Nonexpendable	1,913,391	1,748,873	-	-	-	-	-	-
Expendable	978,059	785,412	-	-	-	-	-	-
Unrestricted	-	-	156,272	171,939	631,844	734,738	(980,452)	(989,262)
Total net position	2,891,450	2,534,285	161,230	176,897	631,844	734,738	(980,452)	(989,262)
Total liabilities and net position	<u>\$ 2,891,800</u>	<u>\$ 2,534,627</u>	<u>\$ 161,230</u>	<u>\$ 178,297</u>	<u>\$ 772,301</u>	<u>\$ 854,915</u>	<u>\$ (798,349)</u>	<u>\$ (769,593)</u>

## Condensed Statement of Revenue, Expenses, and Changes in Net Position

	Grand Valley University Foundation		University Properties, Inc.		Grand Valley Research Corporation		Lafayette Hastings, LLC	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Operating Revenue</b>								
Auxiliary enterprises	-	-	86,670	95,784	-	-	-	-
Other	52,090	57,635	-	-	-	-	852,522	946,477
Total operating revenue	52,090	57,635	86,670	95,784	-	-	852,522	946,477
<b>Operating Expense</b>								
Personnel costs	33,336	32,266	-	-	-	-	-	-
Supplies and other	3,978,066	1,253,802	102,330	84,119	1,794	1,284	843,712	1,145,662
Total operating expense	4,011,402	1,286,068	102,330	84,119	1,794	1,284	843,712	1,145,662
<b>Nonoperating Revenue (Expense)</b>								
Gifts and additions to endowments	4,202,538	1,266,792	-	-	-	-	-	-
Grants	69,659	82,289	-	-	-	-	-	-
Investment income (loss)	6,389	99,349	-	-	(101,100)	(113,939)	-	-
Other	37,891	200,129	(7)	(2,232)	-	-	-	-
Total nonoperating revenue (expense)	4,316,477	1,648,559	(7)	(2,232)	(101,100)	(113,939)	-	-
<b>Increase (Decrease) in Net Position</b>	357,165	420,126	(15,667)	9,433	(102,894)	(115,223)	8,810	(199,185)
<b>Net Position - Beginning of year</b>	2,534,285	2,114,159	176,897	167,464	734,738	849,961	(989,262)	(790,077)
<b>Net Position - End of year</b>	<u>\$ 2,891,450</u>	<u>\$ 2,534,285</u>	<u>\$ 161,230</u>	<u>\$ 176,897</u>	<u>\$ 631,844</u>	<u>\$ 734,738</u>	<u>\$ (980,452)</u>	<u>\$ (989,262)</u>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 1 – Summary of Significant Accounting Policies (Continued)

## Condensed Statement of Cash Flows

	Grand Valley University Foundation		University Properties, Inc.		Grand Valley Research Corporation		Lafayette Hastings, LLC	
	2020	2019	2020	2019	2020	2019	2020	2019
Net cash (used in) provided by operating activities	\$ (103,340)	\$ 60,226	\$ (17,740)	\$ 10,946	\$ 1,249	\$ 1,491	\$ (45,865)	\$ (143,435)
Net cash used in investing activities	(82,468)	(356,680)	-	-	-	-	-	-
Net cash provided by financing activities	133,432	270,635	-	-	-	-	-	-
Net (decrease) increase in cash and cash equivalents	(52,376)	(25,819)	(17,740)	10,946	1,249	1,491	(45,865)	(143,435)
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>250,753</b>	<b>276,572</b>	<b>166,528</b>	<b>155,582</b>	<b>62,657</b>	<b>61,166</b>	<b>(798,271)</b>	<b>(654,836)</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 198,377</b>	<b>\$ 250,753</b>	<b>\$ 148,788</b>	<b>\$ 166,528</b>	<b>\$ 63,906</b>	<b>\$ 62,657</b>	<b>\$ (844,136)</b>	<b>\$ (798,271)</b>

There was a former affiliated organization, 38 Front Avenue that was liquidated in October 2018. It was a Michigan nonprofit corporation formed in 2011 for the purpose of advancing the expansion of the L. William Seidman College of Business into a new facility. The university had operational responsibility for it as it operated entirely on behalf of the university. Upon liquidation due to the unwinding of the New Markets Tax Credit program, the remaining assets, liabilities, and net position of 38 Front Avenue was transferred to the university in the amount of \$10,376,679. From July 1, 2018 to October 31, 2018, operating revenue totaled \$425,321, and operating expenses, including depreciation totaled \$1,392,295.

**Basis of Presentation** - The financial statements have been prepared in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resource measurement focus. The university follows all applicable GASB pronouncements. The university follows the “business-type activities” reporting requirements of GASB Statement No. 35, which provides a comprehensive one-line look at the university’s financial activities.

**Basis of Accounting** - 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.

**Cash and Cash Equivalents** - The university considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

**Investments** - Investments are reported at fair value. Alternative investments are recorded at their most recent available valuation and updated for capital contributions and distributions. Alternative investments consist of investments that seek absolute-based return in hedge markets, investments in the private equity class investing in various ventures, or investments in a pool of assets invested in the following subclasses: global natural resources, commodities, global real estate, and global inflation-linked bonds. The net realized and unrealized appreciation (depreciation) in market value of investments is included in the accompanying Statement of Revenue, Expenses, and Changes in Net Position. Gains, losses, and investment income are reported as increases or decreases in unrestricted net position unless their use is restricted by explicit donor stipulations or law.

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. An allowance for bad debts is established on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All trade amounts deemed uncollectible are charged against bad debt expense in the period that determination is made. At June 30, 2020 and 2019, there was an allowance of \$675,811 and \$542,682, respectively.

**Inventories** - Inventories, consisting principally of bookstore merchandise, golf equipment, and apparel, are determined on the first-in, first-out (FIFO) method and stated at the lower of cost or market. The cost is recorded as an expense as the inventory is consumed.

**Pledges Receivable** - The carrying amount of pledges receivable represents recorded promises to contribute, measured at fair value when received, net of estimated uncollectible promises. Pledges receivable are recorded at their net present value using a discount rate of 4.44 percent for the years ended June 30, 2020 and 2019. Included in pledges receivable are an unamortized discount of \$1,083,743 and \$1,303,694 at June 30, 2020 and 2019, respectively, and an allowance of \$227,501 and \$243,272 at June 30, 2020 and 2019, respectively.

**Capital Assets** - Capital assets with a unit cost of over \$5,000 and all library books are recorded at cost at the date of acquisition or at acquisition value at the date of donation. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Expenditures for construction in progress are capitalized as incurred. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activity facilities.

**Derivative Instruments** - Derivative instruments consist primarily of interest rate swap agreements associated with the university's outstanding long-term debt obligations. Derivative instruments are stated at fair value as established by major securities markets.

**Unearned Tuition and Fee Revenue** - Tuition and fee revenue received and related to the period after June 30 has been deferred.

**Compensated Absences** - University employees receive compensated absences based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation that employees may accumulate and carry over for payment at death, retirement, or termination. Unused hours exceeding these limitations are forfeited.

**Operating Revenue** - All revenue from programmatic sources is considered to be operating revenue.

**Nonoperating Revenue** - Included in nonoperating revenue are State appropriations, investment income, Pell Grant revenue, CARES Act subsidies, and gifts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Scholarship Allowances and Student Aid** - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal direct lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenue. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

**Federal Financial Assistance Programs** - The university participates in Federally funded Pell Grants, SEOG Grants, Federal Work-Study, Federal Direct Lending, and Perkins Loans programs. Federal programs are audited in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and the compliance supplement.

During 2020 and 2019, the university distributed \$154,496,644 and \$161,798,591 respectively, for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures on the accompanying financial statements.

**Encumbrances** - The university maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not received during the year. Encumbrances totaled approximately \$36,517,000, which represents the estimated amount of expenses ultimately to result if unperformed contracts in progress at June 30, 2020 are completed. Approximately \$28,107,500 of the total is committed for capital projects.

Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in the financial statements.

**Fiduciary Fund** - The university establishes fiduciary funds to manage amounts held in a fiduciary capacity for others. These amounts are not used to operate the university's programs.

**Net Position** - Net position is classified according to external donor restrictions or availability of assets for satisfaction of university obligations. Nonexpendable restricted net position is gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents funds that have been gifted for specific purposes and funds held in Federal loan programs.

The unrestricted net position balance at June 30, 2020 includes \$9,444,653 of funds functioning as endowment, \$9,486,460 of capital projects in progress, \$9,622,257 in deferred capital projects, \$27,830,954 of housing and auxiliary repair and maintenance funds, \$41,344,644 of debt service funds, \$28,610,916 for academic initiatives and technology, \$79,697,034 for future capital projects and debt service, and \$28,346,086 for reserves for operations and cash flow.

The unrestricted net position balance at June 30, 2019 includes \$9,910,881 of funds functioning as endowment, \$18,490,650 of capital projects in progress, \$27,985,510 of housing and auxiliary repair and maintenance funds, \$36,368,173 of debt service funds, \$30,973,097 for academic initiatives and technology, \$71,401,362 for future capital projects and debt service, and \$16,656,883 for reserves for operations and cash flow.



## Note 1 – Summary of Significant Accounting Policies (Continued)

It is the university's policy to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, unspent bond proceeds, components of debt structuring, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Use of Estimates** - The preparation of financial statements in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are more susceptible to change based on the potential changes in estimates and assumptions, including estimates such as the allowance for doubtful accounts and self-insurance healthcare claims.

**Pensions** - For the purpose 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 university defined benefit plans was calculated by a certified actuary. Contribution revenue is recorded as contributions are made by the university to the plan. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Postemployment Benefits Other Than Pensions** - For purposes of measuring the net Other Postemployment Benefits (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 university defined benefit plan was calculated by a certified actuary. Contribution revenue is recorded as contributions are made by the university to the plan. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms.

**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 and will not be recognized as an outflow of resources (expense) until then. The deferred outflows of resources relate to the net pension liability, other post retirement liabilities, and components of long-term obligations, including a debt refunding. See Notes 4 through 6 for more information.

**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 and will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources relate to the calculation of the net pension liability and other post retirement liabilities. See Note 6 for more information.

**Impact of the COVID-19 Pandemic** - The university has been impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. The university responded to the circumstances by following all Federal, State and local guidance, and taking actions to monitor and limit the spread of COVID-19 by implementing various health and safety measures for students, faculty, and staff. The most notable measure was an immediate transition to remote learning and work in March 2020.

## Note 1 – Summary of Significant Accounting Policies (Continued)

The Higher Education Emergency Relief Fund (“HEERF”) was a provision in the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provided emergency funding to higher education students and for institutional relief, subject to certain provisions. The university recognized total HEERF funding of \$18.3 million, with \$9.2 million being directly distributed to students in the form of emergency financial aid, \$9.0 million used for housing and dining refunds, with the remaining amount used for technology server upgrades to support remote learning/work.

The COVID-19 impact on the university’s financial statements for the year ended June 30, 2020 also includes:

- The State of Michigan reduced its appropriation to the university by \$8.0 million. This reduction in appropriation was replaced with Federal CARES Act Coronavirus Relief Funds in fiscal year 2021.
- Decrease in multiple revenue sources, including \$9.0 million in student housing and dining refunds (later replaced with HEERF funding), \$1.6 million in lost bookstore sales, \$2.1 million in canceled study abroad fees, and \$1.9 million in conference and events cancellations.
- Deferral of \$9.6 million of capital projects.
- Increase in expenditures for health and safety measures related to COVID-19, including expenditures for the transition to remote learning/working and readying the campus for in-person instruction.
- The CARES Act provided employers a deferral in paying the employer portion of Social Security taxes, with approximately one-half due at the end of calendar year 2021 and the remainder due at the end of calendar year 2022. The university participated in the program and recorded a liability of \$2.7 million.

The university will continue operations, modifying its operational posture through a health-informed, data supported process to meet its mission without jeopardizing the health and safety of students, faculty, and staff.

## Note 2 - Cash and Investments

The operating portfolio is invested in accordance with university policy.

**Cash and Short-term Investments** - Investment policies for cash and short-term investments, as set forth by the Board of Trustees, authorize the university to invest in interest-bearing time deposits, short-term cash funds, money market funds, intermediate cash funds, U.S. government-backed obligations, and commercial paper. All investments must be held by financial institutions organized under federal or state law.

**Restricted Cash and Short-term Investments** - At June 30, 2020 and 2019, the university held unspent bond proceeds for the construction of the university’s health campus of \$1,301,130 and \$12,143,683, respectively. In addition, restricted endowment cash from gift receipts to be invested totaled \$0 and \$2,945,409 at June 30, 2020 and 2019, respectively.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

**Investments** - Investment policies, as set forth by the Board of Trustees, also authorize the university to invest in equity securities, bonds, or similar securities and real estate investments for production of rental income. The Board of Trustees has authorized the Treasurer or Assistant Treasurer of the Board of Trustees to make the university's investment decisions, subject to review with the members of the Advisory Committee. In accordance with policies set forth by the Board of Trustees, complete discretion in selecting individual investments of endowment assets is assigned to two or more money managers who are chosen at the discretion of the university's Treasurer. The university's Treasurer and the appropriate Board committee monitor the asset managers' performance.

The Board of Trustees has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. Under Michigan law set forth in the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan in 2009 ("UPMIFA"), the Board acts in a fiduciary capacity as trustee of its endowment funds. UPMIFA requires that the Board exercise its fiduciary duties prudently and consider both the charitable purposes and needs of the university and the purposes of the specific endowment regarding current expenditures and preservation of the purchasing power of the funds. Annually, the Board of Trustees approves an endowment spending rate consistent with these objectives. For the years ended June 30, 2020 and 2019, the endowment spending rate was 4.50 percent.

As of June 30, 2020, the university has remaining commitments of \$23,105,960 in alternative asset investments. As of June 30, 2020 and 2019, the university had approximately \$63.3 million and \$58.0 million respectively, invested in alternative asset investments.

The university's cash and investments are included in the Statement of Net Position under the following classifications:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 136,364,909	\$ 103,643,540
Short-term investments	39,800,950	40,707,963
Restricted cash and cash equivalents	1,301,130	15,089,092
Restricted Investments	-	5,786,119
Endowment investments	131,718,258	130,271,348
Other long-term investments	134,375,585	150,687,940
Total cash and investments	<u>\$ 443,560,832</u>	<u>\$ 446,186,002</u>

The university's cash and investments consist of the following:

	<u>2020</u>	<u>2019</u>
Money markets	\$ 137,666,039	\$ 118,732,634
Fixed-income securities	157,517,111	5,786,119
Equity security investments	75,955,663	67,874,039
Mutual bond funds	9,124,696	184,860,497
Other	63,297,323	68,932,713
Total cash and investments	<u>\$ 443,560,832</u>	<u>\$ 446,186,002</u>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

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 markets	\$137,666,039	\$137,666,039	\$ -	\$ -	\$ -
Fixed income securities	157,517,111	39,800,950	117,716,161	-	-
Mutual bond funds	9,124,696	-	2,263,114	-	6,861,582
Mutual equity funds	42,333,112	-	7,411,960	-	34,921,152
Mutual international equity funds	24,862,260	-	3,476,813	-	21,385,447
Global equity funds	8,760,291	-	-	-	8,760,291
Real estate	2,050,615	-	-	-	2,050,615
Venture capital	8,980,686	-	-	-	8,980,686
Other investments	52,266,022	-	-	-	52,266,022
Total investments and maturities	<u>\$443,560,832</u>	<u>\$177,466,989</u>	<u>\$130,868,048</u>	<u>\$ -</u>	<u>\$135,225,795</u>

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 markets	\$118,732,634	\$118,732,634	\$ -	\$ -	\$ -
Fixed income securities	5,786,119	5,786,119	-	-	-
Mutual bond funds	184,860,497	-	129,011,796	47,698,820	8,149,881
Mutual equity funds	40,602,854	-	7,965,271	-	32,637,583
Mutual international equity funds	22,946,556	-	3,046,167	-	19,900,389
Global equity funds	10,858,507	-	-	-	10,858,507
Real estate	2,413,463	-	-	-	2,413,463
Venture capital	7,409,985	-	-	-	7,409,985
Other investments	52,575,387	-	2,824,148	-	49,751,239
Total investments and maturities	<u>\$446,186,002</u>	<u>\$124,518,753</u>	<u>\$142,847,382</u>	<u>\$ 47,698,820</u>	<u>\$131,121,047</u>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

As of June 30, 2020, the university's fiduciary fund had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money markets	\$ 3,170,908	\$ 3,170,908	\$ -	\$ -	\$ -
Time deposits	286,611	286,611	-	-	-
Fixed-income funds	18,361,772	3,181,901	8,978,080	3,407,977	2,793,814
Equities	39,156,326	-	-	-	39,156,326
Infrastructure funds	2,469,159	-	-	-	2,469,159
Real estate investment funds	3,137,666	-	-	-	3,137,666
Precious metals funds	603,871	-	-	-	603,871
Other alternative funds	3,983,267	-	-	-	3,983,267
Pooled investment funds	101,942	-	-	-	101,942
Total investments and maturities	<u>\$ 71,271,522</u>	<u>\$ 6,639,420</u>	<u>\$ 8,978,080</u>	<u>\$ 3,407,977</u>	<u>\$ 52,246,045</u>

As of June 30, 2019, the university's fiduciary fund had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money markets	\$ 2,146,880	\$ 2,146,880	\$ -	\$ -	\$ -
Fixed-income funds	17,884,712	4,135,151	7,266,694	5,075,611	1,407,256
Equities	39,329,966	-	-	-	39,329,966
Infrastructure funds	3,022,034	-	-	-	3,022,034
Real estate investment funds	2,960,063	-	-	-	2,960,063
Other alternative funds	4,178,147	-	-	-	4,178,147
Pooled investment funds	122,354	-	-	-	122,354
Common stock	294	-	-	-	294
Total investments and maturities	<u>\$ 69,644,450</u>	<u>\$ 6,282,031</u>	<u>\$ 7,266,694</u>	<u>\$ 5,075,611</u>	<u>\$ 51,020,114</u>

**Concentration of Credit Risk** - The university's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk. Market risk is the potential for changes in the value of financial instruments due to market changes, and is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. Risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the Statement of Revenue, Expenses, and Changes in Net Position.

Investments are presented above based on the segmented time distribution maturity. Mutual equity funds are considered to be long-term funds and therefore are presented as investments with a maturity over one year, whereas the mutual bond funds as of June 30, 2020 have average maturities between 4.51 years and 8.1 years. At June 30, 2019, mutual bond funds have average maturities between 1.04 years and 8.7 years. Both are presented as an investment with a maturity over one year. Market risks (including interest rate risk and liquidity risk) and credit risks are managed by Board policies.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

**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 limits the amount of the university's operating portfolio that can be invested in securities with maturities of more than one year. Operating investment maturities are limited as follows:

Less than one year	10%-100%
One to five years	0%-90%
More than five years	0%-30%

Investments held by the endowment funds are invested based on the policy that they are held to maturity; therefore, the interest rate risk is not considered in the university's decisions.

**Custodial Credit Risk** - Custodial Credit Risk is the risk that in the event of a bank failure, the university's deposits may not be available or returned. The university does not have a deposit policy for Custodial Credit Risk. The university's investments are held by a custody agent. At June 30, 2020 and 2019, the carrying amount of the university's deposits was \$137,666,033 and \$124,518,751, respectively. Cash balances in the bank were \$142,515,906 and \$126,153,376 at June 30, 2020 and 2019, respectively. Of the cash balances in the bank, \$1,115,235 and \$1,320,786 respectively, was insured.

The remaining cash balances in the bank of \$141,400,671 and \$124,832,590 at June 30, 2020 and 2019, respectively, were uninsured and uncollateralized. The university does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits.

**Credit Risk** - The university's operating investment policy limits its short-term operating investments to .5 percent of total bank assets or to investment vehicles that possess the highest ratings available by two national services. The university's operating investment policy limits its longer-term investments to investment grade or better securities.

The endowment funds are invested based on the policy that they are held permanently. Therefore, it is possible to invest in alternative investments that have a higher credit risk, but over the long term have the opportunity to yield higher rates of return.

The university held the following types of mutual fixed-income funds and credit ratings in pooled operating cash and investments at June 30, 2020 and 2019:

	Market Value		Market Value	
	2020	Rating*	2019	Rating*
Dodge & Cox Income	\$ 1,027,761	4 star	\$ 645,488	4 star
Doubleline Low Duration Bond I	-		24,753,452	5 star
Doubleline Total Return Bond I	1,235,353	4 star	17,356,969	4 star
Franklin Emerging Market Debt Opps	-		4,067,316	4 star
iShares Intermediate Govt/Crdt Bd ETF	-		578,467	2 star
JPMorgan Core Bond I	-		21,170,036	4 star
PIMCO Short-Term Instl	-		19,990,542	5 star
PNC Ultra Short Bond I	-		12,741,349	2 star
Vanguard Inflation-Protected Secs Inv	-		6,189,263	3 star
Vanguard Short-Term Investment-Grade Adm	-		30,678,149	4 star
Virtus Seix US Govt Secs Ultr-Shrt Bd I	-		7,976,072	3 star
Western Asset Intermediate Bond I	-		30,563,513	4 star
Total	<u>\$ 2,263,114</u>		<u>\$ 176,710,616</u>	

\* Obtained from Morningstar.



## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

The university's fiduciary fund held the following types of mutual equity investments and credit ratings in pooled operating cash and investments at June 30, 2020 and 2019. The fiduciary fund had no holdings of mutual fixed-income funds.

	Market Value		Market Value	
	2020	Rating*	2019	Rating*
Calvert Emerging Markets Equity I	\$ 1,607,083	4 star	\$ -	
Goldman Sachs Absolute Return Tracker Instl	3,983,267	4 star	4,178,146	4 star
Harbor Capital Appreciation Fund	1,393,565	4 star	1,465,928	4 star
Harding Loevner International Equity Fund	577,717	3 star	2,503,972	4 star
Invesco Oppenheimer Developing Markets Fund	1,669,228	4 star	1,263,200	4 star
iShares Core MSCI EAFE ETF	2,337,673	4 star	4,309,605	4 star
iShares Core MSCI Emerging Markets ETF	-		1,219,694	3 star
iShares Core S&P 500 ETF	15,928,905	5 star	16,161,143	5 star
iShares Core S&P Mid-Cap ETF	229,032	4 star	-	
iShares Core S&P Small-Cap ETF	213,543	4 star	-	
iShares Edge MSCI Intl Value Factor ETF	737,726	3 star	-	
iShares ESG Aware MSCI EAFE ETF	1,832,363	4 star	-	
iShares Global Infrastructure ETF	2,163,921	2 star	3,022,034	3 star
iShares MSCI EAFE Growth ETF	497,164	3 star	-	
iShares MSCI EAFE Min Vol Factor ETF	623,673	5 star	-	
iShares MSCI EAFE Small-Cap ETF	499,470	4 star	-	
iShares MSCI Emerg Mkts Min Vol Fctr ETF	671,632	3 star	-	
iShares MSCI Intl Momentum Factor ETF	253,093	3 star	-	
iShares MSCI Intl Quality Factor ETF	750,426	5 star	-	
iShares MSCI USA Min Vol Factor ETF	1,131,477	5 star	1,393,431	5 star
iShares MSCI USA Momentum Factor ETF	738,709	4 star	2,110,131	5 star
iShares MSCI USA Quality Factor ETF	2,946,950	5 star	2,116,524	4 star
iShares MSCI USA Size Factor ETF	453,366	2 star	-	
iShares MSCI USA Sm-Cp Min Vol Fctr ETF	468,275	2 star	-	
iShares MSCI USA Value Factor ETF	684,636	2 star	-	
Nicholas Limited Edition I	804,768	4 star	1,044,119	4 star
Northern Multi-Mgr Gbl Listed Infra	305,238	3 star	-	
Nuance Mid Cap Value Institutional	632,946	5 star	1,088,740	5 star
Principal MidCap Institutional	688,651	4 star	239,034	5 star
Seafarer Overseas Growth and Income Fund	-		1,243,319	3 star
Vanguard Dividend Appreciation ETF	-		2,113,532	5 star
Vanguard Real Estate ETF	3,137,666	3 star	2,960,063	4 star
Wells Fargo Special Small Cap Value Inst	784,255	5 star	1,057,595	5 star
Total	<u>\$ 48,746,418</u>		<u>\$ 49,490,210</u>	

\* Obtained from Morningstar.

## Note 2 - Cash and Investments (Continued)

**Foreign Credit Risk** - The university holds investments in some international mutual funds that invest in international equity funds and debt. These funds are invested in various countries throughout the world and therefore expose the university to foreign credit risk. The international equity and debt investments represent approximately 14 percent and 13 percent at June 30, 2020 and 2019, respectively. Investments in these funds were approximately \$63.9 million and \$59.4 million ended June 30, 2020 and 2019, respectively.

**Alternative Assets** - The other investments and venture capital are comprised of investments in alternative assets.

**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 on the following page.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The university's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

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

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

		Fair Value Measurements Using		
		Quoted Prices in		
		Active Markets	Significant Other	Significant
		for Identical	Observable	Unobservable
	Balance at	Assets	Inputs	Inputs
	June 30, 2020	(Level 1)	(Level 2)	(Level 3)
<b>Investments by Fair Value Level</b>				
Debt securities - Mutual bond funds	\$ 9,895,073	\$ 9,895,073	\$ -	\$ -
Equity securities:				
Preferred stock	279,508	\$ 279,508	-	-
Money market funds	4,998,900	4,998,900	-	-
Mutual equity funds	12,732,096	12,732,096	-	-
Mutual international security funds	3,476,813	3,476,813	-	-
Mutual diversification funds	1,133,145	1,133,145	-	-
Mutual balanced fund	5,454,507	5,454,507	-	-
Real asset funds	1,608,554	1,608,554	-	-
Total equity securities	29,683,523	29,683,523	-	-
U.S. Governmental agencies	71,970,075	26,887,948	45,082,127	-
Corporate Bonds	84,776,659	-	84,776,659	-
Land	452,900	-	-	452,900
Beneficial interest	1,461,785	-	-	1,461,785
Total investments by fair value level		<u>\$ 66,466,544</u>	<u>\$ 129,858,786</u>	<u>\$ 1,914,685</u>
<b>Investments Measured at Net Asset Value (NAV)</b>				
Hedge funds	55,842,879			
Pooled investment funds	30,757,519			
Private equity funds	23,763,659			
Real estate funds	1,597,715			
Venture capital fund	508,453			
Total investments measured at NAV	<u>112,470,225</u>			
Total investments measured at fair value	<u>\$ 310,710,240</u>			
<b>Investment Derivative Instruments - Interest</b>				
rate sw aps	<u>\$ (9,116,000)</u>		<u>\$ (9,116,000)</u>	

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

The university has the following recurring fair value measurements as of June 30, 2019:

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using			
	Quoted Prices in			
	Active Markets	Significant Other	Significant	
	for Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
Balance at	(Level 1)	(Level 2)	(Level 3)	
June 30, 2019				
<b>Investments by Fair Value Level</b>				
Debt securities - Mutual bond funds	\$ 185,199,449	\$ 185,199,449	\$ -	\$ -
Equity securities:				
Preferred stock	279,508	279,508	-	-
Money market funds	38,017,412	38,017,412	-	-
Mutual equity funds	13,808,416	13,808,416	-	-
Mutual international security funds	3,046,167	3,046,167	-	-
Mutual diversification funds	1,083,585	1,083,585	-	-
Mutual balanced fund	6,293,526	6,293,526	-	-
Real estate funds	1,740,564	1,740,564	-	-
Total equity securities	64,269,178	64,269,178	-	-
U.S. Governmental agencies	5,786,119	-	5,786,119	-
Land	452,900	-	-	452,900
Beneficial interest	1,792,452	-	-	1,792,452
Total investments by fair value level	<u>\$ 249,468,627</u>	<u>\$ 5,786,119</u>	<u>\$ 2,245,352</u>	
<b>Investments Measured at Net Asset Value (NAV)</b>				
Hedge funds	61,746,226			
Pooled investment funds	24,566,856			
Private equity funds	19,209,309			
Real estate funds	1,960,563			
Venture capital fund	323,671			
Total investments measured at NAV	<u>107,806,625</u>			
Total investments measured at fair value	<u>\$ 365,306,723</u>			
<b>Investment Derivative Instruments - Interest</b>				
rate sw aps	\$ (4,920,000)		\$ (4,920,000)	

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

The university's fiduciary funds have the following recurring fair value measurements as of June 30, 2020:

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

		Fair Value Measurements Using		
		Quoted Prices in	Significant Other	Significant
		Active Markets	Observable	Unobservable
		for Identical	Inputs	Inputs
Balance at	Assets			
June 30, 2020	(Level 1)	(Level 2)	(Level 3)	
<b>Investments by Fair Value Level</b>				
Equity securities:				
Money market mutual funds	\$ 3,170,908	\$ 3,170,908	\$ -	\$ -
Developed international equity funds	8,109,304	8,109,304	-	-
Emerging markets equity funds	3,947,943	3,947,943	-	-
Large-cap domestic equity funds	22,824,242	22,824,242	-	-
Real estate investment funds	3,137,666	3,137,666	-	-
Small- and mid-cap domestic equity funds	4,274,837	4,274,837	-	-
Infrastructure funds	2,469,159	2,469,159	-	-
Alternative strategies funds	3,983,267	3,983,267	-	-
Precious metals investment funds	603,871	603,871	-	-
Total equity securities	52,521,197	52,521,197	-	-
Fixed-income securities:				
Domestic fixed-income funds	15,954,555	-	15,954,555	-
International fixed-income funds	1,544,627	-	1,544,627	-
Inflation indexed fixed-income funds	862,590	-	862,590	-
Total fixed-income securities	18,361,772	-	18,361,772	-
Total investments by fair value level		\$ 52,521,197	\$ 18,361,772	\$ -
<b>Investments Measured at Net Asset Value (NAV)</b>				
Pooled investment funds	101,942			
Total investments measured at fair value	\$ 70,984,911			

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 2 - Cash and Investments (Continued)

The university's fiduciary funds have the following recurring fair value measurements as of June 30, 2019:

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

		<u>Fair Value Measurements Using</u>		
		Quoted Prices in		
		Active Markets	Significant Other	Significant
		for Identical	Observable	Unobservable
	Balance at	Assets	Inputs	Inputs
	June 30, 2019	(Level 1)	(Level 2)	(Level 3)
<b>Investments by Fair Value Level</b>				
Equity securities:				
Money market mutual funds	\$ 2,146,880	\$ 2,146,880	\$ -	\$ -
Developed international equity funds	6,813,576	6,813,576	-	-
Emerging markets equity funds	3,726,213	3,726,213	-	-
Large-cap domestic equity funds	25,360,689	25,360,689	-	-
Real estate investment funds	2,960,063	2,960,063	-	-
Small- and mid-cap domestic equity funds	3,429,488	3,429,488	-	-
Infrastructure funds	3,022,034	3,022,034	-	-
Alternative strategies funds	4,178,147	4,178,147	-	-
Common stock	294	294	-	-
Total equity securities	51,637,384	51,637,384	-	-
Fixed-income securities:				
Domestic fixed-income funds	15,682,971	-	15,682,971	-
International fixed-income funds	1,083,608	-	1,083,608	-
Inflation indexed fixed-income funds	1,118,133	-	1,118,133	-
Total fixed-income securities	17,884,712	-	17,884,712	-
Total investments by fair value level		\$ 51,637,384	\$ 17,884,712	\$ -
<b>Investments Measured at Net Asset Value (NAV)</b>				
Pooled investment funds	122,354			
Total investments measured at fair value	\$ 69,644,450			

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

The fair value of fixed-income securities, corporate bonds, and U. S. Governmental agency securities at June 30, 2020 and 2019 was determined primarily based on Level 2 inputs. The university estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Derivative instruments classified in Level 2 reflect the fair values of the interest rate swaps estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future settlement on the swap.

The fair value of land and the beneficial interest account held at Grand Rapids Community Foundation at June 30, 2020 and 2019 was determined primarily based on Level 3 inputs. The university estimates the fair value of these investments using the university's own estimates using pricing models, discounted cash flow methodologies, or similar techniques, after considering the characteristics of the asset.



**Note 2 - Cash and Investments (Continued)****Investments in Entities that Calculate Net Asset Value per Share**

The university holds shares or interests in investment companies 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 as a practical expedient.

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

	June 30, 2020	June 30, 2019	Unfunded	Frequency, if	Redemption
	Fair Value	Fair Value	Commitments	Eligible	Notice Period
Hedge funds (A)	\$ 55,842,879	\$ 52,806,577	\$ -	See (A) below	See (A) below
Pooled investment funds (B)	30,757,519	33,506,505	-	See (B) below	See (B) below
Private equity funds (C)	23,763,659	19,209,309	18,928,403	Not redeemable	N/A
Real estate funds (D)	1,597,715	1,960,563	615,620	Not redeemable	N/A
Venture capital fund (E)	508,453	323,671	3,561,936	Not redeemable	N/A
Total	<u>\$ 112,470,225</u>	<u>\$ 107,806,625</u>	<u>\$ 23,105,959</u>		

(A) This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships, and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political, and government-driven events. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. These investments can be redeemed as follows, with the following restrictions:

- a. Adage Capital Partners - Quarterly redemptions with 60 days' advance notice.
- b. Varde Investment Partners - Redeemable on anniversary date of admission to the fund with 90 days' advance written notice.
- c. Varadero Capital - Fund is not redeemable for the first three years it is held. After that, it is redeemable on the last calendar day of each calendar quarter with 90 days' prior written notice.
- d. Pelham Long/Short Fund - Fund is not redeemable for the first twelve months it is held. After that it is redeemable on a monthly basis with 180 days prior written notice.
- e. Davidson Kempner Institutional Partners - Quarterly redemptions with 65 days' advance notice.
- f. SRS Partners - Quarterly redemptions with 60 days' prior written notice.
- g. Indaba Capital Partners - Redeemable quarterly upon 90 days' notice, beginning on the last day of the quarter falling one year after the date of capital contribution.
- h. Nitorum Capital - Class B shares are subject to a three year soft lock-up. During the lock-up period, interests may be withdrawn on the last business day immediately preceding each one year anniversary of the date the investment was established with 60 days' notice, and subject to an early withdrawal fee.
- i. Hitchwood Capital Fund - Redeemable each calendar quarter with 75 days' advance notice.
- j. Senator Global Offshore Fund - Redeemable at any calendar quarter-end upon at least 60 days' prior written notice. Shareholders may only redeem 25% of their shares at each redemption date.
- k. Himilaya Capital Investors LP- Redeemable annually, last calendar day of the year with 60 days' notice.

**Note 2 - Cash and Investments (Continued)**

- (B) This category includes investments in a common trust fund, commingled pool that invests in commodity-related and fixed-income investments. The fair values of the investments in this category have been estimated using the net asset value of the university's ownership interest in the fund. These investments can be redeemed as follows, with the following restrictions:
- a. Sanderson International Value Fund - Redeemable on the first business day of each month, with 10 business days' advance notice.
  - b. Acadian EM II Fund - Daily redemptions with 30 days' advance notice.
  - c. Barings, formerly Babson Capital Management - Redeemable on last business day of calendar month with 30 days' advance written notice.
  - d. Philadelphia Harvest - Redeemable monthly with 30 days' notice.
  - e. Doddington Emerging Markets Fund - Redeemable on the first business day of each month, with five business days' advance notice.
  - f. WMQS Global Equity Active Extension Fund - Redeemable monthly with 30 days' written notice.
  - g. Global Alpha EAFE - Redeemable monthly with 15 days' advance notice.
  - h. Hardman Johnston International Equity Fund - Redeemable on the first business day of each month with 30 days written notice.
- (C) This category includes several private equity funds that invest in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities, and other obligations of distressed businesses and financially troubled companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation for the underlying assets of the funds. These investments are planned to be held for a various number of years depending on the individual fund contract.
- (D) This category includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the university's ownership interest in partners' capital.
- (E) This category includes one venture capital fund that will invest in three to five companies, primarily from within the Michigan Accelerator Fund portfolio. The fair value of the investment in this class has been estimated using the net asset value of the university's ownership interest in partners' capital.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 3 - Capital Assets

Capital asset activity for the university for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 73,131,901	\$ 96,000	\$ -	\$ 73,227,901
Nondepreciable artwork and historical treasures	6,327,222	26,195	-	6,353,417
Nondepreciable land improvements	1,722,820	-	-	1,722,820
Construction in progress	37,756,837	53,399,657	16,316,286	74,840,208
Total cost of nondepreciable capital assets	118,938,780	53,521,852	16,316,286	156,144,346
Land improvements & infrastructure	118,911,971	2,146,930	-	121,058,901
Buildings	833,135,724	10,796,759	264,448	843,668,035
Equipment	76,401,415	5,489,742	758,486	81,132,671
Library books	17,806,047	209,137	633,213	17,381,971
Total cost of depreciable capital assets	1,046,255,157	18,642,568	1,656,147	1,063,241,578
Total cost of capital assets	1,165,193,937	\$ 72,164,420	\$ 17,972,433	1,219,385,924
Less accumulated depreciation for:				
Land improvements & infrastructure	69,682,443	\$ 5,133,546	\$ -	74,815,989
Buildings	253,601,930	19,534,045	61,379	273,074,596
Equipment	58,537,964	4,898,972	680,760	62,756,176
Library books	14,740,312	676,777	633,213	14,783,876
Total accumulated depreciation	396,562,649	\$ 30,243,340	\$ 1,375,352	425,430,637
University capital assets - Net	\$ 768,631,288			\$ 793,955,287

## Notes to Financial Statements

June 30, 2020 and 2019

**Note 3 - Capital Assets (Continued)**

Capital asset activity for the university for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Land	\$ 69,629,167	\$ 4,509,953	\$ 1,007,219	\$ -	\$ 73,131,901
Nondepreciable artwork and historical treasures	6,296,708	30,514	-	-	6,327,222
Nondepreciable land improvements	1,722,820	-	-	-	1,722,820
Construction in progress	7,855,241	35,509,922	5,608,326	-	37,756,837
Total cost of nondepreciable capital assets	85,503,936	40,050,389	6,615,545	-	118,938,780
Land improvements & infrastructure	115,927,936	1,528,164	290,129	1,746,000	118,911,971
Buildings	791,004,512	4,080,163	437,808	38,488,857	833,135,724
Equipment	71,809,200	4,785,684	193,469	-	76,401,415
Library books	17,678,016	423,564	295,533	-	17,806,047
Total cost of depreciable capital assets	996,419,664	10,817,575	1,216,939	40,234,857	1,046,255,157
Total cost of capital assets	1,081,923,600	\$ 50,867,964	\$ 7,832,484	\$ 40,234,857	1,165,193,937
Less accumulated depreciation for:					
Land improvements & infrastructure	64,398,818	\$ 5,064,591	\$ 261,116	\$ 480,150	69,682,443
Buildings	229,876,969	18,620,989	188,246	5,292,218	253,601,930
Equipment	55,416,449	3,290,441	168,926	-	58,537,964
Library books	14,281,923	753,922	295,533	-	14,740,312
Total accumulated depreciation	363,974,159	\$ 27,729,943	\$ 913,821	\$ 5,772,368	396,562,649
University capital assets - Net	\$ 717,949,441				\$ 768,631,288
	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
38 Front Avenue Capital Assets					
Land improvements & infrastructure	\$ 1,746,000	\$ -	\$ -	\$ (1,746,000)	\$ -
Buildings	38,488,857	-	-	(38,488,857)	-
Total cost of capital assets	40,234,857	\$ -	\$ -	\$ (40,234,857)	-
Less accumulated depreciation for:					
Land improvements & infrastructure	436,500	\$ 43,650	\$ -	\$ (480,150)	-
Buildings	4,811,107	481,111	-	(5,292,218)	-
Total accumulated depreciation	5,247,607	\$ 524,761	\$ -	\$ (5,772,368)	-
38 Front Avenue Capital assets-Net	\$ 34,987,250				\$ -
	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
University and 38 Front Avenue Combined					
Total cost of nondepreciable capital as	\$ 85,503,936	\$ 40,050,389	\$ 6,615,545	\$ -	\$ 118,938,780
Total cost of depreciable capital asset:	1,036,654,521	10,817,575	1,216,939	-	1,046,255,157
Total cost of capital assets	1,122,158,457	50,867,964	7,832,484	-	1,165,193,937
Total accumulated depreciation	369,221,766	\$ 28,254,704	\$ 913,821	\$ -	396,562,649
Total capital assets - Net	\$ 752,936,691				\$ 768,631,288

## Notes to Financial Statements

June 30, 2020 and 2019

**Note 3 - Capital Assets (Continued)**

The following estimated useful lives are used to compute depreciation:

Land improvements and infrastructure	20 years
Buildings	40-50 years
Equipment	3-25 years
Library books	10 years

**Note 4 - Long-term Liabilities**

Long-term liabilities of the university consist of bonds payable, charitable gift annuities payable, and notes payable.

The changes in long-term liabilities for the year ended June 30, 2020 are as shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Revenue Refunding Variable Rate Bonds, Series 2008B	\$ 27,940,000	-	-	\$ 27,940,000	-
General Revenue Bonds, Series 2011	5,580,000	-	2,720,000	2,860,000	2,860,000
General Revenue Refunding Bonds, Series 2014B	36,940,000	-	-	36,940,000	1,685,000
General Revenue Bonds, Series 2015A	26,450,000	-	1,020,000	25,430,000	1,070,000
General Revenue Refunding Bonds, Series 2016A	61,010,000	-	-	61,010,000	2,655,000
General Revenue Bonds, Series 2017	28,780,000	-	5,930,000	22,850,000	1,705,000
General Revenue Bonds, Series 2018	41,125,000	-	-	41,125,000	-
Subtotal	227,825,000	-	9,670,000	218,155,000	9,975,000
General Revenue Refunding, Series 2013A Direct Purchase Bonds	14,220,000	-	3,225,000	10,995,000	3,345,000
General Revenue, Series 2014A Direct Purchase Bonds	31,770,000	-	365,000	31,405,000	380,000
Subtotal	45,990,000	-	3,590,000	42,400,000	3,725,000
Total bonds payable	273,815,000	-	13,260,000	260,555,000	13,700,000
Noncurrent accrued liabilities		2,714,898	-	2,714,898	-
Unamortized bond premiums	21,810,208	-	1,447,663	20,362,545	1,360,598
Charitable gift annuities payable	812,600	-	172,565	640,035	90,403
Ground lease payable	288,633	-	3,297	285,336	3,446
Interest rate sw ap contract (see Note 5)	710,000	-	245,000	465,000	180,000
Total	297,436,441	2,714,898	15,128,525	285,022,814	15,334,447
Due w ithin one year	15,116,161			15,334,447	
Total long-term liabilities	<u>\$ 282,320,280</u>			<u>\$269,688,367</u>	

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 4 - Long-term Liabilities (Continued)

The changes in long-term liabilities for the year ended June 30, 2019 are as shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Revenue Refunding Bonds, Series 2008A	\$ 2,830,000	\$ -	\$ 2,830,000	\$ -	\$ -
General Revenue Refunding Variable Rate Bonds, Series 2008B	29,820,000	-	1,880,000	27,940,000	-
General Revenue Bonds, Series 2011	8,195,000	-	2,615,000	5,580,000	2,720,000
General Revenue Refunding Bonds, Series 2014B	36,940,000	-	-	36,940,000	-
General Revenue Bonds, Series 2015A	27,430,000	-	980,000	26,450,000	1,020,000
General Revenue Refunding Bonds, Series 2016A	61,010,000	-	-	61,010,000	-
General Revenue Bonds, Series 2017	30,320,000	-	1,540,000	28,780,000	5,930,000
General Revenue Bonds, Series 2018	-	41,125,000	-	41,125,000	-
Subtotal	196,545,000	41,125,000	9,845,000	227,825,000	9,670,000
General Revenue Refunding, Series 2013A Direct Purchase Bonds	17,320,000	-	3,100,000	14,220,000	3,225,000
General Revenue, Series 2014A Direct Purchase Bonds	32,120,000	-	350,000	31,770,000	365,000
Subtotal	49,440,000	-	3,450,000	45,990,000	3,590,000
Total bonds payable	245,985,000	41,125,000	13,295,000	273,815,000	13,260,000
Unamortized bond premiums	18,314,812	4,943,057	1,447,661	21,810,208	1,447,661
Charitable gift annuities payable	839,728	133,075	160,203	812,600	160,203
Ground lease payable	291,787	-	3,154	288,633	3,297
Interest rate sw ap contract (see Note 5)	1,019,000	-	309,000	710,000	245,000
Total	266,450,327	\$ 46,201,132	\$ 15,215,018	297,436,441	15,116,161
38 Front QLICI loans payable (offset by note receivable)	22,273,000	-	22,273,000	-	-
Combined total	288,723,327	46,201,132	37,488,018	297,436,441	\$ 15,116,161
Due w ithin one year	15,976,156			15,116,161	
Combined long-term liabilities	\$ 272,747,171			\$ 282,320,280	



**Note 4 - Long-term Liabilities (Continued)**

The General Revenue Bonds, Series 2007A, were issued in September 2007 by the Board of Trustees to provide funds for construction of a residential living and learning center, construction of a movement science and indoor recreational facility, and additions to an academic building and student activity center, as well as a portion of the construction period interest expense. In addition to the scheduled payment of \$785,000, \$5,145,000 of the bonds were defeased through a refunding in 2017. The defeased bonds will be held in trust until callable on December 1 of the years 2018 to 2020. The interest rates on the Series 2007A bonds range from 4.00 percent to 5.00 percent. The remaining bonds matured in 2018.

The General Revenue Refunding Bonds, Series 2008A, and the General Revenue Refunding Variable Rate Bonds, Series 2008B, were issued in April 2008 by the Board of Trustees for the refunding and extinguishment of \$20,730,000 of Series 2001B bonds, \$14,775,000 of Series 2002A bonds, \$25,445,000 of Series 2003 bonds, \$22,660,000 of Series 2004 bonds, and \$61,535,000 of Series 2007B bonds and to provide funds for the termination of a prior swap agreement. In addition to the scheduled payments of \$3,090,000 in 2016 and \$3,660,000 in 2017, \$64,955,000 was defeased through a refunding in 2016 and \$4,505,000 was defeased through a refunding in 2017. The defeased bonds from 2016 were held in trust until callable on June 1, 2018 and the defeased bonds from 2017 were held in trust until callable on December 1, 2018. The interest rate on the Series 2008A bonds ranges from 4.13 percent to 5.00 percent. The Series 2008A bonds matured in 2019 and the Series 2008B bonds mature in 2032.

The Series 2008B bonds bear interest based on a weekly rate determined by the remarketing agent (0.12 percent and 1.89 percent at June 30, 2020 and 2019, respectively). The bonds may be converted and subject to a different interest rate mode, provided certain conditions are met. The interest rate modes to which the bonds could potentially be converted to include a daily-rate mode, a commercial paper-rate mode, a term-rate mode, and a fixed-rate mode. The bonds are subject to purchase on demand of the holder at a price equal to the principal amount plus accrued and unpaid interest, without premium, upon seven days' notice and delivery to the remarketing agent. Liquidity for the payment of the purchase price of the bonds on any mandatory or optional tender will be provided by an irrevocable direct pay letter of credit. The letter of credit will terminate at the final bond maturity date of December 1, 2031, unless the university initiates an early termination, which requires a 30 day prior written notice to the bank. In addition, the letter of credit contains a stated expiration date that will require extension or replacement after July 18, 2024.

The General Revenue Bonds, Series 2011, were issued in May 2011 by the Board of Trustees to provide a portion of the funds needed to construct, furnish, and equip the Mary Idema Pew Library Learning and Information Commons. The interest rates on these bonds range from 4.00 percent to 5.00 percent. The bonds mature in 2021.

The General Revenue Refunding Bonds, Series 2013A, were issued in June 2013 by the Board of Trustees for the current refunding of \$29,180,000 of Series 2005 bonds.

The Series 2013A bonds bear interest of 0.59 percent and 2.40 percent at June 30, 2020 and 2019, respectively, based on a reset rate calculated as a factor of LIBOR plus an applicable spread. The bonds may be converted and subject to a different interest rate mode, provided certain conditions are met. The interest rate modes to which the bonds could potentially be converted include a daily-rate mode, a weekly-rate mode, a term-rate mode, a bank-rate mode, and a fixed-rate mode. The bonds mature in 2025.

The General Revenue Bonds, Series 2014A, were issued in February 2014 by the Board of Trustees to provide a portion of the funds needed to construct, furnish, and equip a classroom and laboratory building, a building for the relocation of the university's bookstore and printing activities, as well as an addition to Au Sable Hall, all located on the Allendale campus. This is a draw-down bond in which a portion was drawn during fiscal year 2014 and the remainder in fiscal year 2015.

**Note 4 - Long-term Liabilities (Continued)**

The Series 2014A bonds bear interest of 0.59 percent and 2.40 percent at June 30, 2020 and 2019, respectively, based on a reset rate calculated as a factor of LIBOR plus an applicable spread. The bonds may be converted and subject to a different interest rate mode, provided certain conditions are met. The interest rate modes to which the bonds could potentially be converted include a daily-rate mode, a weekly-rate mode, a term-rate mode, a bank-rate mode, and a fixed-rate mode. The bonds mature in 2040.

Both the Series 2013A and 2014A bonds were issued using direct purchase agreements that identify events of default requiring immediate payment of the outstanding debt if they are not cured within the allowable cure period. The primary events of default consist of (1) general revenues collected do not equal at least 200% of amounts required for debt service (principal, interest, and other related costs) during the preceding twelve months (2) the university's credit rating issued by Standard & Poor's drops below BBB, or (3) the university fails to pay when due any amount of principal or interest.

The General Revenue Refunding Bonds, Series 2014B, were issued in September 2014 by the Board of Trustees for the advance refunding of \$37,905,000 of Series 2009 bonds. The interest rates on these bonds range from 3.50 percent to 5.00 percent. The bonds mature in 2035. The advance refunding resulted in a deferred outflow of \$4,664,356, which is amortized over the life of the original debt.

The General Revenue Bonds, Series 2015A, were issued in June 2015 by the Board of Trustees to provide a portion of the funds needed to construct, furnish, and equip a student housing and academic building on the Allendale campus. The interest rates on these bonds range from 4.00 percent to 5.00 percent. The bonds mature in 2036.

The General Revenue Refunding Bonds, Series 2016A, were issued in May 2016 by the Board of Trustees for the advance refunding of \$64,955,000 of Series 2008A bonds. The interest rates on these bonds range from 3.00 percent to 5.00 percent. The bonds mature in 2034. The advance refunding resulted in a deferred outflow of \$6,806,169, which is amortized over the life of the original debt.

The General Revenue Bonds, Series 2017, were issued in December 2017 by the Board of Trustees to provide a portion of the funds needed to construct, furnish, and equip Raleigh J. Finkelstein Hall on the Health Campus. In addition, \$5,145,000 and \$4,505,000 will be used for the advance refunding of Series 2007A and Series 2008A bonds, respectively. The interest rates on the Series 2017 bonds range from 3.00 percent to 5.00 percent. The bonds mature in 2037. The advance refunding resulted in a deferred outflow of \$81,945, which is amortized over the life of the original debt.

The General Revenue Bonds, Series 2018, were issued in December 2018 by the Board of Trustees to provide a portion of the funds needed to construct, furnish, and equip a building and related facilities and improvements on the university's Health Campus. The interest rate on these bonds is 5.00 percent. The bonds mature in 2044.

Loans payable of \$22,273,000 were issued in 2012 to provide partial funding for construction for the L. William Seidman Center as required by the New Markets Tax Credit program. The interest rate on these loans ranged from 1.43 percent to 1.5 percent. The loans were scheduled to mature in 2041. The loans were partially offset with a note receivable from the Grand Valley Investment Fund (unrelated entity) to the university of \$16,317,780. In October 2018, the university completed the unwinding of the New Markets Tax Credit used to finance 38 Front Avenue, retiring the outstanding liability of \$22,273,000 and corresponding note receivable of \$16,317,780.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 4 - Long-term Liabilities (Continued)

Scheduled maturities of long-term liabilities are as follows:

Fiscal Year	Revenue Bonds		Direct Purchase Bonds		Annuities
	Principal	Interest	Principal	Interest	Payable
2021	9,975,000	8,988,776	3,725,000	238,602	90,403
2022	9,670,000	8,469,237	3,555,000	217,098	90,403
2023	10,130,000	8,064,491	3,700,000	195,518	90,403
2024	11,705,000	7,612,643	2,775,000	176,763	90,403
2025	12,800,000	7,098,034	2,375,000	161,685	90,403
2026-2030	77,965,000	26,254,026	6,465,000	655,176	188,020
2031-2035	61,725,000	11,365,795	9,260,000	472,275	-
2036-2040	19,025,000	2,962,197	10,545,000	155,634	-
2041-2044	5,160,000	497,500	-	-	-
University maturities	<u>\$ 218,155,000</u>	<u>\$ 81,312,700</u>	<u>\$ 42,400,000</u>	<u>\$ 2,272,750</u>	<u>\$ 640,035</u>

## Note 5 - Derivative Instruments

The university is party to derivative financial instruments (interest rate swaps) that are reported at fair value on the statement of net position at June 30, 2020 and 2019. The fair value is calculated by the counterparty to the transactions and approximates the termination value of the interest rate swaps.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2020, classified by type, and the change in fair value of such derivative instruments for the year ended as reported in the 2020 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2020		
	Classification	Amount	Classification	Amount	Notional
Hedging Derivatives					
Cash flow hedges:					
Pay-fixed interest rate sw ap	Deferred outflow of resources	\$ (211,000)	Liability	\$ (306,000)	\$ 10,995,000
Pay-fixed interest rate sw ap	Deferred outflow of resources	(1,215,000)	Liability	(6,040,000)	27,940,000
Pay-fixed interest rate sw ap	Deferred outflow of resources	<u>(2,770,000)</u>	Liability	<u>(2,770,000)</u>	31,405,000
	Total	<u>(\$4,196,000)</u>	Total	<u>\$(9,116,000)</u>	

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 5 - Derivative Instruments (Continued)

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2019, classified by type, and the change in fair value of such derivative instruments for the year ended as reported in the 2019 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2019		
	Classification	Amount	Classification	Amount	Notional
Hedging Derivatives					
Cash flow hedges:					
Pay-fixed interest rate sw ap	Deferred outflow of resources	\$ (340,000)	Liability	\$ (95,000)	\$ 14,220,000
Pay-fixed interest rate sw ap	Deferred outflow of resources	(1,210,000)	Liability	(4,825,000)	27,940,000
	Total	<u>(\$1,550,000)</u>	Total	(4,920,000)	
Investment Derivative					
Pay-fixed interest rate sw ap	Change in fair value of derivative instruments	\$ 28,000	N/A	<u>N/A</u>	-
			Total	<u>\$(4,920,000)</u>	

As of the Statement of Net Position date, the swap agreements can be summarized as follows:

Effective Date	Type	Objective	Notional Amount	Pay Terms	Receive Terms	Maturity Date	Counterparty Credit Rating
3/3/2005	Pay fixed, Receive variable	Cash flow hedge for Series 2013A bonds	\$10,995,000	3.501% Fixed	70% of one-month LIBOR	12/1/2025	A1/A+
9/6/2007	Pay fixed, Receive variable	Cash flow hedge for Series 2008B bonds	\$27,940,000	3.691% Fixed	70% of one-month LIBOR	12/1/2031	A1/A+
11/20/2019	Pay-fixed, Receive variable	Cash flow hedge for Series 2014A bonds	\$31,405,000	1.443% Fixed	80% of one-month LIBOR	12/1/2038	A1/A+

At June 30, 2020, the university holds three derivative instruments that are pay fixed, receivable-variable interest rate swaps. At June 30, 2019, the university held two derivative instruments that are pay-fixed, receive-variable interest rate swaps. The notional amounts of the swaps match the principal amount of the associated debt and the swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated "bonds payable" category; the intent of entering into these swap agreements was to create a synthetic fixed-rate debt at an interest rate that is lower than if fixed-rate debt were to have been issued directly. All of the outstanding swap agreements are effective cash flow hedges.

In 2014, one of the university's hedging relationships was designated into a new relationship due to a refunding of the original debt. In accordance with GASB Statement No. 53, this swap is now considered a hybrid instrument consisting of a financing element and an embedded derivative. The at-market amount of the swap at the time of the new hedging relationship is designated as a hedging instrument with a current mark-to-market value of \$306,000 and \$95,000 at June 30, 2020 and 2019, respectively. The above-market amount, which equals \$465,000 and \$710,000 at June 30, 2020 and 2019, respectively, is considered a borrowing and is included in long-term debt as an interest rate swap contract.

## Note 5 - Derivative Instruments (Continued)

The fair values of the interest rate swaps were calculated by an independent consultant as of June 30, 2020 and 2019. The fair values represent the future net settlement payments or receipts required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates.

The interest rate swaps are subject to the following risks:

**Credit Risk** - The university is exposed to credit risk on hedging derivative instruments that are in asset positions. The terms of the swap agreement require collateralization of the fair value of hedging derivative instruments in asset positions based on a scale that evaluates both the market value of the swap and the counterparty's credit rating. The university has never needed to access collateral from the counterparty.

It is the university's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

All of the contracts are held with one counterparty. That counterparty is rated A1/A+ at June 30, 2020.

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

**Basis Risk** - The university is exposed to basis risk on its LIBOR-based interest rate swaps due to variable-rate payments received by the university on these instruments based on a rate or index other than interest rates the university pays on its variable-rate debt, which is remarketed every seven days. As of June 30, 2020 and 2019, the weighted average interest rate on the university's hedged variable-rate debt is 0.40 percent and 2.06 percent, respectively, while 70 percent of LIBOR is 1.26 percent and 1.71 percent, respectively. The 80 percent of LIBOR, used in the 2019 swap calculation is 1.44 percent as of June 30, 2020.

**Termination Risk** - The university or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract.

**Hedging Derivative Instrument Payments and Hedged Debt** - As of June 30, 2020, aggregate debt service requirements of the university's debt (fixed rate and variable rate) and net receipts/payments on associated hedging derivative instruments follow. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 5 - Derivative Instruments (Continued)

Fiscal Year	Associated with Swap Agreements			Interest Rate Swaps - Net	Total
	Principal	Interest			
2021	\$ 3,725,000	\$ 272,130	\$ 1,288,755	\$ 5,285,885	
2022	5,605,000	249,198	1,181,941	7,036,138	
2023	5,835,000	225,098	1,061,530	7,121,627	
2024	5,000,000	203,718	950,236	6,153,954	
2025	4,695,000	185,904	851,208	5,732,111	
2026-2030	19,610,000	731,028	2,955,657	23,296,685	
2031-2035	15,325,000	479,039	1,127,384	16,931,423	
2036-2040	10,545,000	155,634	285,472	10,986,107	
Total	<u>\$ 70,340,000</u>	<u>\$ 2,501,749</u>	<u>\$ 9,702,182</u>	<u>\$ 82,543,931</u>	

## Note 6 - Retirement Plans

## Defined Contribution Plans

The Executive, Administrative, and Professional Staff and Faculty are covered under a defined contribution retirement plan through TIAA-CREF (Teachers Insurance and Annuity Association of America - College Retirement Equities Fund) or Fidelity Investments. Employees may contribute an amount not to exceed the Internal Revenue Service's designated maximum. Participants become fully vested upon completion of two years of employment. Discretionary university contributions equal to 12 percent of participants' base salaries were made in each year.

The total expense under this discretionary plan was approximately \$18,455,400 and \$17,997,200 for the years ended June 30, 2020 and 2019, respectively. Total payroll covered under this plan was approximately \$153,989,300 in 2020 and \$149,929,000 in 2019.

Maintenance, Grounds, and Service staff hired after October 8, 2004 and Professional Support Staff hired on or after February 2, 2006 participate in a defined contribution plan with university contributions equal to 8 percent of wages. The university will also match the employees' contribution up to an additional 2.0 percent of wages. Participants become fully vested upon completion of two years of employment. Total expenses under this plan were approximately \$1,508,700 in 2020 and \$1,378,560 in 2019. Total payroll covered under this plan was approximately \$15,914,200 in 2020 and \$14,641,450 in 2019.



**Note 6 - Retirement Plans (Continued)****Defined Benefit Plans**

The university has two defined benefit retirement plans - the GVSU Professional Support Staff Employees' Retirement Plan and the GVSU Maintenance, Grounds, Service Employees' Retirement Plan.

*Plan Administration* - Grand Valley State University (GVSU) administers the GVSU Professional Support Staff Employees' Retirement Plan (PSSE), a single-employer defined benefit pension plan that provides pensions for all Professional Support Staff of the university hired before February 2, 2006, and the GVSU Maintenance, Grounds, Service Employees' Retirement Plan (MGSE), a single-employer defined benefit pension plan that provides pensions for all permanent full-time Maintenance, Grounds, and Service employees of the university hired before October 9, 2004. The management of the plans is vested in the Treasurer of the Board of Trustees. Benefit terms have been established by contractual agreements between the university and the various employee union representation; amendments are subject to the same process.

The financial statements of the plans are included in these financial statements as an employee benefit plan trust fund (a fiduciary fund).

At July 1, 2019 and 2018, retirement plan membership consisted of the following:

	Professional Support Staff Employees' Plan		Maintenance, Grounds, Service Employees' Plan	
	2019	2018	2019	2018
Inactive plan members receiving benefits	229	211	77	77
Inactive members entitled to, not yet receiving benefits	89	88	9	8
Active plan members	150	172	59	64
Total participants	468	471	145	149

*Benefits Provided* - The plans provide retirement and death benefits. Retirement benefits for plan members are calculated as 1.9 percent of the member's calendar year salary for the highest five years out of the last 10 years multiplied by the member's years of service. Plan members with 10 years of continuous service are eligible to retire at age 65, or with reduced benefits, as early as age 55. Death benefits are equal to the present value of accrued benefits. A plan member who leaves the university with less than 10 years of continuous service may withdraw his or her contributions. The plan does not provide cost-of-living adjustments.

*Contributions* - Article 9, Section 24 of the Regulations of the State of Michigan constitution requires the financial benefits arising on account of service rendered each year be funded during that year. The university retains an actuary to determine the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. In addition, active members also contribute to the plan.

For the PSSE plan, through December 31, 2018, the active members' contribution rate was 4.5 percent, and 5.0 percent beginning January 1, 2019. The university's contribution rate of annual payroll was 22.4 percent and 23.1 percent for the years ended June 30, 2020 and 2019, respectively.

**Note 6 - Retirement Plans (Continued)**

For the MGSE plan, the active members' contribution rate is 4.25 percent. The university's contribution rate of annual payroll was 28.5 percent and 27.8 percent for the years ended June 30, 2020 and 2019, respectively.

**Investments**

*Investment Policy* - The retirement plan's policy in regard to the allocation of invested assets is established and may be amended by the Treasurer of the Board of Trustees in consultation with the GVSU Pension Plans Investment Committee. It is the policy of the Board of Trustees that the Treasurer pursue an investment strategy that is long term and primarily equity based. The retirement plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The following was the asset allocation policy for the plans as of June 30, 2020 and 2019:

Asset Class	Target Allocation	
	2020	2019
Domestic equities	44%	44%
International equities	19%	19%
Fixed income	17%	17%
Cash	3%	3%
Real estate	10%	10%
Commodities	7%	7%

*Concentrations* - The retirement plans held no investment in any one organization that represents 5 percent or more of the retirement plan's fiduciary net position.

*Rate of Return* - The annual money-weighted rate of return on retirement plan investments, net of retirement plan investment expense, was 2.7 percent and 5.8 percent for the years ended June 30, 2020 and 2019, respectively, for the PSSE plan. The annual money-weighted rate of return on retirement plan investments, net of retirement plan investment expense, was 2.5 percent and 5.8 percent for the years ended June 30, 2020 and 2019, respectively, for the MGSE plan. The money-weighted rate of return expresses investment performance, net of investment expense.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

The financial statements of the trust funds held for each retirement plan follow:

## Schedule of Fiduciary Net Position by Employee Retirement Plan

	Professional Support Staff Employees' Retirement Plan		Maintenance, Grounds, and Service Employees' Retirement Plan	
	Year Ended June 30		Year Ended June 30	
	2020	2019	2020	2019
<b>Assets</b>				
Money market funds	\$ 2,415,047	\$ 1,569,250	\$ 755,861	\$ 577,630
Time deposits	100,652	-	185,959	-
Domestic equities	19,728,489	20,892,793	7,370,590	7,897,384
International equities	8,771,740	7,658,113	3,285,507	2,881,676
Domestic bonds	12,802,720	12,784,279	4,014,425	4,016,825
International bonds	1,194,890	816,668	349,737	266,940
Alternative strategies	7,481,123	7,468,053	2,814,782	2,814,839
Total cash and cash equivalents and investments	52,494,661	51,189,156	18,776,861	18,455,294
Accrued income	108,248	112,146	32,502	35,506
<b>Net Position - Held in trust for pension benefits</b>	<b>\$ 52,602,909</b>	<b>\$ 51,301,302</b>	<b>\$ 18,809,363</b>	<b>\$ 18,490,800</b>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

## Schedule of Changes in Fiduciary Net Position by Employee Retirement Plan

	Professional Support Staff Employees' Retirement Plan		Maintenance, Grounds, and Service Employees' Retirement Plan	
	Year Ended June 30		Year Ended June 30	
	2020	2019	2020	2019
<b>Additions</b>				
Investment income (loss):				
Interest and dividends	\$ 1,470,886	\$ 1,535,183	\$ 531,458	\$ 555,162
Net (depreciation) appreciation in fair value of investments	(474,811)	779,327	(275,839)	292,598
Income on sale of investments	1,009,470	647,071	368,992	217,731
Total investment income	2,005,545	2,961,581	624,611	1,065,491
Employer contributions	1,680,087	1,846,741	846,413	829,005
Other income	909,945	347,440	113,631	112,329
Total additions - Net	4,595,577	5,155,762	1,584,655	2,006,825
<b>Deductions</b>				
Benefit payments	3,138,347	2,761,440	1,211,502	1,180,738
Administrative expense	155,623	197,614	54,590	51,172
Total deductions	3,293,970	2,959,054	1,266,092	1,231,910
<b>Net Increase</b>	1,301,607	2,196,708	318,563	774,915
<b>Net Assets Held in Trust for Pension Benefits</b>				
Beginning of year	51,301,302	49,104,594	18,490,800	17,715,885
End of year	<u>\$ 52,602,909</u>	<u>\$ 51,301,302</u>	<u>\$ 18,809,363</u>	<u>\$ 18,490,800</u>

## Net Pension Liability of the University

The university's net pension liability was measured as of June 30, 2020 and 2019. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2019 and 2018, which used updated procedures to roll forward the estimated liability to June 30, 2020 and 2019, respectively.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

Changes in the net pension liability for the PSSE plan during the measurement years are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2018</b>	<b>\$ 63,796,534</b>	<b>\$49,104,594</b>	<b>\$14,691,940</b>
<b>Changes for the Year</b>			
Service cost - Beginning of year	718,850	-	718,850
Interest on average adjusted total pension liability	4,103,753	-	4,103,753
Differences between expected and actual experience	(787,903)	-	(787,903)
Changes in assumptions	1,935,559	-	1,935,559
Benefits payments, including refunds of member contributions	(2,761,440)	(2,761,440)	-
Contributions - Employer	-	1,846,741	(1,846,741)
Contributions - Member	-	347,440	(347,440)
Net investment income	-	2,961,581	(2,961,581)
Administrative expenses	-	(197,614)	197,614
<b>Net Changes</b>	<b>3,208,819</b>	<b>2,196,708</b>	<b>1,012,111</b>
<b>Balance at June 30, 2019</b>	<b><u>\$ 67,005,353</u></b>	<b><u>\$51,301,302</u></b>	<b><u>\$15,704,051</u></b>
<b>Changes for the Year</b>			
Service cost - Beginning of year	701,687	-	701,687
Interest on average adjusted total pension liability	4,120,388	-	4,120,388
Differences between expected and actual experience	(780,109)	-	(780,109)
Changes in assumptions	(484,636)	-	(484,636)
Benefit payments, including refunds of member contributions	(3,138,347)	(3,138,347)	-
Contributions - Employer	-	1,680,087	(1,680,087)
Contributions - Member	-	330,806	(330,806)
Net investment income	-	2,005,546	(2,005,546)
Administrative expenses	-	(155,623)	155,623
Other	-	579,138	(579,138)
<b>Net Changes</b>	<b>418,983</b>	<b>1,301,607</b>	<b>(882,624)</b>
<b>Balance at June 30, 2020</b>	<b><u>\$ 67,424,336</u></b>	<b><u>\$52,602,909</u></b>	<b><u>\$14,821,427</u></b>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

Changes in the net pension liability for the MGSE plan during the measurement years are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2018</b>	\$24,494,739	\$17,715,885	\$ 6,778,854
<b>Changes for the Year</b>			
Service cost - Beginning of year	265,172	-	265,172
Interest on average adjusted total pension liability	1,571,020	-	1,571,020
Differences between expected and actual experience	252,845	-	252,845
Changes in assumptions	651,124	-	651,124
Benefits payments, including refunds of member contributions	(1,180,738)	(1,180,738)	-
Contributions - Employer	-	829,005	(829,005)
Contributions - Member	-	112,328	(112,328)
Net investment income	-	1,065,492	(1,065,492)
Administrative expenses	-	(51,172)	51,172
<b>Net Changes</b>	<u>1,559,423</u>	<u>774,915</u>	<u>784,508</u>
<b>Balance at June 30, 2019</b>	<u><b>\$26,054,162</b></u>	<u><b>\$18,490,800</b></u>	<u><b>\$ 7,563,362</b></u>
<b>Changes for the Year</b>			
Service cost - Beginning of year	279,560	-	279,560
Interest on average adjusted total pension liability	1,602,853	-	1,602,853
Differences between expected and actual experience	(568,836)	-	(568,836)
Changes in assumptions	(178,142)	-	(178,142)
Benefit payments, including refunds of member contributions	(1,211,502)	(1,211,502)	-
Contributions - Employer	-	846,413	(846,413)
Contributions - Member	-	113,610	(113,610)
Net investment income	-	624,612	(624,612)
Administrative expenses	-	(54,590)	54,590
Other	-	20	(20)
<b>Net Changes</b>	<u>(76,067)</u>	<u>318,563</u>	<u>(394,630)</u>
<b>Balance at June 30, 2020</b>	<u><b>\$25,978,095</b></u>	<u><b>\$18,809,363</b></u>	<u><b>\$ 7,168,732</b></u>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

**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 \$2,620,633 and \$3,866,899, respectively, for the PPSE plan and \$1,204,623 and \$1,536,044, respectively, for the MSGE Plan.

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

	Professional Support Staff Employees' Plan		Maintenance, Grounds, Service Employees' Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 395,395	\$ 804,033	\$ 240,596	\$ 476,989
Changes in assumptions	1,830,475	1,299,945	910,769	767,619
Net difference between projected and actual earnings on plan investments	295,347	-	156,241	-
Total	<u>\$ 2,521,217</u>	<u>\$ 2,103,978</u>	<u>\$ 1,307,606</u>	<u>\$ 1,244,608</u>

At June 30, 2019, the university reported deferred outflows and inflows of resources related to pensions from the following sources:

	Professional Support Staff Employees' Plan		Maintenance, Grounds, Service Employees' Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 582,117	\$ 544,723	\$ 369,485	\$ 165,943
Changes in assumptions	3,990,686	1,289,163	1,729,482	899,898
Net difference between projected and actual earnings on plan investments	-	498,508	-	217,288
Total	<u>\$ 4,572,803</u>	<u>\$ 2,332,394</u>	<u>\$ 2,098,967</u>	<u>\$ 1,283,129</u>



## Notes to Financial Statements

June 30, 2020 and 2019

**Note 6 - Retirement Plans (Continued)**

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

Amortization of Deferred Outflows/Inflows Years Ended June 30	PPSE Amount Recognized	MSGE Amount Recognized
2021	\$ (196,043)	\$ (94,117)
2022	(132,846)	(159,357)
2023	365,228	114,889
2024	324,158	201,583
2025	56,742	-

*Actuarial Assumptions* - The total pension liability as of June 30, 2020 and 2019 for both plans was determined by an actuarial valuation as of July 1, 2019 and 2018, respectively, using updated procedures and the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases including inflation	2.50%
Investment rate of return	6.27% as of July 1, 2020 and 6.23% as of July 1, 2019, net of pension plan investment expense

For the July 1, 2019 actuarial valuation, the mortality improvement projection scale was updated from MP-2017 to MP-2018, since the prior measurement date. For the July 1, 2018, actuarial valuation, the mortality improvement projection scale was updated from MP-2016 to MP-2017. There were no changes in benefit terms during either period.

*Discount Rate* - The discount rate used to measure the total pension liability of the PPSE plan was 6.27 percent and 6.23 percent for years ended June 30, 2020 and 2019, respectively. The discount rate used to measure the total pension liability of the MSGE plan was 6.27 percent and 6.23 percent for the years ended June 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that university contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the retirement plan's fiduciary net position is projected to be available to make all projected future benefit payments of active and inactive plan members.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

The long-term expected rate of return on retirement plan investments for both plans was determined using a building-block model in which best-estimate ranges of expected future real rates of return (expected returns, net of retirement 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. Best estimates of arithmetic real rates of return as of June 30, 2020 and 2019 (see discussion of the retirement plans' investment policy) are summarized in the table below:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equities	44%	6.28%
International equities	19%	7.99%
Fixed income	17%	6.50%
Cash	3%	1.61%
Real estate	10%	6.38%
Commodities	7%	2.83%

The sum of the target allocations times the long-term expected rates is 6.27 percent and 6.23 percent for years ended June 30, 2020 and 2019, respectively.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the net pension liability of the university, calculated using the current discount rates, as well as 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 for each plan.

For the year ended June 30, 2020:

Plan	1% Decrease	Current Discount Rate	1% Increase
Professional Support Staff Employees' Plan	\$ 23,152,114	\$ 14,821,427	\$ 7,844,121
Maintenance, Grounds, Service Employees' Plan	\$ 10,050,108	\$ 7,168,732	\$ 4,718,260

For the year ended June 30, 2019:

Plan	1% Decrease	Current Discount Rate	1% Increase
Professional Support Staff Employees' Plan	\$ 24,672,195	\$ 15,704,051	\$ 8,333,857
Maintenance, Grounds, Service Employees' Plan	\$ 10,521,005	\$ 7,563,362	\$ 5,050,646

**Note 6 - Retirement Plans (Continued)**

**Other Postemployment Benefit Plan (OPEB)**

The university has a single-employer defined benefit plan that provides certain healthcare benefits for retired faculty and staff. As of June 30, 2019, the most recent valuation date, the plan covered 2,283 members, which includes 1,466 active members, 584 inactive members receiving benefits and 233 covered spouses of retirees and does not require active members to contribute to the plan. At January 1, 2014, the plan was closed to new participants. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

**Plan Description** - The plan requirements are established and may be amended by the university's Board of Trustees. Substantially all of the university's employees hired prior to January 1, 2014 may become eligible for certain healthcare benefits if they reach retirement age while working for the university, are vested in a university-sponsored retirement plan, and their years of university service and age total a minimum of 75.

**Funding Policy** - The plan's policy is that the employer will fund the plan on a pay-as-you-go basis. An investment fund has been established for the purpose of prefunding retiree benefits, with a market value of \$16,578,568 and \$16,078,973 at June 30, 2020 and 2019, respectively. However, because the funds are not held in an irrevocable trust, these assets are excluded for GASB Statement No. 75 purposes.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

**Total OPEB Liability** - The June 30, 2020 total OPEB liability was measured as of June 30, 2020 based on an actuarial valuation performed June 30, 2019, which used update procedures to roll forward the estimated liability to June 30, 2020. The June 30, 2019 OPEB liability was measured as of June 30, 2019 based on an actuarial valuation performed June 30, 2019 in compliance with GASB Statement No. 75. Changes in the total OPEB liability during the measurement year were as follows:

	Total OPEB Liability	Plan Net Position	Net OPEB Liability
<b>Balance at June 30, 2018</b>	\$ 20,111,127	\$ -	\$ 20,111,127
<b>Changes for the Year</b>			
Service cost - Beginning of year	719,962	-	719,962
Interest on average adjusted total OPEB liability	614,057	-	614,057
Differences between expected and actual experience	175,403	-	175,403
Changes in assumptions	(301,810)	-	(301,810)
Benefits payments, including refunds of member contributions	(725,085)	(725,085)	-
Contributions - Employer	-	725,085	(725,085)
<b>Net Changes</b>	<u>482,527</u>	<u>-</u>	<u>482,527</u>
<b>Balance at June 30, 2019</b>	<u><b>\$ 20,593,654</b></u>	<u><b>-</b></u>	<u><b>\$ 20,593,654</b></u>
<b>Changes for the Year</b>			
Service cost - Beginning of year	622,951	-	622,951
Interest on average adjusted total OPEB liability	703,145	-	703,145
Differences between expected and actual experience	(314,544)	-	(314,544)
Changes in assumptions	1,676,212	-	1,676,212
Benefits payments, including refunds of member contributions	(579,322)	(579,322)	-
Contributions - Employer	-	579,322	(579,322)
<b>Net Changes</b>	<u>2,108,442</u>	<u>-</u>	<u>2,108,442</u>
<b>Balance at June 30, 2020</b>	<u><b>\$ 22,702,096</b></u>	<u><b>-</b></u>	<u><b>\$ 22,702,096</b></u>
<b>Current</b>	<b>\$ 579,000</b>		<b>\$ 579,000</b>
<b>Noncurrent</b>	<b>\$ 22,123,096</b>		<b>\$ 22,123,096</b>
	<u><b>\$ 22,702,096</b></u>		<u><b>\$ 22,702,096</b></u>

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - 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 OPEB expense of \$1,491,364, and \$1,329,219, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 135,181	\$ 356,874
Changes in assumptions	1,628,711	232,602
Total	<u>\$ 1,763,892</u>	<u>\$ 589,476</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 155,292	\$ 91,475
Changes in assumptions	181,405	267,206
Total	<u>\$ 336,697</u>	<u>\$ 358,681</u>

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

Amortization of Deferred Outflows/Inflows Years Ended June 30	Amount Recognized
2021	\$ 165,268
2022	165,268
2023	165,268
2024	165,268
2025	165,268
Thereafter	348,076

**Actuarial Assumptions** - The total OPEB liability in the June 30, 2019 actuarial valuation was determined using an inflation assumption of 2.0 percent; assumed salary increases (including inflation) of 2.5 percent; an investment rate of 0% as assets held are not allowable for inclusion under GASB 75 requirements; a healthcare cost trend rate of 7.0 percent and 7.5 percent in 2020 and 2019, respectively, decreasing .5 percent per year to an ultimate rate of 5.0 percent; and using the RP-2014 mortality tables with the MP-2019 and MP-2018 improvement scale in 2020 and 2019, respectively.

There were no changes in benefit terms during 2020 or 2019.

## Notes to Financial Statements

June 30, 2020 and 2019

## Note 6 - Retirement Plans (Continued)

**Discount Rate** - The discount rate used to measure the total OPEB liability was 2.66 percent at June 30, 2020 and 3.36 percent at June 30, 2019. The impact of this change is presented as a change in assumption. Because the plan does not have an irrevocable OPEB trust, there are not assets projected to be sufficient to make projected future benefit payment to current plan members, and therefore the discount rate reflects the S & P Municipal Bond 20 Year High Grade Rate Index.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate** - The following presents the total OPEB liability of the university, as well as what the university's total 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:

		Current Discount	
		Rate 2.66%	
June 30, 2020	1% Decrease	Rate 2.66%	1% Increase
Total OPEB Liability	\$ 25,861,443	\$ 22,702,096	\$ 20,060,319
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 25,861,443</u>	<u>\$ 22,702,096</u>	<u>\$ 20,060,319</u>

		Current Discount	
		Rate 3.36%	
June 30, 2019	1% Decrease	Rate 3.36%	1% Increase
Total OPEB Liability	\$ 23,168,032	\$ 20,593,654	\$ 18,424,950
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 23,168,032</u>	<u>\$ 20,593,654</u>	<u>\$ 18,424,950</u>

**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 pertinent healthcare cost trend rate of 7.0 percent and 7.5 percent for 2020 and 2019, respectively, as well as what the university's total liability would be if it were calculated using a healthcare cost trend that is 1 percentage point lower or 1 percentage point higher than the current rate:

		Current Healthcare	
		Trend Rate 7.0%	
June 30, 2020	1% Decrease	Trend Rate 7.0%	1% Increase
Total OPEB Liability	\$ 22,513,587	\$ 22,702,096	\$ 22,919,551
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 22,513,587</u>	<u>\$ 22,702,096</u>	<u>\$ 22,919,551</u>

		Current Healthcare	
		Trend Rate 7.5%	
June 30, 2019	1% Decrease	Trend Rate 7.5%	1% Increase
Total OPEB Liability	\$ 20,429,106	\$ 20,593,654	\$ 20,782,754
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	<u>\$ 20,429,106</u>	<u>\$ 20,593,654</u>	<u>\$ 20,782,754</u>

## Notes to Financial Statements

June 30, 2020 and 2019

**Note 7 - Commitments**

The university has an arrangement with the State of Michigan and State Building Authority (the "SBA") to finance a large portion of the following buildings:

- Padnos College of Engineering and Computing (Pew Campus in downtown Grand Rapids)
- Graduate School of Business and Graduate Library Building (Pew Campus)
- P. Douglas Kindschi Hall of Science (Allendale Campus)
- Daniel and Pamella DeVos Center for Interprofessional Health (Health Campus in downtown Grand Rapids)

The projects were financed in part with SBA Revenue Bonds and State appropriations. The buildings are recorded as assets of the university. The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan, pursuant to a lease agreement between the SBA, the State of Michigan, and the university. The lease agreement stipulates that the SBA will hold title to the buildings and the State will make all lease payments to the SBA on behalf of the university, and the university will pay all operating and maintenance costs. At the expiration of the lease, the SBA has agreed to sell each building to the university for \$1.

Previously, the university agreed to lease the Muskegon Innovation Hub from the City of Muskegon, Michigan at no cost through June 30, 2025. Ownership of the building will revert to the university at lease termination for \$1.

**Note 8 - Contingencies**

The university is self-funded for coverage under portions of its hospital/medical benefits and for all unemployment compensation and workers' compensation. The university also offers one HMO plan to employees. Stop-loss coverage has been purchased by the university for the self-funded hospital/medical benefits and workers' compensation claims. The stop-loss insurance limits the claims for hospital/medical benefits to \$300,000 per individual in FY20 and FY19, with no lifetime limit. The workers' compensation stop-loss insurance continues to limit its liability for claims paid per individual to \$500,000. Current liabilities for estimated claims retained by the university under self-insurance programs have been established at \$2,039,836, and \$2,256,429 as of June 30, 2020 and 2019, respectively.

	2020	2019	2018
Balance - Beginning of year	\$ 2,256,429	\$ 3,159,884	\$ 3,159,043
Claims incurred and changes in estimates	31,077,842	29,894,439	29,399,488
Claim payments	(31,294,435)	(30,797,894)	(29,398,647)
Balance - End of year	<u>\$ 2,039,836</u>	<u>\$ 2,256,429</u>	<u>\$ 3,159,884</u>

The university established a line of credit as required by a particular utility agreement. To secure payment for this agreement, the university requested a \$450,000 letter of credit during August 2007, which has been extended through March 31, 2023. As of June 30, 2020, there were no funds drawn.



## Note 8 – Contingencies (Continued)

The university is a participant in the Michigan Universities Self-Insurance Corporation (MUSIC). This organization provides insurance coverage for errors and omissions liability, comprehensive general liability, and all risk property insurance. In fiscal year 2020 and 2019, there are 11 universities participating in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability errors and omissions and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second-tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

In the normal course of its activities, the university has been a party in various legal actions. Historically, the university has not experienced significant losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, the university is of the opinion that the outcome thereof will not have a material effect on its financial statements.

Pursuant to State of Michigan Public Act 362 of 1993, as amended, the university has previously authorized 62 public school academies. All 62 of these public school academies can operate schools funded by the State School Aid Act. The university, as fiscal agent, provides guidance in and review of compliance with State requirements and forwards the State payment to the public school academies. Public funding is provided by the State of Michigan on a per-pupil basis. Funding of \$293,661,961 and \$309,221,249 was appropriated by the State in 2020 and 2019, respectively, to be allocated to the public school academies, net of approximately a 3 percent administrative fee retained by the university. At June 30, 2020, \$48,544,091 was outstanding as a receivable from the State, of which \$47,231,632 was subsequently forwarded to support the public school academies. At June 30, 2019, \$55,991,438 was outstanding as a receivable from the State, of which \$54,454,356 was subsequently forwarded to support the public school academies. This activity is treated as an agency transaction.

## Note 9 - Subsequent Events

The university adopted a Voluntary Retirement Incentive Plan effective July 1, 2020. As outlined in the plan document, if an employee has reached age 62 and has completed 10 years or more of service, an employee could be eligible to receive an incentive payment equal to 75% of the employee's base salary up to a maximum payment of \$100,000, a benefit payout of \$10,000 and an enhanced coverage of pharmacy benefits. The university holds the sole discretion to accept or reject applications based on a set of objectives outlined in the plan document. The applications were due on August 31, 2020. The total payout for employees approved under this plan is expected to be \$8.4 million in fiscal year 2021.

The State of Michigan has approved the appropriation amount of \$73,490,700 for fiscal year 2020-2021.

## Note 10 - Upcoming 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 were originally effective for the university's financial statements for the fiscal year ended June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, Postponement of the Effective Date of Certain Authoritative Guidance.

In June 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 were originally effective for the university's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, Postponement of the Effective Date of Certain Authoritative Guidance.

In March 2020, the 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 June 30, 2022 fiscal year. All other requirements of the statement are effective for the university's financial statements for the June 30, 2021 fiscal year. Lease modification requirements are effective one year later.

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## Required Supplemental Information

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# Required Supplemental Information

## Professional Support Staff Employee's Retirement Plan

### Schedule of Changes in the Plan's Net Pension Liability and Related Ratios

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability (TPL)</b>							
Service cost - Beginning of year	\$ 701,687	\$ 718,850	\$ 797,818	\$ 718,706	\$ 785,499	\$ 869,998	\$ 884,731
Interest on average adjusted TPL	4,120,388	4,103,753	3,976,774	3,918,820	3,718,896	3,170,993	3,026,543
Difference between expected and actual experience	(780,109)	(787,903)	209,400	197,571	154,810	-	-
Changes in assumptions	(484,636)	1,935,559	(312,926)	5,444,091	(2,009,843)	3,014,969	-
Benefits payments, including refunds of member contributions	(3,138,347)	(2,761,440)	(2,515,721)	(2,183,758)	(1,987,377)	(1,683,752)	(1,554,355)
Net change in total pension liability	418,983	3,208,819	2,155,345	8,095,430	661,985	5,372,208	2,356,919
Total pension liability - Beginning of year	67,005,353	63,796,534	61,641,189	53,545,759	52,883,774	47,511,566	45,154,647
Total pension liability - End of year	<b>\$ 67,424,336</b>	<b>\$ 67,005,353</b>	<b>\$ 63,796,534</b>	<b>\$ 61,641,189</b>	<b>\$ 53,545,759</b>	<b>\$ 52,883,774</b>	<b>\$ 47,511,566</b>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 1,680,087	\$ 1,846,741	\$ 2,080,143	\$ 2,078,728	\$ 1,600,653	\$ 1,645,094	\$ 1,681,351
Contributions - Member	330,806	347,440	305,305	286,728	304,178	280,975	161,147
Net investment income	2,005,546	2,961,581	4,032,968	4,633,461	(311,149)	610,806	6,959,448
Administrative expenses	(155,623)	(197,614)	(200,506)	(186,466)	(178,037)	-	(76,160)
Other	579,138	-	-	-	-	-	-
Benefit payments, including refunds of member contributions	(3,138,347)	(2,761,440)	(2,515,721)	(2,183,758)	(1,987,377)	(1,683,752)	(1,554,355)
Net change in plan fiduciary net position	1,301,607	2,196,708	3,702,189	4,628,693	(571,732)	853,123	7,171,431
Plan fiduciary net position-Beginning of year	51,301,302	49,104,594	45,402,405	40,773,712	41,345,444	40,492,321	33,320,890
Plan fiduciary net position - End of year	<b>\$ 52,602,909</b>	<b>\$ 51,301,302</b>	<b>\$ 49,104,594</b>	<b>\$ 45,402,405</b>	<b>\$ 40,773,712</b>	<b>\$ 41,345,444</b>	<b>\$ 40,492,321</b>
Net pension liability - End of year	<b>\$ 14,821,427</b>	<b>\$ 15,704,051</b>	<b>\$ 14,691,940</b>	<b>\$ 16,238,784</b>	<b>\$ 12,772,047</b>	<b>\$ 11,538,330</b>	<b>\$ 7,019,245</b>
Plan fiduciary net position as a percentage of total pension liability	78.0%	76.6%	77.0%	73.7%	76.1%	78.2%	85.2%
Covered payroll	\$ 7,515,171	\$ 8,001,192	\$ 10,857,657	\$ 9,966,093	\$ 10,482,326	\$ 10,858,867	\$ 11,544,380
Net pension liability as a percentage of covered payroll	197.2%	196.3%	135.3%	162.9%	121.8%	106.3%	60.8%

## Schedule of Investment Returns

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual money-weighted rate of return, net of investment expense	2.7%	5.8%	9.7%	12.8%	-1.9%	2.9%	0.6%

## Required Supplemental Information Professional Support Staff Employee's Retirement Plan Schedule of Employer Contributions

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual money-weighted rate of return, net of investment expense	2.7%	5.8%	9.7%	12.8%	-1.9%	2.9%	0.6%
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Actuarially determined contribution offset by employee contributions	\$ 1,609,192	\$ 1,754,781	\$ 1,913,108	\$ 2,101,207	\$ 1,816,300	\$ 1,504,978	\$ -
Actual contributions by the University	1,680,087	1,846,741	2,080,143	2,078,728	1,600,653	1,645,094	1,681,351
Contribution (excess) deficiency	(70,895)	(91,960)	(167,035)	22,479	215,647	(140,116)	(1,681,351)
Covered payroll	7,515,171	8,001,192	10,857,657	9,966,093	10,482,326	10,858,867	11,544,380
Actual contributions as a percentage of covered payroll	22.4%	23.1%	19.2%	20.9%	15.3%	15.1%	14.6%
<b>Actuarial Valuation information relative to the determination of contributions:</b>							
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability	6.27%/year	6.23%/year	6.50%/year	6.50%/year	7.37%/year	7.06%/year	6.82%/year
Funding	6.27%/year	6.23%/year	6.50%/year	6.50%/year	7.00%/year	7.00%/year	7.00%/year
Mortality	RP-2014 with Projection Table MP-2018	RP-2014 with Projection Table MP-2017	RP-2014 with Projection Table MP-2016	RP-2014 with Projection Table MP-2014	RP-2014 with Projection Table MP-2014	RP-2014 with Projection Table MP-2014	1983 GAM
Changes in Benefit Terms	None	None	None	None	None	None	None

## Required Supplemental Information Professional Support Staff Employee's Retirement Plan Schedule of Employer Contributions

### Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

<b>Valuation Date</b>	Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported.
<b>Actuarial Methods</b>	
Actuarial cost method	Entry age normal
Amortization method	Level dollar amount, closed
Remaining amortization period	20 years, declining based on average future service
Asset valuation method	Four-year moving market value average recognizing 25% of gains and losses per year
<b>Actuarial Assumptions</b>	
Retirement age	65 with 10 years of vesting service
Salary increases	2.50%/year
<b>Data Collection</b>	
Date and form of data	All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit.

## Required Supplemental Information

### Maintenance, Grounds, Service Employees' Retirement Plan

### Schedule of Changes in the Plan's Net Pension Liability and Related Ratios

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Total Pension Liability (TPL)</b>							
Service cost - Beginning of year	\$ 279,560	\$ 265,172	\$ 318,061	\$ 284,832	\$ 360,568	\$ 373,413	\$ 400,689
Interest on average adjusted TPL	1,602,853	1,571,020	1,535,483	1,547,098	1,321,895	1,227,012	1,170,114
Differences between expected and actual experience	(568,836)	252,845	5,766	(50,039)	(305,849)	-	-
Changes in assumptions	(178,142)	651,124	(132,170)	1,865,214	(1,669,232)	2,280,678	-
Benefits payments, including refunds of member contributions	<u>(1,211,502)</u>	<u>(1,180,738)</u>	<u>(1,074,315)</u>	<u>(1,024,385)</u>	<u>(1,065,199)</u>	<u>(778,615)</u>	<u>(644,712)</u>
Net change in total pension liability	(76,067)	1,559,423	652,825	2,622,720	(1,357,817)	3,102,488	926,091
Total pension liability - Beginning of year	26,054,162	24,494,739	23,841,914	21,219,194	22,577,011	19,474,523	18,548,432
Total pension liability - End of year	<b><u>\$ 25,978,095</u></b>	<b><u>\$ 26,054,162</u></b>	<b><u>\$ 24,494,739</u></b>	<b><u>\$ 23,841,914</u></b>	<b><u>\$ 21,219,194</u></b>	<b><u>\$ 22,577,011</u></b>	<b><u>\$ 19,474,523</u></b>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 846,413	\$ 829,005	\$ 904,245	\$ 908,222	\$ 580,156	\$ 611,534	\$ 617,498
Contributions - Member	113,610	112,328	123,132	134,960	137,686	165,723	181,075
Net investment income	624,612	1,065,492	1,485,370	1,741,566	(162,055)	289,491	2,564,971
Administrative expenses	(54,590)	(51,172)	(53,062)	(50,013)	(48,255)	(49,671)	(42,023)
Other	20	-	-	-	-	(1,830)	1,062
Benefit payments, including refunds of member contributions	<u>(1,211,502)</u>	<u>(1,180,738)</u>	<u>(1,074,315)</u>	<u>(1,024,385)</u>	<u>(1,065,199)</u>	<u>(778,615)</u>	<u>(644,712)</u>
Net change in plan fiduciary net position	318,563	774,915	1,385,370	1,710,350	(557,667)	236,632	2,677,871
Plan fiduciary net position - Beginning of year	18,490,800	17,715,885	16,330,515	14,620,165	15,177,832	14,941,200	12,263,329
Plan fiduciary net position - End of year	<b><u>\$ 18,809,363</u></b>	<b><u>\$ 18,490,800</u></b>	<b><u>\$ 17,715,885</u></b>	<b><u>\$ 16,330,515</u></b>	<b><u>\$ 14,620,165</u></b>	<b><u>\$ 15,177,832</u></b>	<b><u>\$ 14,941,200</u></b>
Net pension liability - End of year	<b><u>\$ 7,168,732</u></b>	<b><u>\$ 7,563,362</u></b>	<b><u>\$ 6,778,854</u></b>	<b><u>\$ 7,511,399</u></b>	<b><u>\$ 6,559,029</u></b>	<b><u>\$ 7,399,179</u></b>	<b><u>\$ 4,533,323</u></b>
Plan fiduciary net position as a percentage of total pension liability	72.40%	70.97%	72.33%	68.49%	68.90%	67.23%	76.72%
Covered payroll	\$ 2,971,700	\$ 2,984,013	\$ 3,716,780	\$ 3,435,936	\$ 3,534,057	\$ 3,721,412	\$ 4,181,815
Net pension liability as a percentage of covered payroll	241.2%	253.5%	182.4%	218.6%	185.6%	198.8%	108.4%



## Schedule of Investment Returns

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual money-weighted rate of return, net of investment expense	2.5%	5.8%	9.6%	12.8%	-1.7%	2.9%	20.2%

## Required Supplemental Information Maintenance, Grounds, Service Employees' Retirement Plan Schedule of Employer Contributions

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Actuarially determined contribution offset by employee contributions	\$ 777,954	\$ 857,482	\$ 867,707	\$ 905,259	\$ 812,813	\$ 618,150	\$ 612,391
Actual contributions by University	846,413	829,005	904,245	908,222	580,156	611,534	617,498
Contribution (excess) deficiency	(68,459)	28,477	(36,538)	(2,963)	232,657	6,616	(5,107)
Covered payroll	2,971,700	2,984,013	3,716,780	3,435,936	3,534,057	3,721,412	4,181,815
Actual contributions as a percentage of covered payroll	28.48%	27.78%	24.33%	26.43%	16.42%	16.43%	14.77%

### Actuarial Valuation information relative to the determination of contributions:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability	6.27%/year	6.23%/year	6.50%/year	6.50%/year	7.37%/year	7.06%/year	6.82%/year
Funding	6.27%/year	6.23%/year	6.50%/year	6.50%/year	7.00%/year	7.00%/year	7.00%/year
Mortality	RP-2014 with Projection Table MP-2018	RP-2014 with Projection Table MP-2017	RP-2014 with Projection Table MP-2016	RP-2014 with Projection Table MP-2014	RP-2014 with Projection Table MP-2014	RP-2014 with Projection Table MP-2014	1983 GAM
Changes in Benefit Terms	None	None	None	None	None	None	None

Required Supplemental Information  
Maintenance, Grounds, Service Employees' Retirement Plan  
Schedule of Employer Contributions

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date	Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial Methods	
Actuarial cost method	Entry age normal
Amortization method	Level dollar amount, closed
Remaining amortization period	20 years, declining based on average future service
Asset valuation method	Four-year moving market value average recognizing 25% of gains and losses per year
Actuarial Assumptions	
Retirement age	65 with 10 years of vesting service
Salary increases	2.50%/year
Data Collection	
Date and form of data	All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit.

## Required Supplemental Information Other Postemployment Benefits

### Changes in Net OPEB Liability and Related Ratios

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Total OPEB Liability</u>			
Service cost	\$ 622,951	\$ 719,962	725,755
Interest	703,145	614,057	612,140
Difference between expected and actual experience	(314,544)	175,403	(111,193)
Changes in assumptions	1,676,212	(301,810)	220,509
Benefits payments, including refunds of member contributions	<u>(579,322)</u>	<u>(725,085)</u>	<u>(713,556)</u>
Net change in total OPEB liability	2,108,442	482,527	733,655
Total OPEB liability - Beginning of year	<u>20,593,654</u>	<u>20,111,127</u>	<u>19,377,472</u>
Total OPEB liability - End of year	22,702,096	20,593,654	20,111,127
<u>Plan Fiduciary Net Position</u>			
Contributions/benefit payments made from general operating funds	579,322	725,085	713,556
Benefit payments, including refunds of member contributions	<u>(579,322)</u>	<u>(725,085)</u>	<u>(713,556)</u>
Net change in plan fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability - End of year	<u>\$ 22,702,096</u>	<u>\$ 20,593,654</u>	<u>\$ 20,111,127</u>
Covered payroll	125,070,500	128,421,700	132,267,000
Net OPEB liability as a percentage of covered payroll	18.2%	16.0%	15.2%
Discount rate	2.66%	3.36%	3.00%
Mortality	RP-2014 with Projection Table MP-2019	RP-2014 with Projection Table MP-2018	RP-2014 with Projection Table MP-2017
Changes in Benefit Terms	None	None	None

No assets are accumulated in a trust to pay related other postemployment benefits.

