



Financial  
Statements and  
Supplemental  
Information  
as of June 30, 2018  
and 2017  
Together with  
Auditor's Report



# Eastern Michigan University

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## Independent Auditor's Report

To the Board of Regents  
Eastern Michigan University

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

We have audited the accompanying financial statements of Eastern Michigan University, a component unit of the State of Michigan (the "University"), and its discretely presented component unit, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Eastern Michigan University's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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 in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The discretely presented component unit was not audited under *Government Auditing Standards*.

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Eastern Michigan University and its discretely presented component unit as of June 30, 2018 and 2017 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Regents  
Eastern Michigan University

**Emphasis of Matter**

As discussed in Note I to the basic financial statements, the University adopted the provisions under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to these matters.

As described in Note II to the financial statements, there was a material parking concession agreement that occurred during fiscal year 2018. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplemental Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of Eastern Michigan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Michigan University's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 29, 2018

# Eastern Michigan University

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## Administrative Officers

As of June 30, 2018

### Board of Regents

<u>Name</u>	<u>Position</u>
Mr. James Webb	Chair
Ms. Michelle Crumm	Vice Chair
Ms. Mary Treder Lang	Vice Chair
Mr. Dennis M. Beagen	Board Member
Mr. Michael Hawks	Board Member
Ms. Eunice Jeffries	Board Member
Mr. Michael Morris	Board Member
Mr. Alexander Simpson	Board Member

### Executive Officers

<u>Name</u>	<u>Position</u>
Dr. James M. Smith	President
Dr. Rhonda Longworth	Provost and Executive Vice President
Mr. Michael Valdes	Chief Financial Officer and Treasurer to the Board of Regents
Ms. Lauren London	General Counsel and University Attorney
Mr. William Shepard	Vice President Advancement
Mr. Walter Kraft	Vice President Communications
Ms. Vicki Reaume	Vice President and Secretary to the Board of Regents

### Financial Administration

<u>Name</u>	<u>Position</u>
Ms. Doris M. Celian	Controller
Ms. Sandra Mullally	Assistant Controller
Mr. Todd Ohmer	Executive Director, Financial Planning and Budgets

# Eastern Michigan University

## Management's Discussion and Analysis

The following discussion and analysis of Eastern Michigan University's ("University") financial statements provides an overview of the University's financial activities for the years ended June 30, 2018, 2017, and 2016. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

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

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

Founded in historic Ypsilanti in 1849, the University occupies 880 acres on the main campus with 122 buildings. In addition, there are off-campus locations in Detroit, Livonia, and Traverse City for a student body of over 20,000 students.

### Financial Highlights for the Year Ended June 30, 2018

• Total net position	\$ 112,575,919
• Change in total net position	6,862,339
• Capital assets - Net	523,051,769
• Change in capital assets - Net	36,862,307
• Total long-term debt	348,762,095
• Change in total long-term debt	78,412,095

# Eastern Michigan University

## Management's Discussion and Analysis

### Financial Statements

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

Following is a summary of the major components of the net position and operating results of the University for the years ended June 30, 2018, 2017, and 2016:

<b>Net Position as of June 30</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Current assets	\$ 76,172,091	\$ 48,016,628	\$ 48,498,577
Noncurrent assets:			
Capital assets - net of depreciation	523,051,769	486,189,462	462,316,783
Other	<u>140,266,876</u>	<u>55,168,127</u>	<u>59,988,803</u>
Total Assets	<u>739,490,736</u>	<u>589,374,217</u>	<u>570,804,163</u>
<b>Deferred Outflows</b>	<u>8,799,352</u>	<u>7,896,783</u>	<u>10,136,600</u>
<b>Liabilities</b>			
Current liabilities	65,207,302	68,352,857	61,683,342
Noncurrent liabilities	<u>506,638,016</u>	<u>388,423,651</u>	<u>389,217,273</u>
Total Liabilities	<u>571,845,318</u>	<u>456,776,508</u>	<u>450,900,615</u>
<b>Deferred Inflows</b>	<u>63,868,851</u>	<u>6,273,221</u>	<u>5,517,584</u>
<b>Net Position</b>			
Net investment in capital assets	209,898,117	183,147,948	163,475,106
Restricted	11,000,644	9,575,173	8,765,509
Unrestricted (deficit)	<u>(108,322,842)</u>	<u>(58,501,850)</u>	<u>(47,718,051)</u>
Total Net Position	<u>\$ 112,575,919</u>	<u>\$ 134,221,271</u>	<u>\$ 124,522,564</u>

The University saw a significant increase in current and non-current assets for fiscal year 2018 primarily due to contractual payments that were invested from a new parking services agreement (with Preston Hollow) of \$55.0 million and the extension of the dining services agreement (with Chartwells) for \$4.0 million. The University also issued \$78.2 million of new bonds; the proceeds of which will be invested in capital projects. Capital asset increases reflect ongoing construction projects primarily for the new University Science Complex which will include both Mark Jefferson and Strong Hall. For fiscal year 2017, increases in assets were primarily due to construction of capital assets and new investments driven by debt issuances and payments from the dining services agreement. Increases in liabilities were primarily driven by new debt issuances.

The significant increase in non-current liabilities primarily relates to new debt issuance. The significant increase in deferred inflows is primarily the result of unamortized proceeds from parking service agreement attributable to future periods.

# Eastern Michigan University

## Management's Discussion and Analysis

Following is a summary of the major components of the revenue, expenses, and changes in net position of the University for the years ended June 30, 2018, 2017, and 2016:

	Year Ended June 30		
	2018	2017	2016
<b>Operating Revenue</b>			
Student tuition and fees - Net	\$ 171,643,078	\$ 173,288,530	\$ 179,226,596
Grants and Contracts	13,042,830	12,376,994	12,428,963
Auxiliary activities - Net	49,447,478	45,860,635	44,999,225
Other	6,525,257	12,778,627	5,639,533
Total operating revenue	240,658,643	244,304,786	242,294,317
<b>Operating Expenses</b>			
Instruction	120,015,709	121,355,083	120,760,357
Research	4,638,257	5,085,290	3,869,461
Public service	11,342,917	12,829,686	12,937,726
Academic support	33,425,190	33,639,649	34,307,141
Student services	17,382,162	18,645,078	15,112,573
Institutional support	30,066,191	31,695,790	31,457,003
Scholarships and fellowships	35,645,811	36,603,359	42,066,714
Operations and maintenance of plant	29,988,407	28,188,846	24,498,719
Auxiliary activities - Net	48,604,159	50,177,225	48,278,914
Depreciation	14,609,595	14,796,547	14,841,297
Other expenditures	141,587	283,715	4,773,630
Total operating expenses	345,859,985	353,300,268	352,903,535
<b>Net Operating Loss</b>	<b>(105,201,342)</b>	<b>(108,995,482)</b>	<b>(110,609,218)</b>
<b>Nonoperating Revenue (Expenses)</b>			
State appropriations	75,836,240	74,150,361	71,887,985
Gifts	5,353,865	6,159,207	4,632,508
Pell grants	30,065,117	29,245,405	31,622,547
Investment income	4,417,060	15,986,764	(21,021,816)
Other nonoperating revenue (expense)	(6,184,675)	(8,391,868)	(6,792,733)
Net nonoperating revenue (expense)	109,487,607	117,149,869	80,328,491
<b>Capital Contributions</b>	2,576,074	1,544,320	76,813
Increase (decrease) in net position	6,862,339	9,698,707	(30,203,914)
<b>Net Position - Beginning of year</b>	134,221,271	124,522,564	154,726,478
Adjustment for change in accounting principle	(28,507,691)	-	-
<b>Net Position - Beginning of year, as restated</b>	105,713,580	124,522,564	154,726,478
<b>Net Position - End of year</b>	<b>\$ 112,575,919</b>	<b>\$ 134,221,271</b>	<b>\$ 124,522,564</b>

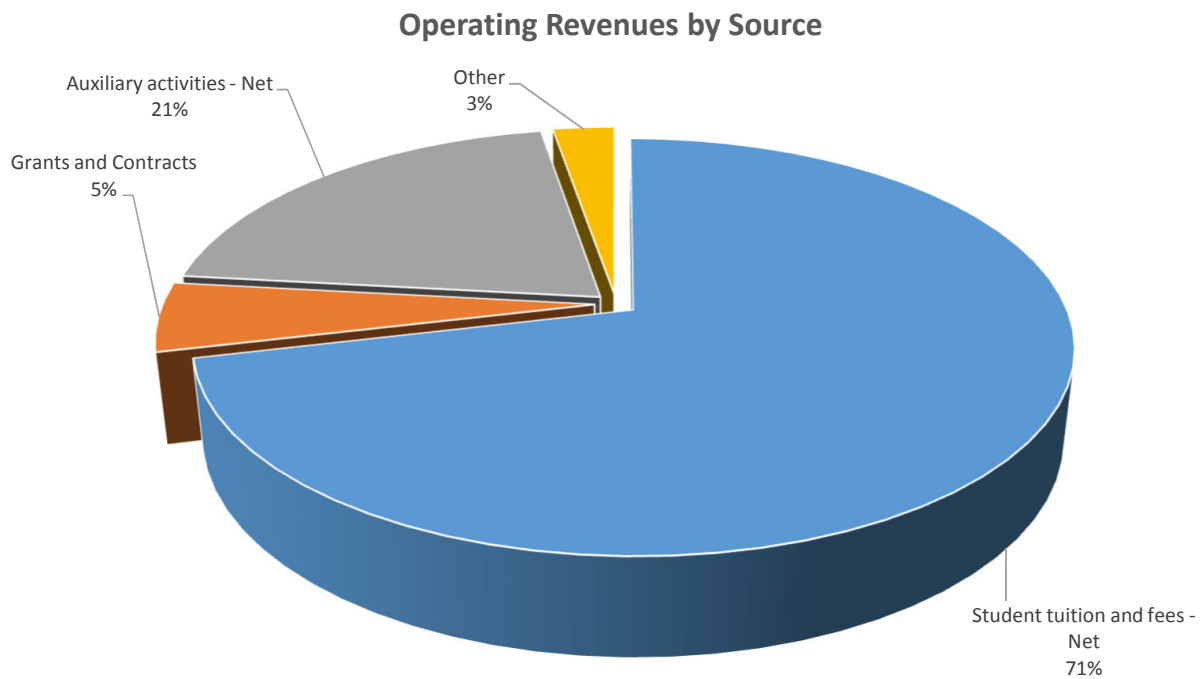


### Operating Revenues

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

Student tuition and fees revenue decreased slightly (0.96 percent) as a result of a Board of Regents approved tuition and mandatory fee weighted average increase of 3.8 percent effective Fall 2017, offset by lower enrollment.

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



Operating revenue for fiscal year 2018 decreased by approximately \$3.6 million over the prior year, primarily due to lower enrollment and a decline in credit hours. The University also experienced a slight increase in auxiliary revenue primarily driven by an increase in athletics revenue from sporting events. Operating revenue for fiscal year 2017 increased by approximately \$2 million over the prior year, also impacted by declining credit hours, but offset by new revenue from the dining services agreement.

# Eastern Michigan University

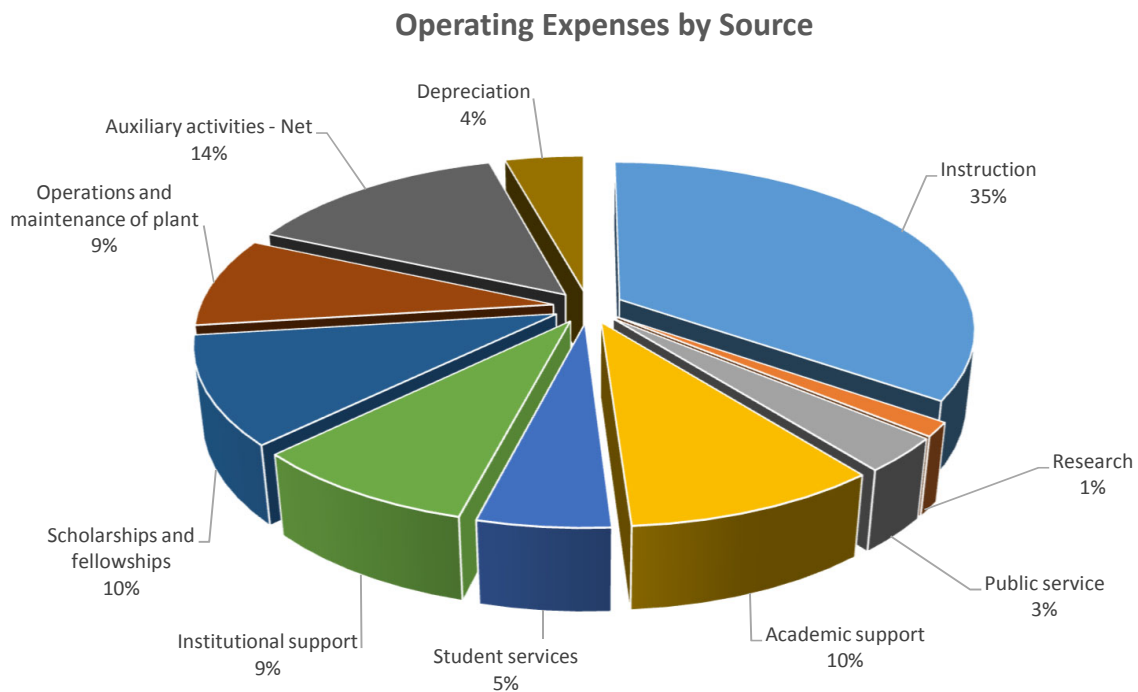
## Management's Discussion and Analysis

### Operating Expenses

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

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

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



Operating expenses for fiscal year 2018 decreased by \$7.4 million from the prior year primarily due to conservative budgeting practices by the University. The University cut expenditures across the board including in athletics which led to a significant decrease in auxiliary expenditures of approximately \$1.5 million over the prior year. The University also significantly reduced expenditures for institutional support by \$1.6 million. For fiscal year 2017, operating expenses increased slightly by \$0.4 million over the prior year, reflecting increases in costs of compensation, utilities, student aid, library acquisitions, and academic programming.

### Nonoperating Revenues

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

- State operating appropriations increased \$1.7 million to \$75.8 million in 2018 and increased \$2.3 million to \$74.1 million in 2017 due to the State's economy and strong performance by the University on the State's metrics for determining appropriation increases.
- Interest expense decreased by \$2.7 million in fiscal year 2018. This was primarily driven by strong returns from the 2018B interest rate swap which are recorded as a reduction in interest expense. In 2017, interest expense decreased by approximately \$3.0 million due primarily to the amortization of the liability related to interest rate swaps.
- Investment income from operations decreased by approximately \$11.6 million from the prior year. This is primarily due to the recognition of interest rate swap revenue in fiscal year 2017 of \$13.7 million driven by the reclassification of the Series 2015 swap to an investment instrument. Taking into account this adjustment, investment income was otherwise up slightly primarily due to the University's increase in investment reserves from the parking services agreement, dining services amended agreement, and investments related to bonds issued for new construction.
- Pell grants increased \$0.8 million to \$30.1 million in 2018 and decreased \$2.4 million to \$29.2 million in 2017.

### Capital Contributions

Capital Contributions consist of items that are typically nonrecurring, extraordinary, or unusual to the University. Examples would be capital gifts, capital appropriations from the state or federal government, and transfers from related entities. Capital contributions amounted to \$2.6 million in 2018 and \$1.5 million in 2017. The change in capital contributions is primarily driven by the receivable recorded for \$1.9 million related to the State Capital Appropriation for Strong Hall. The University reached its \$10 million floor investment for this project during fiscal year 2018, triggering state reimbursement for expenditures out of the Capital appropriations fund. Capital contributions increased in 2017 due primarily to capital investments by Chartwells to University assets.

# Eastern Michigan University

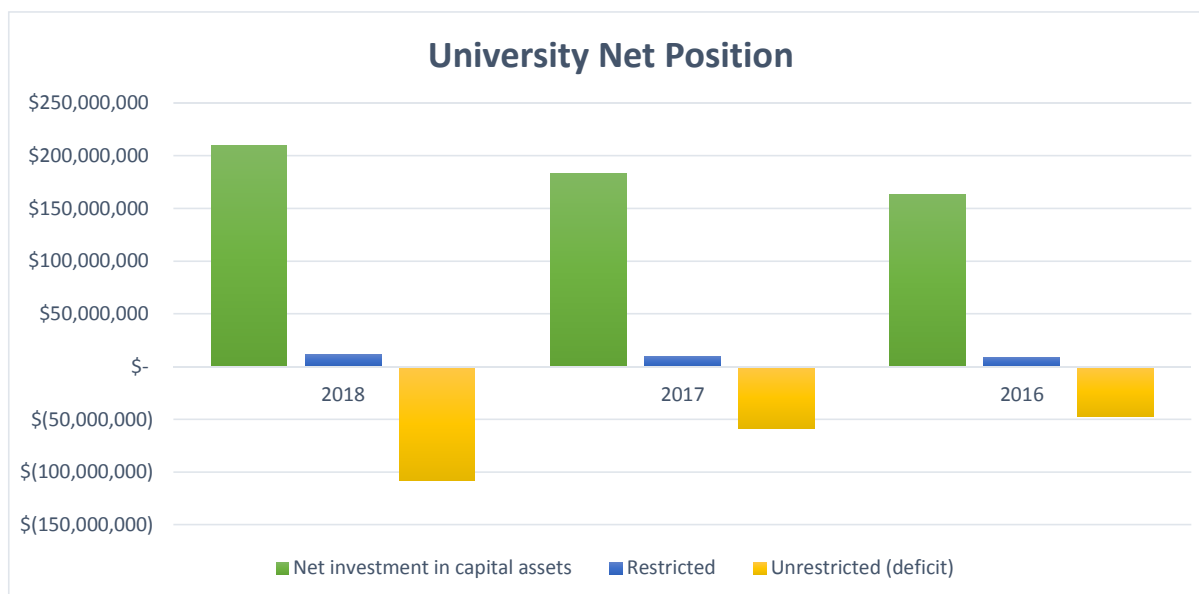
## Management's Discussion and Analysis

### University Net Position

The University's financial position at June 30, 2018 reflected assets and deferred outflows of \$748.3 million, and liabilities and deferred inflows of \$635.7 million. The University's assets and deferred outflows, and liabilities and deferred inflows both increased significantly due to the parking services agreement, the amended dining services agreement and the issuance of new debt for capital projects. These transactions are primarily recorded on the balance sheet as cash and investments on the asset side and deferred inflows, unearned fees and deposits and debt on the liability side. The net effect on net position from these transactions was positive to the University. However, it was offset by the required implementation and restatement of net position from GASB Statement No. 75 as noted below.

The University adopted GASB Statement No. 75, Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions in 2018. In accordance with the statement, the University has reported a Net Other Postemployment Benefits ("OPEB") Liability of \$31.9 for both MPSERS and the University's Single Employer OPEB Plan. The University also recorded a \$28.5 million restatement for the change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2017.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2018, 2017, and 2016.



The University's pension liability was \$72.5 million, \$70.8 million and \$75.5 million at June 30, 2018, 2017 and 2016, respectively. For the year ended June 30, 2018, the University implemented GASB 75 and recorded a net OPEB liability of \$31.9 million. As a result, the University had a deficit in unrestricted net position of \$108.3 million, \$58.5 million and \$47.7 million at June 30, 2018, 2017 and 2016, respectively. The difference of \$11 million at June 30, 2018 is restricted for identified future needs including contractual obligations, debt service, student loans, capital outlay and insurance reserves.

# Eastern Michigan University

## Management's Discussion and Analysis

### Statement of Cash Flows

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

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

	Year Ended June 30		
	2018	2017	2016
<b>Cash Provided by (Used in):</b>			
Operating activities	\$ (88,113,560)	\$ (92,830,311)	\$ (51,812,361)
Noncapital financing activities	170,255,222	109,570,092	123,354,153
Capital and related financing activities	12,703,071	(26,374,994)	(34,641,062)
Investing activities	(92,572,309)	(880,240)	(10,309,904)
<b>Net Increase (Decrease) in Cash</b>	<b>2,272,424</b>	<b>(10,515,453)</b>	<b>26,590,826</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>31,248,845</b>	<b>41,764,298</b>	<b>15,173,472</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 33,521,269</b>	<b>\$ 31,248,845</b>	<b>\$ 41,764,298</b>

Cash and cash equivalents, collectively, increased by \$2.3 million to \$33.5 million as of June 30, 2018 primarily due to reductions in operating expenses and the portion of the lump sum payments from Chartwells and Preston Hollow used for operating cash and not moved to University investments. Cash and cash equivalents decreased by \$10.5 million during 2017 primarily due to University investments in capital projects and cash used for operating activities.

The most significant components of cash flows used in operating activities are tuition and fees, auxiliary activities, grants and contracts. Net cash used in operating activities was \$88.1 million. To offset this, the net cash provided from non-capital financing activities was \$170.3 million, which consisted primarily of State appropriations, and cash received from parking and dining services agreements. The cash received from the service agreements was primarily redistributed into new and existing University investments, which resulted in a significant increase in cash used in investing activities (\$92.6 million for 2018, an increase of \$91.7 million over 2017). The University also had a positive cash flow from capital and related financing activities (a total of \$12.7 million for 2018, an increase of \$39.1 million over 2017), which was primarily the result of issuing \$78.2 million in bonds for new construction projects. For fiscal year 2017, the most significant change in cash flows over the prior year was an increase of \$41.0 million in cash used in operating activities primarily driven by cash paid to suppliers and auxiliary activities.



# Eastern Michigan University

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## Management's Discussion and Analysis

### Funding for a Successful Future

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

The University's vision is to be a premier public university recognized for student-centered learning, high quality academic programs, and community impact. Eastern's focus remains on investing in its students and faculty, in academic quality, and in maintaining and improving facilities that enhance the learning environment for its 20,000 students.

On December 15, 2017, the Eastern Michigan University Board of Regents (the "Board") approved a concession agreement with Preston Hollow Capital to provide parking services for students, staff, and faculty. Under the plan, the University received \$55,000,000 in capital for investment in its core educational mission and enhancement of the University's financial position.

In February 2018, the Board approved an extension to the Chartwells dining services agreement of an additional 5 years through June 30, 2031. The University expects to realize significant additional revenue over the life of the contract, and the extension included an up front payment to the University of \$4.0 million.

In February 2018, the Board approved a \$14.9 million capital budget for 2018-2019 that includes investment for improvements to academic facilities at the College of Business and Quirk/Sponberg Theatre. The budget also reflects the University's continued emphasis on improving academic, STEM and student-related facilities, in upgrading classroom technology, and in continued enhancements in campus safety and security.

On May 17, 2018, the University issued \$78,270,000 of General Revenue Bonds, Series 2018A. The proceeds from this issuance are intended to fund capital projects for the renovation of Sill Hall (College of Technology), the Rec IM, and the construction of a new Athletics Training Facility to house student athlete training facilities and sports medicine services.

Also in June, the Board approved an in-state undergraduate tuition increase of 3.88% as calculated by the State of Michigan's guidelines on performance funding and tuition reporting. With this tuition increase, Eastern continued to invest in strong and high-demand academic programs while maintaining its commitment to provide students with a high quality education at an affordable price. The University also approved providing in-state (resident) tuition to all International Undergraduate students, affirming the University's commitment to its international students and institutional partners.

The Board also approved a \$310.5 million general fund operating expenditure budget for fiscal year 2019. The budget reflected a 2.0% increase in State Appropriations, projected revenue from online programs of \$11.3 million, and a student credit hour projection of 450,000 credit hours. The University also expects to see significant decreases in utility operation costs due to the full implementation of the University's Co-Gen Unit. The budget also reflects increased debt service for bonds issued to fund capital projects to improve University facilities.

# Eastern Michigan University

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## Management's Discussion and Analysis

Effective for June 30, 2018, the University adopted GASB 75, Accounting and Financial reporting for Postemployment Benefits Other Than Pensions, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees, and for governments that finance OPEB for employees of other governments. The University recorded a liability for their portion of the MP SER's postretirement health insurance obligation as well as the University sponsored OPEB plan as seen on the University's Statement of Net Position.

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

# Eastern Michigan University

## Statement of Net Position

	June 30	
	2018	2017
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 33,521,269	\$ 17,148,845
Accounts receivable, net (Note 3)	23,190,100	14,802,017
Appropriation receivable	13,667,249	13,380,692
Inventories	643,657	413,197
Deposits and prepaid expenses	4,280,266	2,243,515
Accrued interest receivable	869,550	28,362
Total current assets	<u>76,172,091</u>	<u>48,016,628</u>
Noncurrent Assets:		
Cash and cash equivalents - restricted (Note 2)	-	14,100,000
Student loans receivable, net (Note 3)	6,263,673	7,236,788
Long-term investments - unrestricted (Notes 2 & 4)	59,292,672	23,662,916
Long-term investments - restricted (Notes 2 & 4)	66,723,843	6,808,423
Long-term investments - real estate (Notes 2 & 4)	3,360,000	3,360,000
Fair value of derivative instruments (Note 6)	4,626,688	-
Capital assets, net (Note 5)	523,051,769	486,189,462
Total noncurrent assets	<u>663,318,645</u>	<u>541,357,589</u>
<b>Total Assets</b>	<b><u>739,490,736</u></b>	<b><u>589,374,217</u></b>
<b>Deferred Outflows</b>	<u>8,799,352</u>	<u>7,896,783</u>
<b>Liabilities</b>		
Current liabilities:		
Current portion of long-term debt (Note 6)	3,360,983	2,795,000
Current portion of interest rate swaps (Note 6)	2,086,518	2,834,911
Accounts payable and accrued liabilities	27,989,550	24,958,546
Accrued payroll	9,856,555	9,861,967
Payroll taxes and accrued fringe benefits	9,156,491	7,645,431
Unearned fees and deposits	10,830,953	4,200,276
Insurance and other claims payable (Note 8)	1,926,252	2,995,062
Total current liabilities	<u>65,207,302</u>	<u>55,291,193</u>
Noncurrent liabilities:		
Accrued compensated absences (Note 7)	1,888,341	1,682,768
Long-term debt (Note 6)	348,762,095	270,350,000
Long-term unearned fees and deposits	16,067,145	13,061,664
Interest rate swaps (Note 6)	29,909,087	33,747,157
Fair value of derivative instruments (Note 6)	-	1,918,816
Net OPEB liabilities (Notes 9 & 10)	31,899,848	3,338,000
Net Pension liability (Note 9)	72,522,686	70,826,130
Federal Perkins	5,588,814	6,560,780
Total noncurrent liabilities	<u>506,638,016</u>	<u>401,485,315</u>
<b>Total Liabilities</b>	<b><u>571,845,318</u></b>	<b><u>456,776,508</u></b>
<b>Deferred Inflows</b>	<u>63,868,851</u>	<u>6,273,221</u>
<b>Net Position</b>		
Net Investment in capital assets	209,898,117	183,147,948
Restricted-University development & Perkins loans	11,000,644	9,575,173
Unrestricted (deficit)	(108,322,842)	(58,501,850)
<b>Total Net Position</b>	<b><u>\$ 112,575,919</u></b>	<b><u>\$ 134,221,271</u></b>

# Eastern Michigan University

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

	Year Ended June 30	
	2018	2017
<b>Operating Revenues</b>		
Student tuition and fees	\$ 228,818,958	\$ 228,216,375
Scholarship allowances	(57,175,880)	(54,927,845)
Net student tuition and fees	171,643,078	173,288,530
Federal grants and contracts	7,149,757	7,156,173
Federal financial aid	1,656,834	1,918,917
State grants and contracts	557,328	929,434
State financial aid	2,401,631	1,523,156
Nongovernmental grants & contracts	1,277,280	849,314
Departmental activities	6,213,881	10,062,282
Auxiliary activities revenue - net	49,447,478	45,860,635
Other operating	311,376	2,716,345
<b>Total Operating Revenues</b>	<b>240,658,643</b>	<b>244,304,786</b>
<b>Operating Expenses</b>		
Instruction	120,015,709	121,355,083
Research	4,638,257	5,085,290
Public service	11,342,917	12,829,686
Academic support	33,425,190	33,639,649
Student services	17,382,162	18,645,078
Institutional support	30,066,191	31,695,790
Scholarships and fellowships	35,645,811	36,603,359
Operation and maintenance of plant	29,988,407	28,188,846
Auxiliary activities expenses - net	48,604,159	50,177,225
Depreciation	14,609,595	14,796,547
Other	141,587	283,715
<b>Total Operating Expenses</b>	<b>345,859,985</b>	<b>353,300,268</b>
<b>Operating Loss</b>	<b>(105,201,342)</b>	<b>(108,995,482)</b>
<b>Non-Operating Revenues (Expenses)</b>		
State appropriations	75,836,240	74,150,361
Gifts	5,353,865	6,159,207
Investment income	4,417,060	15,986,764
Interest expense	(7,811,061)	(10,564,088)
Interest ARRA subsidy	779,367	1,659,851
Pell grants	30,065,117	29,245,405
Other non operating	993,189	512,369
Gain (loss) on sale of assets	(146,170)	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>109,487,607</b>	<b>117,149,869</b>
<b>Capital Contributions</b>		
State capital appropriations	1,966,338	-
Capital gifts	609,736	1,544,320
<b>Total Capital Contributions</b>	<b>2,576,074</b>	<b>1,544,320</b>
Increase (decrease) in net position	6,862,339	9,698,707
<b>Net Position - Beginning of Year</b>	<b>134,221,271</b>	<b>124,522,564</b>
Adjustment for change in accounting principle (Notes 9 & 10)	(28,507,691)	-
<b>Net Position - Beginning of year, as restated</b>	<b>105,713,580</b>	<b>124,522,564</b>
<b>Net Position - End of Year</b>	<b>\$ 112,575,919</b>	<b>\$ 134,221,271</b>

# Eastern Michigan University

## Statement Cash Flows

	Year Ended June 30	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Cash received from students for tuition and fees	\$ 228,818,958	\$ 228,216,375
Cash received from auxiliary activities	58,989,476	45,860,636
Cash received from other sources	11,576,911	16,947,670
Grants and contracts	8,984,366	8,934,920
Student loans granted - net of repayments	957,088	682,415
Scholarship allowances	(66,717,878)	(63,857,952)
Cash paid to suppliers and employees	(238,219,935)	(241,095,689)
Cash paid for financial aid	(92,502,546)	(88,518,686)
Net cash from operating activities	<u>(88,113,560)</u>	<u>(92,830,311)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
William D. Ford PLUS direct lending receipts	120,194,085	126,206,704
William D. Ford PLUS direct lending disbursements	(120,194,085)	(126,206,704)
Cash received from State appropriations	75,836,240	74,150,361
Federal Pell grants	30,065,117	29,245,405
Gifts received from EMU Foundation	5,353,865	6,174,326
Cash received from amended dining services agreement	4,000,000	-
Cash received from parking services agreement	55,000,000	-
Net cash from noncapital financing activities	<u>170,255,222</u>	<u>109,570,092</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of debt obligations	306,420,000	199,060,000
Principal payments/defeasance under debt obligations	(236,385,000)	(177,680,000)
Cash received from State Building Authority	1,966,338	-
Interest paid	(7,811,061)	(8,904,236)
Purchases of Capital Assets	(51,487,206)	(38,850,758)
Net cash from capital and related financing activities	<u>12,703,071</u>	<u>(26,374,994)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(125,000,000)	(56,000,000)
Proceeds from sales and maturities of investments	29,962,505	52,857,505
Interest received	2,465,186	2,262,255
Net cash from investing activities	<u>(92,572,309)</u>	<u>(880,240)</u>
Net increase (decrease) in cash and cash equivalents	2,272,424	(10,515,453)
<b>Cash and Cash Equivalents - Beginning of year</b>	31,248,845	41,764,298
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 33,521,269</u></u>	<u><u>\$ 31,248,845</u></u>
<b>Supplemental Disclosure of Noncash Items</b>		
Disposal of capital assets, net of depreciation	\$ 35,499	\$ 149,634
Capital gifts received in-kind	\$ 609,736	\$ 1,544,320



# Eastern Michigan University

## Statement Cash Flows

	Year Ended June 30	
	2018	2017
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (105,201,342)	\$ (108,995,482)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	14,609,595	14,796,547
Changes in assets and liabilities:		
Accounts receivable - Net	(9,515,828)	661,664
Inventories	(230,461)	953,066
Deposits and prepaid expenses	(2,036,751)	(1,085,861)
Student loans receivable	973,115	659,057
Accounts payable and accrued liabilities	3,031,003	6,360,278
Accrued payroll	(5,412)	(444,262)
Payroll taxes and accrued fringe benefits	1,511,060	(3,029,075)
Unearned fees and deposits	9,636,158	92,291
Net pension liability	1,696,556	(4,636,735)
Net OPEB liability	(1,522,091)	-
Deferred resources - Pension	424,216	1,153,103
Deferred resources - OPEB	(620,142)	-
Insurance and other claims payable	(1,068,809)	916,101
Accrued compensated absences	205,573	(231,003)
Total change in assets and liabilities	<u>2,478,187</u>	<u>1,368,624</u>
Net cash from operating activities	<u>\$ (88,113,560)</u>	<u>\$ (92,830,311)</u>

# Eastern Michigan University Foundation

## Balance Sheet

	June 30	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 6,981,644	\$ 1,121,392
Investments	74,734,621	71,595,628
Contributions receivable	2,021,070	2,773,620
Accounts receivable	5,344	10,599
Cash surrender value of life insurance	219,202	215,616
Investments held under split-interest agreements	552,564	621,864
Buildings Held for Sale and Equipment	1,377,309	1,377,731
<b>Total Assets</b>	<u>\$ 85,891,754</u>	<u>\$ 77,716,450</u>
<b>Liabilities</b>		
Accounts payable	\$ 5,674,212	\$ 894,205
Split-interest obligations	424,698	444,100
<b>Total Liabilities</b>	<u>6,098,910</u>	<u>1,338,305</u>
<b>Net Assets</b>		
Unrestricted	745,094	1,177,625
Temporarily restricted	27,855,287	25,412,639
Permanently restricted	51,192,463	49,787,881
<b>Total Net Assets</b>	<u>79,792,844</u>	<u>76,378,145</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 85,891,754</u>	<u>\$ 77,716,450</u>

# Eastern Michigan University Foundation

## Statement of Activities and Changes in Net Assets

	Year Ended June 30	
	2018	2017
<b>Revenue, Gains and Other Support</b>		
Contributions	\$ 5,997,447	\$ 6,728,227
Investment income	420,278	400,738
Net realized and unrealized gains (losses)	4,748,305	7,200,924
Administrative and management fee	1,440,759	1,488,000
Other revenue	26,295	16,428
<b>Total revenue, gains and other support</b>	<b>12,633,084</b>	<b>15,834,317</b>
<b>Expenses</b>		
Contributions to EMU:		
Expendable contributions	3,729,330	3,560,535
Contributions from endowment income	2,024,283	2,015,073
General and administrative - Foundation management	634,029	655,620
Fundraising	2,940,291	2,671,973
<b>Total Operating Expenses</b>	<b>9,327,933</b>	<b>8,903,201</b>
<b>Increase (Decrease) in Net Assets Before Other Changes in Net Assets</b>	<b>3,305,151</b>	<b>6,931,116</b>
<b>Other Changes in Net Assets</b>		
Funds transferred from EMU	147,005	168,933
Change in value of split-interest agreements	(37,457)	(13,045)
<b>Increase (Decrease) in Net Assets</b>	<b>3,414,699</b>	<b>7,087,004</b>
<b>Net Assets - Beginning of Year</b>	<b>76,378,145</b>	<b>69,291,141</b>
<b>Net Assets - End of Year</b>	<b>\$ 79,792,844</b>	<b>\$ 76,378,145</b>

# Eastern Michigan University Foundation

## Statement Cash Flows

	Year Ended June 30	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 3,414,699	\$ 7,087,004
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	23,559	29,751
Net realized and unrealized (gain) loss on investments	(4,748,305)	(7,200,924)
Change in value of split-interest agreements	37,457	13,045
Change in cash surrender value of life insurance	(3,586)	(6,478)
Contributions restricted for long-term purposes	(1,404,582)	(1,027,456)
Changes in assets and liabilities:		
Contributions receivable	752,550	(1,324,128)
Other assets	5,255	(607)
Accounts payable	4,780,007	436,695
Accrued and other liabilities	-	(4,474)
Net cash from operating activities	<u>2,857,054</u>	<u>(1,997,572)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of equipment	(23,137)	(10,414)
Purchases of investments	(17,901,489)	(20,253,355)
Proceeds from the sale of investments	19,580,101	22,296,347
Net cash from investing activities	<u>1,655,475</u>	<u>2,032,578</u>
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(67,853)	(69,185)
Proceeds from new split-interest agreements	10,994	-
Proceeds from contributions restricted for long-term purposes	1,404,582	1,027,456
Net cash from financing activities	<u>1,347,723</u>	<u>958,271</u>
Net increase in cash and cash equivalents	5,860,252	993,277
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>1,121,392</u>	<u>128,115</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 6,981,644</u></u>	<u><u>\$ 1,121,392</u></u>

### Footnote 1 - Basis of Presentation and Significant Accounting Policies

**University** - The University is an institution of higher education located in Ypsilanti, Michigan, and is considered to be a component unit of the State of Michigan (the "State") because its Board of Regents is appointed by the governor of the State of Michigan. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State of Michigan relate primarily to appropriations for operations, grants from various state agencies, and payments to state retirement programs for the benefit of University employees.

#### Basis of Presentation

The financial statements of Eastern Michigan University (the "University") have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The University follows the "business-type" activities reporting requirements of GASB Statement No. 34. GASB 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following categories:

- **Net Investment in Capital Assets** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement in those assets.
- **Restricted, expendable** - Net position subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- **Unrestricted** - Net position not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents (the "Board") or may otherwise be limited by contractual agreements with outside parties. The University has committed the unrestricted net position to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and postemployment benefits.

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

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

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

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



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

#### Summary of Significant Accounting Policies

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

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

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

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

**Unearned Fees and Deposits** - Unearned fees and deposits primarily include unearned tuition and fee revenue for future semesters, exclusivity contract unearned revenue, and agency balances held in custody for others.

**Interest Rate Swaps** - The fair value of interest rate swaps deemed liabilities as of the date of termination of the related debt have been recorded as a liability that is being amortized over the life of the swap contracts using the effective interest method. Amortization for the years ended June 30, 2018 and 2017 was \$4,039,225 and \$3,024,904, respectively, and is recorded as a reduction to interest expense.

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

**Deferred Outflows** - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows consist of accumulated changes in the fair value of hedging derivative instruments, pension, and OPEB obligations described in Note 6 and Note 9, respectively. Deferred outflows also include the deferred loss on refunding of debt.

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

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

The University's deferred outflows/inflows for the year ended June 30, 2018 were as seen below:

	Deferred outflows	Deferred inflows
MPSERS pension plan		
Contributions subsequent to measurement date	\$ 4,643,369	\$ -
Deferred Section 264 state aid payments	-	752,433
Differences between expected and actual experience	-	77,982
Net difference between projected and actual earnings	-	1,612,709
Changes in proportionate share of contributions	-	48,981
Changes in assumptions	612,135	-
MPSERS OPEB plan		
Contributions subsequent to measurement date	1,139,794	-
Differences between expected and actual experience	-	134,412
Net difference between projected and actual earnings	-	579,105
Changes in proportionate share of contributions	-	30,135
Single employer OPEB plan		
Changes in assumptions	224,000	-
Deferred loss on refunding of debt	2,180,054	-
Deferred gain on refunding of interest rate swaps	-	5,146,742
Effective interest rate swaps FMV	-	778,812
Unamortized proceeds from parking service agreement	-	54,707,540
	<u>\$ 8,799,352</u>	<u>\$ 63,868,851</u>

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

The University's deferred outflows/inflows for the year ended June 30, 2017 were as seen below:

	Deferred outflows	Deferred inflows
MPSERS pension plan		
Contributions subsequent to measurement date	\$ 4,061,269	\$ -
Deferral for UAAL		485,658
Deferrals for experience/contributions/investments	800,062	1,188,058
Deferred gain on refunding of interest rate swaps	-	4,599,505
Effective interest rate swaps FMV	3,035,452	-
	<u>\$ 7,896,783</u>	<u>\$ 6,273,221</u>

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Other Postemployment Benefit Costs** – For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the MPSERS and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, MPSERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

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

**Auxiliary Activities** - Auxiliary activities consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<u>Operating Revenues:</u>		
Auxiliary activities; gross	\$ 59,533,496	\$ 55,358,165
Less: Internal sales	(544,020)	(567,423)
Less: Scholarship allowances	(9,541,998)	(8,930,107)
<b>Auxiliary activities revenue - net</b>	<u>\$ 49,447,478</u>	<u>\$ 45,860,635</u>
	<u>2018</u>	<u>2017</u>
<u>Operating Expenses:</u>		
Auxiliary activities; gross	\$ 58,690,177	\$ 59,674,755
Less: Internal sales	(544,020)	(567,423)
Less: Scholarship allowances	(9,541,998)	(8,930,107)
<b>Auxiliary activities expenses - net</b>	<u>\$ 48,604,159</u>	<u>\$ 50,177,225</u>

**Operating and Nonoperating Revenues** - The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues due to their non-exchange nature, which include state appropriations and investment income. Restricted and unrestricted resources are spent and tracked within donor guidelines, if any, by the awarded University department. Federal Pell grant revenue is also classified as nonoperating. The amounts received for 2018 and 2017 are \$30.1 million and \$29.2 million, respectively.

**Adoption of New Accounting Pronouncement** - The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which requires governments providing other postemployment benefit (OPEB) plans to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statements, the University has reported a change in accounting principle adjustment to unrestricted net position of \$28.5 million, which is the net of the net OPEB liability and related deferred outflows as of July 1, 2018. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75 because the information is not available to calculate the impact on OPEB expense.

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

**Reclassifications** - Certain prior year balances were reclassified to conform with the current year presentation. In 2018, the University reclassified the balances of unearned fees and deposits to separate the current portion from the long-term portion. The impact for the year ended June 30, 2017 is shown below:

Category	June 30	Reclassification	Year-End Amount
Unearned fees and deposits - current portion	2017	\$ (13,061,664)	\$ 4,200,276
Unearned fees and deposits - long term portion	2017	13,061,664	13,061,664

### Upcoming GASB Statements

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The University is currently evaluating the impact of this standard, specifically identifying any assets that have retirement obligations. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact of this standard, specifically related to holding assets for other organizations. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.

In June 2018, the Governmental Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The University is currently evaluating the impact of this standard. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the University's financial statements as a result of the leases for real property and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

# Eastern Michigan University

## Notes to Financial Statements June 30, 2018 and 2017

### Footnote 2 - Cash and Investments

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

Cash and investments consisted of the following as of June 30, 2018:

	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 33,521,269	\$ 33,521,269	\$ -	\$ -
<b>Total unrestricted cash and cash equivalents</b>	<u>33,521,269</u>	<u>33,521,269</u>	<u>-</u>	<u>-</u>
<b>Long-term investments:</b>				
Unrestricted:				
Trust cash equivalents	175,711	175,711	-	-
Corporate bonds	998,152	998,152	-	-
Certificates of deposit	1,748,294	1,748,294	-	-
Money market funds	1,239,395	1,239,395	-	-
U.S. Treasury securities	11,403,656	5,974,224	5,429,432	-
Government bonds	27,638,267	13,168,347	14,381,966	87,954
Mutual funds - equity	4,416,785	4,416,785	-	-
Mutual funds - balanced	3,443,321	3,443,321	-	-
Mutual funds - fixed income	4,117,566	780,801	-	3,336,765
Mutual funds - international	2,547,836	2,547,836	-	-
Exchange traded equity funds	1,563,689	1,563,689	-	-
Real estate	3,360,000	-	3,360,000	-
<b>Total long-term unrestricted investments</b>	<u>62,652,672</u>	<u>36,056,555</u>	<u>23,171,398</u>	<u>3,424,719</u>
Restricted:				
Certificates of deposit	5,282,385	999,096	4,283,289	-
Money market funds	511,435	511,435	-	-
Treasury notes	17,889,099	6,057,593	11,831,506	-
Government bonds	43,040,924	14,020,752	29,020,172	-
<b>Total long-term restricted investments</b>	<u>66,723,843</u>	<u>21,588,876</u>	<u>45,134,967</u>	<u>-</u>
<b>Total Cash and Investments</b>	<u>\$ 162,897,784</u>	<u>\$ 91,166,700</u>	<u>\$ 68,306,365</u>	<u>\$ 3,424,719</u>

# Eastern Michigan University

## Notes to Financial Statements June 30, 2018 and 2017

### Footnote 2 - Cash and Investments (continued)

Cash and investments consisted of the following as of June 30, 2017:

	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 17,148,845	\$ 17,148,845	\$ -	\$ -
<b>Total unrestricted cash and cash equivalents</b>	<u>\$ 17,148,845</u>	<u>\$ 17,148,845</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Long-term investments:</b>				
Unrestricted:				
Corporate bond mutual funds	\$ 5,377,843	\$ -	\$ 5,377,843	\$ -
Money market funds	2,286,152	2,286,152		
Government bonds	89,077	-	-	89,077
Domestic equities	6,691,220	-	6,691,220	-
Foreign equities	3,583,489	-	3,583,489	-
Commingled funds	4,616,319	-	4,616,319	-
Real estate	3,360,000	-	3,360,000	-
Hedge funds	1,018,816	-	1,018,816	-
<b>Total long-term unrestricted investments</b>	<u>\$ 27,022,916</u>	<u>\$ 2,286,152</u>	<u>\$ 24,647,687</u>	<u>\$ 89,077</u>
Restricted:				
Time deposits	\$ 14,100,000	\$ 14,100,000	\$ -	\$ -
Certificates of deposit	3,496,500	3,496,500	-	-
Money market funds	818,026	818,026	-	-
Government bonds	2,493,897	2,493,897	-	-
<b>Total long-term restricted investments</b>	<u>\$ 20,908,423</u>	<u>\$ 20,908,423</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Cash and Investments</b>	<u>\$ 65,080,184</u>	<u>\$ 40,343,420</u>	<u>\$ 24,647,687</u>	<u>\$ 89,077</u>

### Footnote 2 - Cash and Investments (continued)

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

Asset Class	Target %	Permissible Range %
<b>Equity:</b>	<b>35%</b>	<b>20% - 50%</b>
Domestic All Cap Equities	10%	5% - 20%
International Equities	5%	0% - 10%
Emerging International Equities	5%	0% - 8%
Global Equity	15%	10% - 20%
<b>Fixed Income:</b>	<b>25%</b>	<b>20% - 50%</b>
Core Fixed income	5%	0% - 10%
Absolute Return Fixed Income	10%	5% - 15%
Emerging Market Debt	5%	0% - 8%
Global Multi-Sector Fixed Income	5%	0% - 10%
<b>Global Asset Allocation / Risk Parity</b>	<b>20%</b>	<b>10% - 30%</b>
<b>Alternatives:</b>	<b>20%</b>	<b>5% - 25%</b>
Hedge Funds	10%	0% - 20%
Real Assets	10%	5% - 15%

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

**Credit Risk** - Investment policies for cash and investments as set forth by the Board shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. The weighted average credit quality is restricted to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool. There is no credit quality restriction for the long-term investment pool. At June 30, 2018 and 2017, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2018	S&P Rating	2017	S&P Rating
	Market Value		Market Value	
<b>Bond Mutual Funds:</b>				
Mutual funds - fixed income	4,117,566	AA+ to BB	5,377,844	BBB
U.S. Government agency bonds				
Federal Farm Credit Agency	5,813,732	AA+	997,905	AA+
Federal Home Loan Banks	35,607,811	AA+	-	-
Federal Home Loan Mortg Corp	-	-	498,124	AA+
Federal Natl Management Assoc	1,996,060	AA+	997,864	AA+
United States Treasury	87,954	N/A	89,077	N/A
Tennessee Valley Authority	1,988,324	AA+	-	-
<b>Total</b>	\$ 49,611,447		\$ 7,960,814	



### Footnote 2 - Cash and Investments (continued)

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the University will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The University's cash investment policy does not limit the value of deposits or investments that may be held by an outside party. Investments in external investment pools and in open-ended mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. All cash and cash equivalents are held in the University's name as of June 30, 2018 and 2017. As of June 30, 2018, the report bank balance in disbursement accounts was \$33,772,000. Of these balances, \$429,584 was covered by federal depository insurance and \$33,342,416 was uninsured and uncollateralized. As of June 30, 2017, the report bank balance in disbursement accounts was \$33,489,000. Of these balances, \$695,489 was covered by federal depository insurance and \$32,793,511 was uninsured and uncollateralized.

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

The following investments comprise more than 5% of the total investments portfolio as of June 30, 2018 and 2017:

#### June 30, 2018:

Federal Home Loan Banks	\$ 35,607,811
Federal Natl Mtg Assn	25,185,311
United States Treasury	29,380,709
	<u>\$ 90,173,831</u>

#### June 30, 2017:

BlackRock Strategic Income - Instl	\$ 2,365,141
PIMCO All Asset Fund - Instl	2,298,935
Standard Life GARS	2,285,650
Vanguard Total Stock Market	2,269,719
Northern Inst Govt US Govt Select	2,159,914
AQR Risk Parity II MV Fd	2,122,566
Artisan Global Opportunities	1,838,088
Eaton Vance Hexavest Global Equity	1,745,400
	<u>\$ 17,085,413</u>

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2018 and 2017, the University had \$7,676,088 and \$3,583,489, respectively, invested in mutual funds that have funds invested in various countries throughout the world and therefore, exposes the University to foreign currency risk indirectly. The University did not have any direct investments or deposits denominated in foreign currencies at June 30, 2018 and 2017.

### Footnote 2 - Cash and Investments (continued)

Investments at the Eastern Michigan University Foundation are as follows:

	<u>2018</u>	<u>2017</u>
Corporate stocks	\$ 190,794	\$ 199,575
Treasury/federal securities	342,469	438,377
Certificates of deposit (long-term)	617,150	618,048
Real estate	55,000	55,000
Land	612,334	612,334
Mutual funds	13,516,557	18,362,790
Commingled funds - equity	20,643,287	20,026,988
Commingled funds - fixed income	6,170,001	8,738,369
Commingled funds - balanced	16,333,757	15,570,477
Hedge funds	11,448,197	4,951,013
Private equity funds	5,357,639	2,644,521
<b>Total</b>	<u>\$ 75,287,185</u>	<u>\$ 72,217,492</u>

Net gains/losses from security transactions for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Unrealized gain (loss)	\$ 3,759,480	\$ 6,437,526
Realized gain (loss)	1,406,103	1,164,136
<b>Total</b>	<u>\$ 5,165,583</u>	<u>\$ 7,601,662</u>

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$355,847 and \$353,792 for the years ended June 30, 2018 and 2017, respectively, for Eastern Michigan University Foundation. For recording purposes, these fees have been netted with investment income.

### Footnote 3 - Receivables

University accounts receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Sponsor accounts	\$ 4,752,847	\$ 1,448,892
Student accounts	5,083,182	4,465,243
Charter school appropriations	4,488,500	4,521,526
Third party tuition	604,465	393,179
Other	<u>10,108,867</u>	<u>5,218,923</u>
Subtotal	25,037,861	16,047,763
Less: allowances for uncollectibles	<u>(1,847,761)</u>	<u>(1,245,746)</u>
<b>Accounts receivable - net</b>	<u><u>\$ 23,190,100</u></u>	<u><u>\$ 14,802,017</u></u>

University student loans receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Student loans receivable	\$ 6,622,339	\$ 7,595,454
Less: allowance for uncollectibles	<u>(358,666)</u>	<u>(358,666)</u>
	\$ 6,263,673	\$ 7,236,788

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<b>Contributions receivable:</b>		
Gross contributions promised	\$ 8,604,700	\$ 9,103,587
Less: allowance for uncollectibles	<u>(6,416,335)</u>	<u>(6,097,997)</u>
Subtotal	2,188,365	3,005,590
Less: unamortized discount	<u>(167,295)</u>	<u>(231,970)</u>
<b>Net unconditional promises to give:</b>	<u><u>2,021,070</u></u>	<u><u>2,773,620</u></u>
<b>Amounts due in:</b>	<u>2018</u>	<u>2017</u>
Less than one year	\$ 4,731,763	\$ 3,676,548
One to five years	3,834,937	5,397,039
More than five years	38,000	30,000
<b>Total:</b>	<u><u>8,604,700</u></u>	<u><u>9,103,587</u></u>

### Footnote 4 - Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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

The University has the following recurring fair value measurements as of June 30, 2018 and 2017:

	Balance at June 30, 2018	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments by fair value level:</b>				
Cash and cash equivalents				
Certificates of deposit	\$ 7,030,679	\$ -	\$ 7,030,679	\$ -
Trust cash equivalents	175,711	175,711	-	-
Money market funds	1,750,830	-	1,750,830	-
Debt securities				
U.S. Treasury securities	29,292,755	-	29,292,755	-
Government bonds	70,679,191	-	70,679,191	-
Corporate bonds	998,152	998,152	-	-
Mutual funds - fixed [B]	4,117,566	4,117,566	-	-
Real estate funds				
Real estate [G]	3,360,000	-	-	3,360,000
Equity securities [A]				
Mutual funds - Balanced	3,443,321	3,443,321	-	-
Mutual funds - International	2,547,836	2,547,836	-	-
Exchange traded equity funds	1,563,689	1,563,689	-	-
Total investments by fair value level	124,959,730	12,846,275	108,753,455	3,360,000

### Footnote 4 - Fair Value Measurements (continued)

	Balance at June 30, 2018	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments measured at the net asset value (NAV)</b>				
Equity funds [A]	3,349,300			
Hedge fund of funds [D]	1,067,485			
Total investments measured at the NAV	4,416,785			
<b>Total investments measured at fair value</b>	<b>\$ 129,376,515</b>			

### Investment derivative instruments

Fair value of derivative instruments [F]	\$ 4,626,688	\$ 4,626,688
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	Balance at June 30, 2017	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments by fair value level:</b>				
Cash and cash equivalents				
Certificates of Deposit	\$ 3,496,500	\$ -	\$ 3,496,500	\$ -
Debt securities				
U.S. Treasury securities	2,582,974	-	2,582,974	-
Mutual funds - Fixed [B]	5,377,844	5,377,844	-	-
Real estate funds				
Real estate [G]	3,360,000	-	-	3,360,000
Equity securities [A]				
Mutual funds - Balanced	6,691,220	6,691,220	-	-
Mutual funds - International	3,583,489	3,583,489	-	-
Total investments by fair value level	25,092,027	15,652,553	6,079,474	3,360,000

### Footnote 4 - Fair Value Measurements (continued)

	Balance at June 30, 2017	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments measured at the net asset value (NAV)</b>				
Equity funds [A]	2,330,669			
Balanced funds [C]	2,285,650			
Hedge fund of funds [D]	1,018,815			
Total investments measured at the NAV	5,635,134			
<b>Total investments measured at fair value</b>	<b>\$ 30,727,161</b>			

### Investment derivative instruments

Fair value of derivative instruments [F]	\$ (1,918,816)	\$ (1,918,816)
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The Foundation has the following recurring fair value measurements as of June 30, 2018:

	Balance at June 30, 2018	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments by fair value level:</b>				
Investments - Including investments held under split-interest agreements				
Certificates of Deposit	\$ 617,150	\$ 617,150	\$ -	\$ -
Corporate stock securities				
U.S. Government securities	342,469	-	342,469	-
Corporate stock securities	190,794	190,794	-	-
Mutual funds - Fixed Income	6,267,448	6,267,448	-	-
Mutual funds - Equity	5,337,720	5,337,720	-	-
Mutual funds - Real Estate	1,911,389	1,911,389	-	-
Total investments by fair value level	14,666,970	14,324,501	342,469	-

### Footnote 4 - Fair Value Measurements (continued)

	Balance at June 30, 2018	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments measured at the net asset value (NAV)</b>				
Commingled equity funds [A]	20,643,287			
Commingled fixed-income [B]	6,170,001			
Commingled balanced fund [C]	16,333,757			
Hedge fund of funds [D]	11,448,197			
Private equity of funds [E]	5,357,639			
Total investments measured at Net Asset Value	<u>59,952,881</u>			
<b>Total investments measured at fair value</b>	<u>\$ 74,619,851</u>			

The Foundation has the following recurring fair value measurements as of June 30, 2017:

	Balance at June 30, 2017	Fair Market Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments by fair value level:</b>				
Investments - Including investments held under split-interest agreements				
Certificates of Deposit	\$ 618,048	\$ 618,048	\$ -	\$ -
U.S. Government securities	438,377	-	438,377	-
Corporate stock securities	199,575	199,575	-	-
Mutual funds - Equity	4,568,354	4,568,354	-	-
Mutual funds - Real Asset	5,164,366	5,164,366	-	-
Mutual funds - Fixed Income	8,630,070	8,630,070	-	-
Total investments by fair value level	<u>19,618,790</u>	<u>19,180,413</u>	<u>438,377</u>	<u>-</u>
<b>Investments measured at the net asset value (NAV)</b>				
Commingled equity funds [A]	20,026,988			
Commingled fixed-income [B]	8,738,369			
Commingled balanced fund [C]	15,570,477			
Hedge fund of funds [D]	4,951,013			
Private equity funds [E]	2,644,521			
Total investments measured at the NAV	<u>51,931,368</u>			
<b>Total investments measured at fair value</b>	<u>\$ 71,550,158</u>			

### Footnote 4 - Fair Value Measurements (continued)

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

The fair value of U.S. Treasury Securities at June 30, 2018 and 2017 was determined primarily based on level 2 inputs. The University estimates the fair value of these using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

### Investments in Entities that Calculate Net Asset Value per Share

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

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

#### University Investments Held at the Net Asset Value as of June 30, 2018

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 3,349,300	\$ -	Daily	30 days
Hedge fund of funds [D]	1,067,485	-	Quarterly	65 days
<b>Total</b>	<u>\$ 4,416,785</u>	<u>\$ -</u>		

#### University Investments Held at the Net Asset Value as of June 30, 2017

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 2,330,669	\$ -	Daily	30 days
Balanced funds [C]	2,285,650	-	Monthly	5 days
Hedge fund of funds [D]	1,018,815	-	Quarterly	65 days
<b>Total</b>	<u>\$ 5,635,134</u>	<u>\$ -</u>		



### Footnote 4 - Fair Value Measurements (continued)

#### Foundation Investments Held at the Net Asset Value as of June 30, 2018

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 20,643,287	\$ -	Daily	2-30 days
Fixed-income funds [B]	6,170,001	-	Daily	1-2 days
Balanced funds [C]	16,333,757	-	Weekly, Monthly	5-30 days
Hedge fund of funds [D]	11,448,197	-	Monthly, Quarterly	65-75 days
Opportunistic/Private Equity [E]	5,357,639	7,125,588	N/A	N/A
<b>Total</b>	<u>\$ 59,952,881</u>	<u>\$ 7,125,588</u>		

#### Foundation Investments Held at the Net Asset Value as of June 30, 2017

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds [A]	\$ 20,026,988	\$ -	Daily	2-30 days
Fixed-income funds [B]	8,738,369	-	Daily	1-2 days
Balanced funds [C]	15,570,477	-	Weekly, Monthly	5-30 days
Hedge fund of funds [D]	4,951,013	-	Monthly, Quarterly	65-75 days
Opportunistic/Private equity [E]	2,644,521	6,084,547	N/A	N/A
<b>Total</b>	<u>\$ 51,931,368</u>	<u>\$ 6,084,547</u>		

#### Description of Asset Classes for Fair Value Measurement

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

### Footnote 4 - Fair Value Measurements (concluded)

- [D] Hedge fund of funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies are typically diversified by manager and investment style and may include allocations to styles such as relative value, event-driven, hedged equity, and global macro, among others. Fund of hedge funds typically target an absolute return that is independent of market returns. Investments in this asset class are meant to provide a diversified alpha source. Holdings in hedge funds are recognized to be less liquid than public market securities and may include a lockup for initial investments. Risk in this asset class is specific to the strategy being utilized. The volatility of hedge funds of funds typically is similar to that of fixed income.
- [E] Opportunistic/Private equity – Private equity is an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is primarily focused on providing global growth exposure. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multi-year investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.
- [F] The fair value of hedging derivative instruments classified in Level 2 at June 30, 2018 and 2017 was valued using available market inputs such as interest rates and yield curves adjusted for nonperformance risk that are observable at commonly quoted intervals.
- [G] For those assets with fair value measured using Level 3 inputs, the University determines fair value measurement policies and procedures in consultation with the real estate appraiser. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the observable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information. As of June 30, 2018 and 2017, the Income Capitalization method was used for determining the appraised value of the real estate.

### Footnote 5 - Capital Assets

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2018:

	2017	Additions/ Transfers	Retirements/ Transfers	2018
<b>Non-depreciable:</b>				
Land	\$ 11,724,697	\$ -	\$ -	\$ 11,724,697
Construction in process	21,915,906	46,014,387	(1,491,664)	66,438,629
Total non-depreciable capital assets	<u>33,640,603</u>	<u>46,014,387</u>	<u>(1,491,664)</u>	<u>78,163,326</u>
<b>Depreciable:</b>				
Infrastructure	45,909,402	694,962	-	46,604,364
Leasehold improvements	514,689	-	-	514,689
Buildings	620,537,637	2,933,410	-	623,471,047
Library holdings	49,884,320	491,866	-	50,376,186
Equipment	84,283,651	2,844,245	(472,569)	86,655,327
Total depreciable capital assets	<u>801,129,699</u>	<u>6,964,483</u>	<u>(472,569)</u>	<u>807,621,613</u>
Total cost of capital assets	<u>834,770,302</u>	<u>52,978,870</u>	<u>(1,964,233)</u>	<u>885,784,939</u>
<b>Less: Accumulated depreciation</b>				
Infrastructure	31,273,162	1,239,410	-	32,512,572
Leasehold improvements	373,709	89,068	-	462,777
Buildings	194,559,618	9,862,307	-	204,421,925
Library holdings	47,469,915	819,215	-	48,289,130
Equipment	74,904,436	2,579,400	(437,070)	77,046,766
Total accumulated depreciation	<u>348,580,840</u>	<u>14,589,400</u>	<u>(437,070)</u>	<u>362,733,170</u>
Capital assets - Net	<u>\$ 486,189,462</u>	<u>\$ 38,389,470</u>	<u>\$ (1,527,163)</u>	<u>\$ 523,051,769</u>

### Footnote 5 - Capital Assets (continued)

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2017:

	2016	Additions/ Transfers	Retirements/ Transfers	2017
<b>Non-depreciable:</b>				
Land	\$ 11,724,697	\$ -	\$ -	\$ 11,724,697
Construction in process	11,727,674	21,915,906	(11,727,674)	21,915,906
Total non-depreciable capital assets	<u>23,452,371</u>	<u>21,915,906</u>	<u>(11,727,674)</u>	<u>33,640,603</u>
<b>Depreciable:</b>				
Infrastructure	42,309,890	3,599,512	-	45,909,402
Leasehold improvements	514,689	-	-	514,689
Buildings	598,572,199	21,965,438	-	620,537,637
Library holdings	49,351,130	533,190	-	49,884,320
Equipment	84,048,025	2,564,386	(2,328,760)	84,283,651
Total depreciable capital assets	<u>774,795,933</u>	<u>28,662,526</u>	<u>(2,328,760)</u>	<u>801,129,699</u>
Total cost of capital assets	<u>798,248,304</u>	<u>50,578,432</u>	<u>(14,056,434)</u>	<u>834,770,302</u>
<b>Less: Accumulated depreciation</b>				
Infrastructure	30,122,157	1,151,005	-	31,273,162
Leasehold improvements	270,772	102,937	-	373,709
Buildings	184,823,434	9,736,184	-	194,559,618
Library holdings	46,512,366	957,549	-	47,469,915
Equipment	74,202,792	2,848,872	(2,147,228)	74,904,436
Total accumulated depreciation	<u>335,931,521</u>	<u>14,796,547</u>	<u>(2,147,228)</u>	<u>348,580,840</u>
Capital assets - Net	<u>\$ 462,316,783</u>	<u>\$ 35,781,885</u>	<u>\$ (11,909,206)</u>	<u>\$ 486,189,462</u>

### Footnote 5 - Capital Assets (concluded)

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

For the year ended June 30, 2018, the University capitalized \$827,020 in interest on the Strong Hall and Co-Generation Unit projects. There was no interest capitalized for projects for the year ended June 30, 2017.

The following table presents the University's commitments for major construction projects for the year ended June 30, 2018:

<u>Project</u>	<u>Amount</u>
Sill Hall	\$ 2,530,903
Athletic Training Building	2,297,087
Rec IM Renovations	1,142,065
Co-Generation Unit	1,089,290
Strong Hall	878,252
ECM Project Phase 2	823,503
Classroom Technology	646,550
ECM Project	548,170
Loop 1 Replacement	515,343
Other Projects	2,731,763
	<u>\$ 13,202,927</u>

### Footnote 6 - Long-term Debt

Long-term debt consists of the following as of June 30, 2018 and 2017:

	Interest Rates	Maturity	2017	Additions	Retirements/ Defeasance	2018	Current Portion
General Revenue Bonds:							
Series 2018A	4.00%	2038 - 2047	\$ -	\$ 78,270,000	\$ -	\$ 78,270,000	\$ -
General Revenue Refunding Bonds:							
Series 2018B	5.00%	2047 - 2058	-	155,000,000	-	\$ 155,000,000	-
Series 2017A	3.00 - 5.00%	2020 - 2038	-	73,150,000	-	\$ 73,150,000	-
Series 2017	5.00%	2021 - 2049	155,000,000	-	(155,000,000)	-	-
Series 2016	3.375 - 4.125%	2028 - 2047	24,060,000	-	-	24,060,000	-
Refunding Bonds:							
Series 2014	2.00 - 4.00%	2017 - 2029	9,825,000	-	(20,000)	9,805,000	20,000
Build America Bonds:							
Series 2009D	4.21 - 7.21%	2017 - 2019	61,100,000	-	(58,205,000)	2,895,000	2,895,000
General Revenue Bonds:							
Series 2009C	4.00 - 5.00%	2022 - 2027	23,160,000	-	(23,160,000)	-	-
			<u>273,145,000</u>	<u>306,420,000</u>	<u>(236,385,000)</u>	<u>343,180,000</u>	<u>\$ 2,915,000</u>
Unamortized Bond Premium:							
Series 2018A			-	739,717	(3,586)	736,131	28,680
Series 2017A			-	8,554,699	(347,752)	8,206,947	417,303
			<u>-</u>	<u>\$ 9,294,416</u>	<u>\$ (351,338)</u>	<u>8,943,078</u>	<u>\$ 445,983</u>
Less current portion of long-term debt			2,795,000			2,915,000	
Less current portion of bond premium			-			445,983	
<b>Long-term debt</b>			<u>\$ 270,350,000</u>			<u>\$ 348,762,095</u>	

Long-term debt consists of the following as of June 30, 2017 and 2016:

	Interest Rates	Maturity	2016	Additions	Retirements/ Defeasance	2017	Current Portion
General Revenue Refunding Bonds:							
Series 2017	5.00%	2021 - 2049	\$ -	\$ 155,000,000	\$ -	\$ 155,000,000	\$ -
Series 2016	3.375 - 4.125%	2028 - 2047	-	24,060,000	-	24,060,000	-
Term Loans:							
Series 2016	SIFMA Index	2017	-	20,000,000	(20,000,000)	-	-
Series 2015	5.00%	2017	155,000,000	-	(155,000,000)	-	-
Refunding Bonds:							
Series 2014	2.00 - 4.00%	2017 - 2029	9,845,000	-	(20,000)	9,825,000	20,000
Build America Bonds:							
Series 2009D	5.33 - 7.21%	2017 - 2038	63,760,000	-	(2,660,000)	61,100,000	2,775,000
General Revenue Bonds:							
Series 2009C	4.00 - 5.00%	2022 - 2027	23,160,000	-	-	23,160,000	-
			<u>251,765,000</u>	<u>\$ 199,060,000</u>	<u>\$ (177,680,000)</u>	<u>273,145,000</u>	<u>\$ 2,795,000</u>
Less current portion of long-term debt			2,680,000			2,795,000	
<b>Long-term debt</b>			<u>\$ 249,085,000</u>			<u>\$ 270,350,000</u>	

### Footnote 6 - Long-term Debt (continued)

#### Issuances and Refundings of Long-term Debt

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

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

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

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

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

On August 19, 2016, the University secured a \$20,000,000 2016 Term Loan for capital projects.

On June 25, 2015, the University issued a \$155,000,000 Term Loan, Series 2015. This loan refunded \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 2012B and issued \$19,205,000 on the term loan for new capital projects. In addition, the University received a premium payment on the term loan of \$3,569,650 for new capital projects. The 2015 Term Loan amortizes over 34 years with principal payments beginning June 30, 2016.

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

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

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

### Footnote 6 - Long-term Debt (continued)

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

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

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

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

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

In accordance with GASB 53, these swaps are considered hybrid instruments consisting of a financing element (\$31,995,605 and \$36,582,068 for June 30, 2018 and 2017, respectively) and a fair value of the derivative instrument (\$4,626,688 and (\$1,918,816) for June 30, 2018 and 2017, respectively). The financing element is reported as an interest rate swap liability that is being amortized over the remaining life of the original debt. The derivative is reported as a fair value of derivative instrument asset or liability with an offsetting deferred inflow or outflow within the Statement of Net Position. The swaps considered no longer effective are treated as an investment at fair value. The deferred inflow or outflow at time determined ineffective is immediately recognized in investment income.



# Eastern Michigan University

## Notes to Financial Statements June 30, 2018 and 2017

### Footnote 6 - Long-term Debt (continued)

#### June 30, 2018:

Series	Fixed Rate Paid by EMU	Variable Rate Paid by EMU	Fixed Rate Received by EMU	Variable Rate Received by EMU	Contract Provider	Credit Rating (Moody's)	Scheduled Termination Date	Inception Date
Total Return		68% of LIBOR						
Swap 2018B		+ 65 basis points	5.000%	-	Barclays	Baa3	9/1/2023	5/10/2018
Series 2001	4.465%	-	-	68% of LIBOR	JPMorgan	A3	6/1/2027	11/30/2012
Series 2001	4.720%	-	-	68% of LIBOR	JPMorgan	A3	6/1/2027	7/27/2001
				62% of LIBOR				
Series 2006	3.317%	-	-	+ 20 basis points	Barclays	Baa3	6/1/2036	1/23/2006
Series 2015	3.141%	-	-	68% of LIBOR	Barclays	Baa3	3/1/2049	6/19/2015

#### Hedging derivative instruments:

Series	Current Notional Amount	July 1, 2017 fair value	Change in fair value (reported as deferred)	June 30, 2018 fair value	June 30, 2018 Deferred Inflow	June 30, 2018 Deferred Outflow
Receive-fixed, pay-variable interest rate swaps:						
Series 2018B, original notional amount of \$155.0 million	\$ 155,000,000	\$ -	\$ 235,600	\$ 235,600	\$ 235,600	\$ -
Receive-fixed, pay-variable interest rate swaps:						
Series 2017, original notional amount of \$158.7 million	\$ -	\$ (2,760,550)	\$ 2,760,550	\$ -	\$ -	\$ -
Receive-variable, pay-fixed interest rate swaps:						
Series 2015, original notional amount of \$2.5 million maturities through 2049	32,090,000	(274,902)	818,114	543,212	543,212	-
<b>Total hedging instruments</b>				<u>\$ 778,812</u>	<u>\$ 778,812</u>	<u>\$ -</u>

### Footnote 6 - Long-term Debt (continued)

#### Investment derivative instruments:

Series	Current Notional Amount	July 1, 2017 fair value	Change in fair value (reported as investment income)	June 30, 2018 fair value	Reclass to Investment derivative included in investment income	Total impact on investment income year ended June 30, 2018
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 11,360,000	\$ (34,179)	\$ 312,776	\$ 278,597	\$ -	\$ 312,776
Series 2001, original notional amount of \$24.8 million	17,040,000	(48,782)	472,519	423,737	-	472,519
Series 2006, original notional amount of \$85.7 million	65,305,000	1,199,597	1,945,945	3,145,542	-	1,945,945
Series 2015, original notional amount of \$2.5 million maturities 2021-2049	32,090,000	-	-	-	-	-
<b>Total derivative instruments</b>			<b>\$ 2,731,240</b>	<b>\$ 3,847,876</b>		<b>\$ 2,731,240</b>

#### June 30, 2017:

Series	Fixed Rate aid by EMU	Variable Rate Paid by EMU	Fixed Rate Received by EMU	Variable Rate Received by EMU	Contract Provider	Credit Rating (Moody's/ Standard & Poors)	Scheduled Termination Date	Inception Date
Total Swap 2017		68% of LIBOR	5.000%	-	Barclays	A2/BBB	9/1/2020	5/4/2017
Series 2001	4.465%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	11/30/2012
Series 2001	4.720%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	7/27/2001
				62% of LIBOR				
Series 2006	3.317%	-	-	+ 20 basis points	Barclays	A2/BBB	6/1/2036	1/23/2006
Series 2015	3.141%	-	-	68% of LIBOR	Barclays	A2/BBB	3/1/2049	6/19/2015

#### Hedging derivative instruments:

Series	Current Notional Amount	July 1, 2016 fair value	Change in fair value (reported as deferred)	June 30, 2017 fair value	June 30, 2017 Deferred Inflow	June 30, 2017 Deferred Outflow
Receive-fixed, pay-variable interest rate swaps:						
Series 2017, original notional amount of \$158.7 million	\$ 155,000,000	\$ (1,783,654)	\$ (976,896)	\$ (2,760,550)	\$ -	\$ 2,760,550
Receive-variable, pay-fixed interest rate swaps:						
Series 2015, original notional amount of \$2.5 million maturities through 2049	26,435,000	(2,338,512)	2,063,610	(274,902)	-	274,902
<b>Total hedging instruments</b>				<b>\$ (3,035,452)</b>		<b>\$ 3,035,452</b>

### Footnote 6 - Long-term Debt (continued)

Investment derivative instruments:			Change in fair value (reported as investment income)	June 30, 2017 fair value	Reclass to Investment derivative included in investment income	Total impact on investment income year ended June 30, 2017
Series	Current Notional Amount	July 1, 2016 fair value				
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 12,342,000	\$ (594,853)	\$ 560,674	\$ (34,179)	\$ -	\$ 560,674
Series 2001, original notional amount of \$24.8 million	18,513,000	(897,008)	848,226	(48,782)	-	848,226
Series 2006, original notional amount of \$85.7 million	68,505,000	(2,536,245)	3,735,842	1,199,597	-	3,735,842
Series 2015, original notional amount of \$2.5 million maturities 2021-2049	26,435,000	(13,110,805)	13,110,805	-	(4,531,035)	8,579,770
<b>Total derivative instruments</b>			<u>\$ 18,255,547</u>	<u>\$ 1,116,636</u>		<u>\$ 13,724,512</u>

**Credit Risk:** The University is exposed to credit risk on hedging derivative instruments that are in asset positions. The terms of the swap agreement require collateralization of the fair value of hedging derivative instruments in asset positions based on a scale that evaluates both the market value of the swap and the counterparty's credit rating. The terms of the Total Return Swap of 2018B call for the University to post collateral to the counterparty under certain conditions tied to the prevailing rating of the University and the mark to market valuations of the swaps. As of June 30, 2017, \$14.1 million of collateral was posted with Barclays. As of June 30, 2018, no collateral was posted or required due to restructuring of swap agreement with Barclays. When the University restructured its interest rate swaps with the 2018B refunding, the collateral limit was set higher triggering the refunding of all collateral posted to the University from Barclays. There is no exposure to credit risk on the hedging derivative instruments in liability position.

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

**Basis Risk:** The University is exposed to basis risk on its LIBOR-based swaps due to variable-rate payments received by the University on these instruments based on a rate of index other than interest rates the University pays on its variable-rate debt, which is remarketed every 30 days. In December 2012, the University amended a portion of the 2001 fixed payer swap by changing the received rate from Securities Industry and Financial Markets Association (SIFMA) to a percentage of LIBOR. This amendment effectively decreased the swap fixed pay leg from 4.72% to 4.465%. Since the 2001, 2006, and 2015 swap agreements receive a percentage of LIBOR from the counterparty and pay a percentage of LIBOR for bonds, basis risk is mitigated. As of June 30, 2018, the variable interest rate was 1.27%, whereas 68 percent of one-month LIBOR was 1.42%. As of June 30, 2017, the variable interest rate was 0.71%, whereas 68 percent of one-month LIBOR was 0.83%. As of June 30, 2018, 62 percent of one-month LIBOR plus 20 basis points was 1.49%. As of June 30, 2017, 62 percent of one-month LIBOR plus 20 basis points was 0.96%.

### Footnote 6 - Long-term Debt (concluded)

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

Using rates as of June 30, 2018, debt service requirements of the variable rate debt associated with the 2001 swap agreement, 2006 swap agreement, and the 2015 swap agreement and net swap payments, assuming current interest rates remain the same for term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Scheduled maturities of long-term liabilities are as follows:

Year	Bond		Swap Interest	Net Interest	Net Principal and Interest
	Principal	Interest			
2019	\$ 2,915,000	\$ 12,723,783	\$ 3,680,338	\$ 16,404,121	\$ 19,319,121
2020	2,875,000	13,708,794	3,690,569	17,399,363	20,274,363
2021	3,035,000	13,565,444	3,695,409	17,260,853	20,295,853
2022	2,925,000	13,414,094	3,700,756	17,114,850	20,039,850
2023	3,085,000	13,268,244	3,671,281	16,939,525	20,024,525
2024-2028	20,315,000	63,792,420	22,082,797	85,875,217	106,190,217
2029-2033	30,685,000	58,269,578	18,491,974	76,761,552	107,446,552
2034-2038	36,900,000	51,421,749	18,900,920	70,322,669	107,222,669
2039-2043	43,915,000	43,617,906	15,280,810	58,898,716	102,813,716
2044-2048	53,475,000	34,055,049	7,642,722	41,697,771	95,172,771
2049-2053	64,795,000	22,737,140	418,206	23,155,346	87,950,346
2054-2058	78,260,000	9,266,182	-	9,266,182	87,526,182
	<u>\$ 343,180,000</u>	<u>\$ 349,840,383</u>	<u>\$ 101,255,782</u>	<u>\$ 451,096,165</u>	<u>\$ 794,276,165</u>

### Footnote 7 - Retirement Benefits

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

#### Defined Contribution Plan

The University provides a defined contribution plan administered by TIAA-CREF. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits generally vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract. Average contribution rates, covered payroll, and University contributions to the plan for the years ended June 30, 2018 and 2017 were as seen below. The University has no liability beyond its own contribution under the TIAA-CREF plan.

	2018	2017
Covered payroll	\$132,549,000	\$133,694,000
Average contribution rate	9.9%	9.9%
University contribution	\$13,079,000	\$13,340,000

#### Accrued Compensated Absences

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

	2018	2017
Accrued Sick Leave:		
Long-term	\$ 1,894,000	\$ 1,683,000
Current portion	150,000	400,000
	\$ 2,044,000	\$ 2,083,000
Accrued Vacation:		
Current portion	\$ 3,498,447	\$ 3,605,419

### Footnote 8 - Contingencies and Commitments

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

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

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

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

	Liability July 1, 2017	Claims incurred including changes in estimate	Claim Payments	Liability June 30, 2018
Medical Claims	\$ 2,061,177	\$ (28,498,123)	\$ 27,304,364	\$ 867,418
Property, General Liability, Errors & Omissions	642,202	(339)	125,290	767,153
Workers Comp, Unemployment Comp and Other	291,683	-	-	291,683
<b>Total</b>	<u>\$ 2,995,062</u>	<u>\$ (28,498,462)</u>	<u>\$ 27,429,654</u>	<u>\$ 1,926,254</u>

Claims activity for the year ended June 30, 2017 is as follows:

	Liability July 1, 2016	Claims incurred including changes in estimate	Claim Payments	Liability June 30, 2017
Medical Claims	\$ 1,128,587	\$ (26,734,611)	\$ 27,667,201	\$ 2,061,177
Property, General Liability, Errors & Omissions	658,692	1,052	(17,542)	642,202
Workers Comp, Unemployment Comp and Other	291,683	(532,932)	532,932	291,683
<b>Total</b>	<u>\$ 2,078,962</u>	<u>\$ (27,266,491)</u>	<u>\$ 28,182,591</u>	<u>\$ 2,995,062</u>

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2018, the University has made \$2,020,721 in institutional capital contributions, which are reflected as part of the University's net position. Under current guidance issued by the Department of Education, at the time the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University will be forgoing its institutional capital contribution not yet received back through loan collections. The University has not yet been required to or elected to liquidate the loan portfolio.

### Note 9 - Michigan Public School Employees' Retirement System

#### Plan Description

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

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

#### Benefits Provided

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

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced to 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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

Members are eligible for non duty disability benefits after 10 years of service and for duty related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

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

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

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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

#### Contributions

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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

The range of rates is as follows:

	Pension	OPEB
October 1, 2015 – September 30, 2016	20.28%-25.13%	6.40%-6.83%
October 1, 2016 – September 30, 2017	18.75%-23.05%	6.98%-7.36%
October 1, 2017 – September 30, 2018	19.60%-24.47%	6.13%-6.44%



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

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

The University's required and actual pension contributions to the plan for the year ended June 30, 2018 and 2017 were \$5,930,902 and \$5,506,014, respectively, which include the University's contributions required for those members with a defined contribution benefit. The University's required and actual pension contributions include an allocation of \$752,433 and \$666,577 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2018 and 2017, respectively.

The University's required and actual OPEB contributions to the plan for the years ended June 30, 2018, and June 30, 2017, were \$1,608,321, and \$1,808,010, respectively. These amounts include the University's contributions required for those members with a defined contribution benefit.

#### **Net Pension Liability**

At June 30, 2018 and 2017, the University reported a liability of \$72,522,686 and \$70,826,130, respectively, for its proportionate share of the net pension liability as calculated for the Universities reporting unit of MPSERS. The net pension liability was measured as of September 30, 2017 and 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and 2015, which used updated procedures to roll forward the estimated liability to September 30, 2017 and 2016. The University's proportion of the net pension liability was based on a projection of its long term share of contributions to the pension plan relative to the projected contributions of all participating Universities, actuarially determined. At September 30, 2017 and 2016, the University's proportion was 12.61 percent and 12.64 percent, respectively, of the Universities reporting unit.

#### **Net OPEB Liability**

At June 30, 2018, the University reported a liability of \$17,850,848 for its proportionate share of the net OPEB liability as calculated for the Universities reporting unit of MPSERS. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The University's proportion of the net OPEB liability was based on a projection of its long term share of contributions to the OPEB plan relative to the projected contributions of all participating Universities, actuarially determined. At September 30, 2017, the University's proportion was 12.54 percent of the Universities reporting unit.

# Eastern Michigan University

## Notes to Financial Statements June 30, 2018 and 2017

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

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

For the year ended 2018 and 2017, the University recognized pension expense of \$8,099,697 and \$2,706,374, respectively, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (77,982)	\$ 113,397	\$ -
Changes of assumptions	612,135	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(1,612,709)	686,665	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	(48,981)	-	(1,187,848)
Total amortized deferrals	612,135	(1,739,672)	800,062	(1,187,848)
University contributions subsequent to the measurement date	4,643,369	-	4,061,269	-
<b>Total</b>	<b>\$ 5,255,504</b>	<b>\$ (1,739,672)</b>	<b>\$ 4,861,331</b>	<b>\$ (1,187,848)</b>

The \$752,433 and \$458,658 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to Section 236(4) of the State School Aid Act (PA 94 of 1979), will be recognized as state appropriations revenue for the years ended June 30, 2019 and 2018, respectively.

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

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

Years Ending June 30	Amount
2018	\$ (303,497)
2019	347,941
2020	(554,588)
2021	(617,393)
	<u>\$ (1,127,537)</u>

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

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

For the year ended June 30, 2018, the University recognized OPEB expense of \$912,526.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (134,412)
Net difference between projected and actual earnings on OPEB plan investments	-	(579,105)
Changes in proportion and differences between University contributions and proportionate share of contributions	-	(30,135)
Total amortized deferrals	<u>-</u>	<u>(743,652)</u>
University contributions subsequent to the measurement date	1,139,794	-
<b>Total</b>	<u>\$ 1,139,794</u>	<u>\$ (743,652)</u>

The \$180,766 reported as deferred inflows of resources resulting from the OPEB portion of state aid payments received pursuant to Section 236 (4) of the State School Aid Act (PA 94 of 1979), was recognized as state appropriations revenue for the year ended June 30, 2018.

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

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

Years Ending June 30	Amount
2018	\$ (309,324)
2019	(144,776)
2020	(144,776)
2021	(144,776)
	<u>\$ (743,652)</u>

#### Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 and 2016 is based on the results of an actuarial valuation as of September 30, 2016 and 2015, respectively, and rolled forward. The total pension and total OPEB liabilities were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial method
Investment rate of return - pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary Increases	3.50% - 12.30%	Including wage inflation of 3.50%
Healthcare Cost Trend Rate	7.50%	Year 1 graded to 3.5% Year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual non-compounded for MIP members

Assumption changes as a result of an experience study for the periods 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.00-7.50 percent, and 7.00-8.00 percent as of September 30, 2017 and 2016, respectively, depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that University contributions will be made at statutorily required rates.

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

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long term expected rate of return on pension plan and OPEB plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	September 30, 2017		September 30, 2016	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0%	5.6%	28.0%	5.9%
Private equity pools	18.0%	8.7%	18.0%	9.2%
International equity pools	16.0%	7.2%	16.0%	7.2%
Fixed-income pools	10.5%	-0.1%	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.2%	10.0%	4.3%
Absolute return pools	15.5%	5.0%	15.5%	6.0%
Short-term investment pools	2.0%	-0.9%	2.0%	0.0%
<b>Total</b>	<b>100%</b>		<b>100%</b>	

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05% and 7.15%, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2018.

# Eastern Michigan University

## Notes to Financial Statements June 30, 2018 and 2017

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

#### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	2018		
	1% Decrease (6.00 - 6.50%)	Current Discount Rate (7.00-7.50%)	1% Increase (8.00-8.50%)
University's proportionate share of the net pension liability - June 30, 2018	\$ 85,089,546	\$ 72,522,686	\$ 61,675,776
	2017		
	1% Decrease (6.00 - 7.00%)	Current Discount Rate (7.00-8.00%)	1% Increase (8.00-9.00%)
University's proportionate share of the net pension liability - June 30, 2017	\$ 82,761,222	\$ 70,826,130	\$ 60,510,689

#### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

	2018		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University's proportionate share of the net OPEB liability - June 30, 2018	\$ 20,810,999	\$ 17,850,848	\$ 15,301,247

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

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

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

	2018		
	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
University's proportionate share of the net OPEB liability - June 30, 2018	\$ 15,110,469	\$ 17,850,848	\$ 20,955,243

#### Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

#### Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the University reported a payable of \$164,325 and \$70,900 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018. At June 30, 2017, the University reported a payable of \$248,081 for the outstanding amount of contributions to the pension plan and OPEB plan.

### Note 10 - Other Postemployment Benefit Plan

#### Plan Description

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

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

### Note 10 - Other Postemployment Benefit Plan (continued)

#### Benefits Provided

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

#### Employees Covered by Benefit Terms

The following members were covered by the benefit terms as of June 30, 2018:

	<u>Plan Membership</u>
Inactive plan members or beneficiaries currently receiving benefits	1,002
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>1,544</u>
<b>Total</b>	<u>2,546</u>

#### Contributions

Retiree healthcare costs are paid by the University on a "pay as you go" basis. The University has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2018, the University made payments for postemployment health benefit premiums of \$574,000. Currently, active members are not required to contribute to the plan.

#### Total OPEB Liability

The University's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2018. Changes in the total OPEB liability during the measurement year were as follows:

Changes in Total OPEB Liability	<u>Total OPEB Liability</u>
<b>Balance at July 1, 2017</b>	\$ 13,566,000
Changes for the year:	
Service cost	360,000
Interest	427,000
Changes of assumptions	270,000
Benefit payments	<u>(574,000)</u>
Net changes	<u>483,000</u>
<b>Balance at June 30, 2018</b>	<u><u>\$ 14,049,000</u></u>



### Note 10 - Other Postemployment Benefit Plan (continued)

The primary change in assumptions for the University's single employer plan was the change in discount rate from 3.13% to 2.98% for the plan year 2018. The University recorded a deferred outflow for its portion of changes in assumptions for the fiscal year ended June 30, 2018.

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

For the year ended June 30, 2018, the University recognized OPEB expense of \$833,000.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 224,000	\$ -

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

Years Ending	Amount
2018	\$ 46,000
2019	46,000
2020	46,000
2021	46,000
2022	40,000
	\$ 224,000

#### Actuarial Assumptions

The total OPEB liability as of June 30, 2018 is based on the results of an actuarial valuation as of July 1, 2018. The valuation was determined using an inflation assumption of 3.0 percent; assumed salary increases (including inflation) of 3.5 percent; a healthcare cost trend rate of 7.0 percent for 2018 and 2019, decreasing 0.25 percent per year thereafter to an ultimate rate of 4.5 percent for 2028 and later years; and using the RP 2014 mortality tables with the MP 2017 improvement scale. The experience study to determine retirement rates was performed in 2013.

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

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

### Note 10 - Other Postemployment Benefit Plan (continued)

#### Discount Rate

The discount rate used to measure the total OPEB liability was 2.98 percent. The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2018.

#### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

	2018		
	1% Decrease (1.98%)	Current Discount Rate (2.98%)	1% Increase (3.98%)
University's proportionate share of the net OPEB liability - June 30, 2018	\$ 16,081,000	\$ 14,049,000	\$ 12,383,000

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

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

	2018		
	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
University's proportionate share of the net OPEB liability - June 30, 2018	\$ 13,096,000	\$ 14,049,000	\$ 15,234,000

#### Assumption Changes

Certain changes in assumptions contributed to the net change in total OPEB liability from July 1, 2017 through June 30, 2018. The primary change in assumption during the year was a change in the discount rate used to calculate the total OPEB liability from 3.13% to 2.98%.

### Note 10 - Other Postemployment Benefit Plan (continued)

#### Other Postemployment Benefits (under GASB 45)

The following represents the University's disclosures under GASB 45 and relate to the University's Net OPEB Obligation as of June 30, 2017.

**Annual OPEB Cost and Net OPEB Obligation** - The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's OPEB obligation:

	<u>2017</u>
Net OPEB obligation - Beginning of year	3,025,000.00
Annual required contribution	928,000.00
Interest on net OPEB obligation	175,000.00
Adjustment to the annual required contribution	<u>(215,000.00)</u>
Annual OPEB cost	888,000.00
Contributions made	<u>(575,000.00)</u>
Increase in net OPEB obligations	<u>313,000.00</u>
Net OPEB obligation - End of year	<u><u>3,338,000.00</u></u>

**Funded Status and Funding Progress** - As of July 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$9,887,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,887,000. The covered payroll (annual payroll of active employees covered by the plan) was \$118,874,000 for 2015 and the ratio of all UAAL to covered payroll was 9.0 percent for 2015.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

### **Note 10 - Other Postemployment Benefit Plan (concluded)**

In the July 1, 2015 actuarial valuation, the entry age actuarial method was used. The actuarial assumptions included a 6.45 percent investment rate of return (net of administrative expenses) based on the expected long-term investment returns on the University's own investments and a salary inflation rate of 2%. The UAAL is being amortized as a projected unit credit level dollar, closed on a 30-year basis. The remaining amortization period at June 30, 2017 was 25 years.

### **Note 11 - Parking Lease and Concession Agreement**

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

The lump-sum payment under this service concession agreement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were \$54.7 million at June 30, 2018. The University reports the parking lots and structures as capital assets with a carrying value of \$14.5 million at June 30, 2018.

### **Note 12 - Subsequent Events**

In February 2018, the Board approved the health center collaboration between Eastern Michigan University, IHA and St. Joseph Mercy Hospital (SJM). The health center will allow the University to improve existing counseling and psychological services (CAPS) as well as improving facilities to operate the University's psychiatric clinic. IHA and SJM will provide primary medical and urgent care services to University students, staff, and the greater community. The University approved a capital budget in June 2018 of \$14,000,000 to design, develop and construct the complex. Construction began on the project in September 2018.

In July 2018, the University entered into an installment purchase agreement with Key Government Finance, Inc. for \$6 million for the purchase of Cisco hardware, software and maintenance.

# Eastern Michigan University

## Required Supplemental Information

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

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

	2017	2016	2015	2014
University's proportionate share of the Universities' collective MPSERS net pension liability.				
As a percentage -	12.61%	12.64%	13.76%	13.56%
Total amount -	\$ 72,522,686	\$ 70,826,130	\$ 75,462,865	\$ 50,881,674
University's covered payroll	\$ 26,228,000	\$ 25,341,000	\$ 23,597,000	\$ 24,244,000
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered payroll	276.51%	279.49%	319.80%	209.87%
Fiduciary net position as a percentage of total pension liability (per ORS)	47.42%	46.77%	47.45%	63.00%

### Schedule of Pension Contributions

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

	2018	2017	2016	2015
Statutorily required contributions	\$ 5,930,902	\$ 5,506,014	\$ 4,720,008	\$ 4,386,720
Contributions in relation to actuarially determined contractually required contribution	5,930,902	5,506,014	4,720,008	4,386,720
Contributions deficiency (excess)	-	-	-	-
Covered payroll	25,943,000	23,420,000	23,272,000	23,935,000
Contributions as a percentage of covered payroll	22.86%	23.51%	20.28%	18.33%

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

# Eastern Michigan University

## Required Supplemental Information

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

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

	<u>2017</u>
University's proportionate share of the Universities' collective MPSERS net OPEB liability	
As a percentage -	12.54%
Total amount -	\$ 17,850,848
University's covered payroll	\$ 26,228,000
University's proportionate share of the collective pension OPEB (amount), as a percentage of the University's covered payroll	68.06%
Fiduciary net position as a percentage of total pension liability (per ORS)	44.11%

### Schedule of OPEB Contributions

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

	<u>2018</u>
Statutorily required contributions	\$ 1,608,321
Contributions in relation to actuarially determined contractually required contribution	1,608,321
Contributions deficiency (excess)	-
Covered payroll	25,943,000
Contributions as a percentage of covered payroll	6.20%

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

# Eastern Michigan University

## Required Supplemental Information

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

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 360,000
Interest	427,000
Changes of benefit terms	-
Differences between expected actual experience	-
Changes of assumptions or other inputs	270,000
Benefit payments	<u>(574,000)</u>
<b>Net change in total OPEB liability</b>	483,000
<b>Total OPEB liability - beginning</b>	<u>\$ 13,566,000</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 14,049,000</u></u>
<b>Covered employee payroll</b>	\$ 133,694,460
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	10.51%

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

# Eastern Michigan University

## Required Supplemental Information

The schedule of funding progress for the University's single employer OPEB plan is as follows:

Funded Status of Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2015	-	\$ 9,887,000	\$ (9,887,000)	0%	\$ 118,874,000	8.32%
7/1/2012	-	9,382,000	(9,382,000)	0%	98,403,000	9.53%



# Eastern Michigan University

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## Notes to Required Supplemental Information For the Year Ended June 30, 2018

### RSI Covered-payroll

The employers' covered payroll to be reported in the required supplementary information is defined by GASB 82, Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll represents payroll on which contributions to both plans are based.

### Changes of benefit terms

There were no changes of benefit terms for the plan year 2018.

### Changes of assumptions

**Michigan Public School Employees Retirement System** - The primary change in assumptions for MPSERS was the change in discount rate from 7.50% to 7.00% for the plan year 2018. The University recorded a deferred outflow for its portion of changes in assumptions for the fiscal year ended June 30, 2018.

**Single Employer Plan** - The primary change in assumptions for the University's single employer plan was the change in discount rate from 3.13% to 2.98% for the plan year 2018. The University recorded a deferred outflow for its portion of changes in assumptions for the fiscal year ended June 30, 2018.